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The Financial Statement according to International Financial Reporting Standards

ZAO PRICEWATERHOUSECOOPERS AUDIT

AUDITOR'S REPORT

To the Supervisory Council of Vozrozhdeniye Bank:

We have audited the accompanying consolidated balance sheet of Vozrozhdeniye Bank and its subsidiary (the

1. “Bank as defined in note 1 to the consolidated financial statements) as at 31 December 2004, and the related consolidated statements of income, of cash flows and of changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Bank's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing. Those standards require **2.** that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the **3.** consolidated financial position of the Bank as at 31 December 2004 and the consolidated results of its operations and its cash flows for the year ended in accordance with International Financial Reporting Standards.

Moscow, Russian Federation

May 24, 2005

**Vozrozhdeniye Bank****Consolidated Balance Sheet as at 31 December 2004** *(in millions of Russian Rubles)*

	Note	2004	2003 (restated)
Assets			
Cash and cash equivalents	5	3,964	5,464
Mandatory cash balances with the Central Bank of the Russian Federation		579	1,548
Trading securities	6	523	325
Due from other banks	7	946	413
Loans and advances to customers	8	22,055	16,753
Other assets	9	869	585
Premises and equipment	10	1,691	1,687
Total assets		30,627	26,775
Liabilities			
Due to other banks	11	323	93
Customer accounts	12	24,414	22,465
Debt securities in issue	13	2,187	877
Other liabilities		274	523
Subordinated loans	15	698	469
Exchangeable convertible preference shares	16	127	123
Total liabilities		28,023	24,550
Minority interest		-	65
Shareholders' equity			
Share capital	16	4,371	4,371
Share premium	16	1,610	1,610
Revaluation reserve		-	26
Accumulated deficit	17	(3,377)	(3,847)
Total shareholders' equity		2,604	2,160
Total liabilities and shareholders' equity		30,627	26,775

Approved for issue on 24 May 2005.

President D. L. Orlov,

Chief Accountant A. A. Novikova,

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Vozrozhdeniye Bank Consolidated Statement of Income for the Year Ended 31 December 2004
(in millions of Russian Roubles)

	Note	2004	2003 (restated)
Interest income	18	3 528	2 227
Interest expense	18	(1 474)	(1 094)
Net interest income		2 054	1 133
Provision for loan impairment	8	(467)	(307)
Net interest income after provision for loan impairment		1 587	826
Gains less losses arising from securities		38	119
Gains less losses arising from investment securities held to maturity		-	139
Gains less losses arising from trading in foreign currencies		87	141
Fee and commission income	19	1 048	717
Fee and commission expense	19	(65)	(49)
Losses on origination of assets at rates below market	8	(15)	-
Gains on origination of liabilities at rates below market	15	33	-
Other operating income		162	182
Operating income		2 875	2 075
Operating expenses	20	(2 258)	(1 823)
Losses resulting from restructuring of other borrowed funds	14	-	(149)
Gains from disposal of subsidiary	28	17	-
Losses from disposal of loans and advances to customers	8	(111)	-
Profit before tax		523	103
Income tax expense	21	(50)	(20)
Profit after tax		473	83
Minority interest		(17)	6
Net profit		456	89
Basic earnings per share (expressed in RR per share)	22	27	6
Diluted earnings per share (expressed in RR per share)	22	25	6

Analysis of financial results and quality of management

Main Performance Indicators

	Thousand rubles.	
	01.01.2005	01.01.2004
Assets		
On the first day of the year	30,482,417	26,480,505
Average	29,121,813	21,319,312
Interest-bearing assets		
On the first day of the year	24,411,353	18,138,301
Average	25,400,000	16,200,090
Net loans		
On the first day of the year	23,639,841	17,634,919
Average	22,356,400	14,236,661
Investment Securities		
On the first day of the year	771,512	503,382
Average	1,028,534	1,894,273
Capital of the Bank		
On the first day of the year	3,272,764	3,036,346
Average	3,205,700	2,214,411
Borrowed funds (deposits)		
On the first day of the year	27,508,755	22,449,620
Average	25,900,000	18,203,810
Annual profit	317,871	99,761

In the calculation and estimation of financial indicators in the above table and in the following text, data from the **Balance Sheet** and the **Statement of Profit and Loss of Vozrozhdeniye Bank, according to Russian Standards of Accounting** have been used; the data has been audited by PricewaterhouseCoopers Audit.

