

20



Growth rates shown by Vozrozhdeniye Bank and Banking sector of the Russian Federation in 2004

Indices	Growth rates for Vozrozhdeniye Bank, %	Growth rates for the banking sector, %
Funds of natural persons	44.2	30.1
Issued debentures	148.4	1.5
Current year profit	218.6	38.6

(data of the Central Bank of the Russian Federation, reports of Vozrozhdeniye Bank)

Main results of the Bank's development in 2004

Corporate business

Services provided to corporate clients

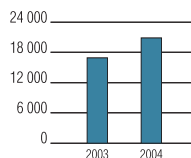
The Bank is developing its corporate business by building a diversified base of high quality clients in order to minimizing risks. In dealing with clients, we seek to balance the interests of the Bank and those of our clients, while pursuing a policy of minimizing industry-related risks.

In 2004, Vozrozhdeniye bank continued to strengthening the client base, particularly by increasing the number of clients with significant income and with financial stability. In 2004, the number of corporate clients rose by almost three thousand.

As of January 1 2005, funds on corporate clients' accounts was equal to 10.1 billion rubles. The total of bills of exchange and certificates of deposit issued by the Bank to corporate clients increased by 2.5 times during the year to 2.2 billion rubles. The Bank provides payroll card services to more than 2,000 enterprises and organizations.

The Bank's Customer Committee reviews its internal processes and develops improvements aimed at attracting

Operations with corporate clients accounts, thousand





21

Key performance figures of the Bank in 2004

Financial performance*	As of 01.01.2005	As of 01.01.2004
Net assets, thousand rubles	30,482,417	26,480,505
Capital of the Bank, thousand rubles	3,272,764	3,036,346
Profit, thousand rubles	317,871	99,761
Net loans, thousand rubles	23,639,841	17,634,919
Funds of clients, thousand rubles	24,943,152	21,481,565
Including deposits of natural persons	14,818,504	10,275,082
Efficiency indices, %		
Return on Capital	9.9	4.5
Return on Assets	1.1	0.5
Capital Adequacy Ratio, %	12.4	14.3
Clients		
Number of legal entities	37,219	34,240
Number of natural persons	780,000	608,476
Network of branches		
Number of branches, sub-branches, representative offices, and other service outlets	122	112
Including those in Moscow region	79	76
Regular Staff	4,553	4,262
ATM network		
Number of ATMs	312	242
Including those in Moscow region	180	142
Bank card business		
Bank cards issued and effective, thousands	531	413
Number of enterprises that are acquiring clients	869	620
Remote access system		
Number of clients operating Client-Bank remote access	4,300	3,072

*Data from the balance sheet and profit and loss account shown in the table as well as that from the Bank's annual report, which follows, are stated subject to developments after the balance sheet date in compliance with guidelines N 1530-Y of the Bank of Russia of 17.12.2004. This regulation recognizes the activities of a credit institution conducted between the balance sheet date and the day when the annual accounting report was signed, which had a significant impact on its financial state as of the balance sheet date. The capital of the Bank has been restated subject to this regulation.

22



clients and providing all clients with high quality services.

During 2004, we continued to improve our internal risk management and decision-making processes and enhance services and interest rates to attract funds from corporate clients. The delegation of authority allows the Bank to promptly respond to any changes in the market situation and offer clients terms of mutually beneficial cooperation while minimizing risks.

In 2004, the key client groups included companies engaged in food processing, wholesale, agriculture and production of industrial equipment. We continued cooperation with authorities at all levels as well as state-run and municipal enterprises. Such industry diversity in the Bank's client base avoids risks resulting from adverse developments within any particular industry.

Lending provided to companies and legal entities

Vozrozhdeniye Bank's credit policy seeks to place credit resources with maximum efficiency through a diversified credit portfolio for a yield which is appropriate to the risk assumed by the Bank.

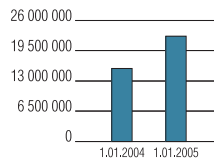
The implementation of the Bank's credit policy is directed to the establishment of long-term relationships with clients, while maintaining a high quality credit portfolio. Within such an approach, we can ensure an appropriate portfolio yield even when there are negative changes in macroeconomic conditions which affect a client's business.