Notes to the Balance Sheet and to the Profit and Loss Statements of Vozrozhdeniye Bank

The financial statements are made in accordance with the legislation of the Russian Federation.

Russian rubles are currency in the financial statements.

Assets and liabilities in foreign currency have been converted at the exchange rate of the reporting date.

Major foreign currencies have been converted into rubles at the following exchange rates of the Central Bank of the Russian Federation:

December 31, 2003 – 29.4545 rubles equals 1 USD; 36.8240 rubles equals 1 Euro.

December 31, 2004 - 27.7487 rubles equals 1 USD; 37.8104 rubles equals 1 Euro.

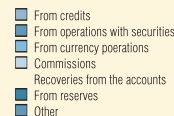
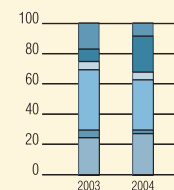
Fixed assets, equipment and other physical assets and intangible assets are included in assets on a depreciated basis after deduction of amortization.

Foreign currency operations profit and losses on calculated at the exchange rate valid on the date of recognition. Profit or loss resulting from reevaluation of foreign currency assets and liabilities are included in foreign currency operations.

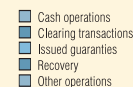
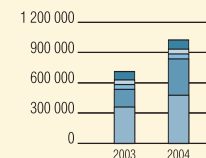
The abbreviation USD represents the dollar, currency of the United States of America.

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Income structure, %

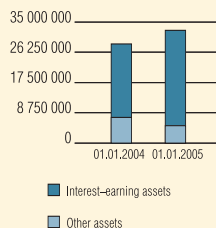


Commission income, Rubles thousand

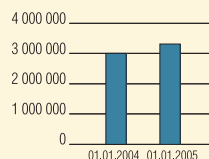


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Assets, Rubles thousand



Bank capital, Rubles thousand



In 2004, significant changes were introduced to the Bank's accounting policies, which affect the comparability of certain types of activities as a result of the coming into force of new Regulations of the Bank of Russia, "On the order of formation by the credit institutions of the provisions, or reserves, on the possible losses on loans and credit related obligations" of 26.03.2004 No.254-P.

The Profit and Loss Report contains the financial results of the Bank's activity for the reporting year.

Providing credit and similar operations are the main activity of the Bank. The net interest revenue from these operations totaled 2,205,524 thousand rubles, twice the amount of 2003.

The Bank's emphasis on increasing the quality and expanding the range of commercial banking services is the main basis for the increase of non-interest revenue. In 2004, net commissions revenue totaled 984,953 thousand rubles, 1.6 times greater than the previous year.

The financial results of the Bank's activity in 2004 are very favorable. Net income for the year 2004 (including post closing adjustments) totaled 317,871 thousand rubles, 3.2 times greater than the previous year.

The interests bearing assets and liabilities assets and averages are calculated on the basis of the methods used by the Bank.

The main performance indicators for the year 2004

The main performance indicators included in the table demonstrate the substantial change of our basic results for 2004 in comparison with 2003.

In the year 2004, the Bank's capital increased by 7.8% to 3,272,764 thousand rubles. Net assets of the Bank continued to grow, increasing by 15.1% to 30,482,417 thousand rubles by year end. Average assets increased by 22.5% to 27,508,755 thousand rubles.

Interest-bearing assets increased by 35% as their portion in Bank's total assets increased to 80% as of 01.01.2005 compared to 68% as of 01.01.2004.

This increase resulted mainly from the substantial 34% increase of the credit portfolio volume as the number of the Bank's clients increased

Risks Management

Bank's risk management activities are designed to understand and reduce risks and the resulting losses and to make provisions for the unavoidable risks inherent in banking.

The Bank has adopted an internal policy document, "Evaluation and Management of Risk", which determines the goals, tasks and principles of evaluation and management of risk, as well as the basic types of risks and outlines their classification. Within this policy framework, procedures and practices for risk management have been set.

Assets quality and credit risk management

Structure of interest-bearing assets on a net basis

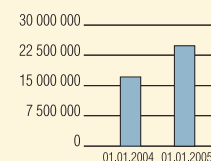
	01.01.2005		01.01.2004	
	Rubles thousand	Proportion %	Rubles thousand	Proportion %
Commercial credit to legal entities				
Short-term loans (including bills of exchange)	15,041,290	61.6	14,790,503	81.5
In rubles	12,418,122	50.9	11,960,263	65.9
In foreign currency	2,623,168	10.7	2,830,240	15.6
Long-term loans	6,775,024	27.8	2,007,103	11.1
In rubles	4,458,426	18.3	1,069,422	5.9
In foreign currency	2,316,598	9.5	937,681	5.2
Overdue loans	10,985	0.04	118,649	0.6
In rubles	10,985	0.04	118,649	0.6
In foreign currency	0		0	
Total commercial credit to legal entities	21,827,299	89.4	16,916,255	93.2
Loans to individuals				
In rubles	523,811	2.1	246,591	1.4
In foreign currency	341,954	1.4	115,015	0.6
Overdue loans in rubles	610	0.002	480	0.003
Overdue loans in foreign currency	453	0.002	30	
Total loans to individuals	866,828	3.5	362,116	2.0
Loans to, and deposits with, banks				
In rubles	602,198	2.5	47,690	0.3
In foreign currency	343,516	1.4	308,858	1.7
Overdue loans	0		0	
Total loans to, and deposits with, banks	945,714	3.9	356,548	2.0
Securities investments				
In rubles	588,077	2.4	433,567	2.4
In foreign currency	183,435	0.8	69,815	0.4
Total securities investments	771,512	3.2	503,382	2.8
Total interest-bearing assets	24,411,353	100.0	18,138,301	100.0
In rubles	18,602,229	76.2	13,876,662	76.5
In foreign currency	5,809,124	23.8	4,261,639	23.5

The main portion of the interest-bearing assets is represented by loans – 96.8%, including 89.4% of loans to corporate clients. As of 01.01.2005 credit provided to the Bank's corporate customers totaled 21,827,299 thousand rubles, a 29% increase in comparison with the previous year (as of 01.01.2004 – 16,916,255 thousand rubles).

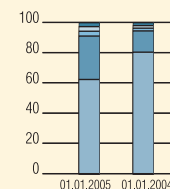
In the reporting year the Bank's securities investments were only 3.2% of the earning assets as the Bank avoided risks due to the instability of securities markets. As the credit investments have the largest weight in the Bank's assets, the level of risk is primarily credit risk, dependent on the quality of the credit portfolio.

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Net loans, Rubles thousand



Interest-earning assets structure, %



■ Short-term credits
■ Long-term credits
■ Credits to private persons
■ Credits to banks
■ Securities
■ Overdue credits

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The organization of the Bank's credit operations was significantly changed the last year. New regulations include procedures for assessing the financial state of borrowing companies, principles of assessment of the financial state of insurance companies, and on the issuance of bank guarantees. Regulations were also established concerning reserves for possible losses on loans and credit-related assets and reserves on operational risks.

	Russian Central Bank standard		Bank Actual%	
			01.01.2005	01.01.2004
Ratio of total large loans to Bank capital N7	max. 800%		235.5	250.6
Ratio of related party loans to Bank capital N10.1	max. 3%		0.7	0.8

Provision for possible Losses on Loans

Starting from August 1, 2004 the previous four categories of loan quality were replaced with a more precise classification with the purpose of more professional risk classification. Except for the loans grouped in a portfolio of uniform loans, such as consumer loans, all loans are divided into the following quality categories:

- I highest quality, standard loans – absence of credit risk.
- II non-standard loans – medium credit risk.
- III questionable loans – significant credit risk.
- IV problem loans – high credit risk.
- V lowest quality category - bad loans.

The high quality of the Bank's credit portfolio is demonstrated by the predominance of credits of the 1st and 2nd quality groups, the most reliable according to the Bank of Russia classification.

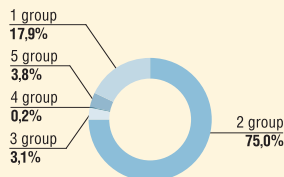
	2004	2003
	Thousand rubles	
Loan Loss Provisions at the beginning of the year	620,608	316,901
Loan Loss Provisions at the end of the year	1,062,966	620,608
Total outstanding credits at the end of the year	23,639,841	17,634,919
Including overdue credits	876,950	119,159
<i>Ratio of overdue credits to total credits, %</i>	3.7	0.7
<i>Ratio of Loan Loss Provisions to total credits, %</i>	4.5	3.5
<i>Ratio of Loan Loss Provisions to overdue credits, %</i>	1.2 times	5.2 times

The provision for doubtful loans as at 01.01.2005 was 1.7 times more than the previous year, while the loan portfolio increased 1.3 times. The proportion of overdue credits has increased to 3.7% of the loan portfolio. With the purpose of increasing financial stability, and following new regulations of the Bank of Russia for the establishment of the provisions on possible loans losses, the Bank established a 100% provision against the loan to Moskvich OAO in August last year.

Market risk

The Bank's market risk management policy is set and overseen by the Asset and Liability Management Committee (ALCO). The Committee determines the overall size, structure and risk profile of the securities portfolio with the purpose of earning income and the maintenance of the appropriate liquidity.

Loans by risk group,
for 01.01.2005



Currency risk

Foreign currency operations of the Bank are primarily in US dollars. The foreign currency position in the authorized capital is USD 18 million.

The Bank estimates risks connected with open foreign currency positions using procedures adopted by the Bank of Russia in Regulation No.89-P of 24.09.1999, "On Estimation of Market Risks by Credit Institutions". The estimation of foreign currency risks takes into account the quality of the assets in all foreign currencies and especially the quality of the credit portfolio.

Foreign currency risk management is centralized and limits are fixed for each branch office with continuing strict control on their observance.

Inflation risk

The Bank's measures on controlling inflation risk include a periodical review all resources in accordance with the Bank's "Regulation on Basic Principles of Management of the Bank's Resources Management".

The Bank's liquidity risk and liabilities management

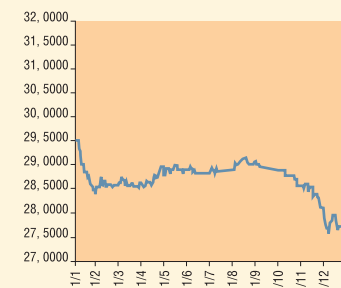
The Bank's liabilities are very diversified and comprise the Bank's own capital, deposits of individuals and companies or other legal entities, settlement and budget accounts and issued certificates of deposit and promissory notes.

Liability structure

	01.01.2005		01.01.2004	
	Rubles thousand	Proportion %	Rubles thousand	Proportion %
Customers' deposits				
Settlement and current accounts	10,124,648	36.8	11,206,483	49.9
In rubles	7,100,571	25.8	7,566,202	33.7
In foreign currency	3,024,077	11.0	3,640,281	16.2
Individual deposits	14,818,504	53.9	10,275,082	45.8
In rubles	10,071,090	36.6	6,247,113	27.9
In foreign currency	4,747,414	17.3	4,027,969	17.9
Total deposits	24,943,152	90.7	21,481,565	95.7
Financial institutions accounts				
Correspondent accounts of banks	7,419	0.03	65,289	0.3
In rubles	4,588	0.02	5,022	0.03
In foreign currency	2,831	0.01	60,267	0.27
Time deposits of banks	315,830	1.1	0	-
In rubles	300,000	1.0	0	-
In foreign currency	15,830	0.1	0	-
Total deposits of financial institutions	323,249	1.1	65,289	0.3
Debt instruments				
Depository certificates	608,204	2.2	140,761	0.6
In rubles	608,204	2.2	140,761	0.6
Promissory notes/bills of exchange	1,634,150	6.0	762,005	3.4
In rubles	891,930	3.3	644,854	2.9
In foreign currency	742,220	2.7	117,151	0.5
Total debt instruments	2,242,354	8.2	902,766	4.0
Total deposits	27,508,755	100.0	22,449,620	100.0
In rubles	18,976,383	68.9	14,603,952	65.1
In foreign currency	8,532,372	31.1	7,845,668	34.9

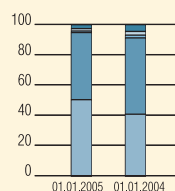
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Dollar exchange rate in 2004, Rubles



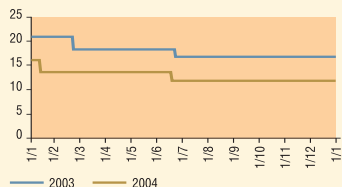
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Deposits structure, %



- Settlement & current accounts
- Individual deposits
- Banks correspondent accounts
- Banks deposits
- Deposit certificates
- Promissory notes

Refinancing rate, annual %



Deposits, which are the main source of funds for the Bank's operations increased during the year by 22.5% and totaled 27,508,755 thousand rubles compared to 22, 449,620 thousand rubles at 01.01.2004. The growth of funds received both in rubles and in foreign currency comes from the increase in the number of clients, and increase in the range and quality of deposit services.

The largest part of the growth in funds available was due to the 1.4 times growth of deposits received from individual clients and thus their proportion in the total volume of deposits has increased from 45.8% to 53.9% and totaled 14,818,504 thousand rubles as at 01.01.2005. In 2004 the volume of issued promissory notes, the deposit certificates and bills, increased by 2.5 times.

The Bank's "Management and Liquidity Estimation Policy" determines the basic concepts, goals and methods of management, estimation methods and distribution of responsibilities in the field of liquidity management of the Bank.

The Bank maintains the liquidity sufficient for meet all the requirements of the Bank of Russia and follows the standards of instant (N2), current (N3), long-term (N4) and general (N5) liquidity as per the Bank of Russia instruction No. 110-I of 16.01.2004, "On Obligatory Standards of the Banks".

	Central Bank Standard	Actual Ratio %	
		01.01.2005	01.01.2004
Ratio of highly liquid assets to liabilities payable on demand, N2	min. 15 %	36.3	57.0
Ratio of liquid assets to total liabilities on-demand and with a maturity of less than 30 days, N3	min. 50 %	50.7	90.5
Ratio of loans and guarantees with a remaining maturity of greater than one year to total sum of capital of the Bank and liabilities with a remaining maturity exceeding one year, N4	max. 120 %	79.3	57.9
Ratio the liquid assets to total assets of the Bank, N5	min. 20 %	24.7	40.8

The Assets and Liabilities Management Committee manages of the liquidity risk to ensure the timely repayment of the Bank's liabilities and with a view to potential income.

Interest rate risk

The gradual decrease of inflation and the reduction by the Central Bank of Russia of the base rate in January and June of 2004 has led to a general decrease loan interest rates in the market. The Bank pays attention to managing interest risk management to keep the interest margins at the level necessary to cover operational expenses and ensure the profitable of our business activity.

Interest rate risk is limited as most contractual interest rates, on the commercial loans, deposit and transaction accounts, are related to market rates. Interest rates are fixed for the Bank's promissory notes and fixed rate deposits of individual. The Bank promptly responds to the change of the general level of the interest rates to maintain appropriate profit margins.

Interest rate policy is reviewed and published by the internal regulation. "On major principles of resource management" adopted by the Management Board of the Bank on a quarterly basis. The rates may vary depending on the change of refinancing rate by the Bank of Russia and depending on the rates on the financial market.

Insolvency risk

The insolvency risk management is measured by the capital adequacy, the ratio of capital of the Bank to risk adjusted assets (N1).

Operational risks

The evaluation and management of strategic risk is carried out by the Supervisory Council and the Management Board of the Bank. The responsibility for monitoring, realization and control of strategic initiatives rests with top management of the Bank and the Bank's committees: the Credit and Investment Committee, the Asset and Liability Management Committee and the Client Committee.

The evaluation and management of technology risk and the risks associated with the introduction of new products and systems are executed by respective IT-departments and specialists. All technology solutions developed and applied in the Bank are fully documented. The Bank uses the ARIS methodology, based on systems and processes approach to determine and identify the existing objects and links during the preparation of documentation relating to the processes and procedures. A rigorous corporate standard of process description is applied. In respect of internal and external requirements on the information protection and information security, all newly introduced technology and hardware-software systems are strongly checked and tested and documentation confirmed and controlled. All software systems used in the Bank should be checked and recorded in a proper and obligatory way in the software register of the Bank. The Bank is secured against the use of non-registered software systems and untested IT-technologies.

Financial inefficiency risk

The Bank manages the relationship between operational expenses and the results achieved. The Bank has introduced a system of budgeting and planning based on revenue and cost centers to help to identify inefficient operations in the planning stage, to correct tariff policies and to determine the main aspects of client policy. This helps to ensure that revenues grow faster than non-interest expenses.



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