In 2004, the focus of the credit policy remained on the real sector and supporting the Bank's clients in developing their businesses

In 2004, the Bank's net credit portfolio for corporate clients increased by 29% to 21.8 billion rubles from 16.9 billion rubles. The share of credits in the Bank's net assets increased by 8 percentage points to 72%. Within the credit portfolio for corporate clients, ruble loans accounted for 77.4% and foreign currency 22.6%.

As we increased the credit portfolio, we placed special emphasis on improving quality, managing credit risks

Credit Provided,
Rubles thousand



23

and diversifying the portfolio. Thus, in 2004, we reduced the portion of loans to the Bank's ten biggest borrowers. As of January 1 2005, loans to the ten biggest borrowers accounted for 21.2% of the Bank's credit portfolio, down from 24.4% at January 1 2004.

The Bank's credit portfolio has also become more balanced across industries. We prioritized credit for highly profitable companies in the real sector that have a stable market for their products. This includes enterprises engaged in metallurgy and metalworking, wood processing, engineering, construction materials, food processing and manufacturing. Companies and enterprises in such industries received 31% of all loans.

During 2004, we increased the regional diversification of the credit portfolio. The previous year, loans to Moscow region enterprises accounted for 75% of the portfolio, which was reduced to 61% as we increased lending in other regions from 25% to 39% by the end of 2004. The Bank made significant and successful efforts to optimize the credit portfolio and enhance its yield. We extended loans to reputable clients with a positive credit history, strong financial status and unconditional solvency. The biggest increase in the number of clients who received loans were medium-sized businesses.

The Bank's lending process strictly follows our internal rules and procedures. We perform a thorough review of the borrower's financial and economic activities over the past few years to assess the client's creditworthiness.

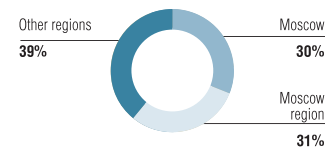
Participation in government and regional projects

During 2004, as part of the government lending program which subsidizes loan interest costs for farmers and agricultural production companies, the Bank continued to finance companies in the domestic agro-industrial sector using its own funds. In 2004, we extended about 650 million worth of such loans.

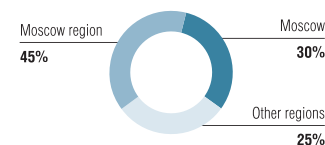
As an authorized bank of the Federal Customs Service, Vozrozhdeniye Bank acts as a guarantor of customs duties up to a limit of 25 million Euros for its importing clients. During the course of the year, we provided guarantees worth more than 163 million rubles.

In cooperation with local authorities of Russia's cities and regions, the Bank extends loans to government

Credit provided to Corporate clients by region for 1.01.2005



Credit provided to Corporate clients by region for 1.01.2004

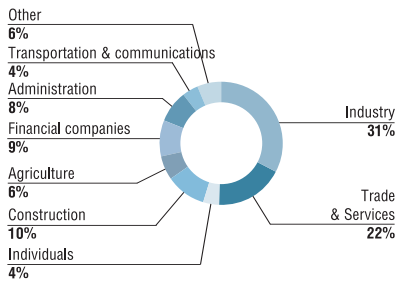


24

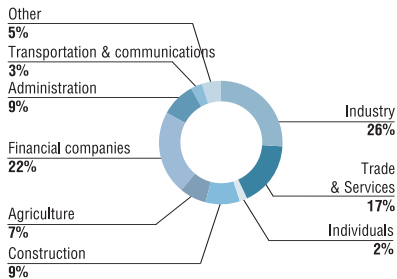


authorities directly and to government and municipal enterprises. As of January 1, 2005, such loans outstanding exceeded 1.8 billion rubles; more than 4.8 billion rubles was provided during the year.

Credit by Sector
for 01.01.2005



Credit by Sector
for 01.01.2004



Since 1997, Vozrozhdeniye bank has been an authorized bank of the Moscow Administration. We continue our cooperation with the Food Department to promote development of the capital's food sector. By early 2005, we had extended guarantees of more than 514 million rubles to businesses that supply Moscow with farm produce and food. The Bank also provided 611 million rubles in loans to companies in the capital's food sector to implement food delivery projects in Moscow. During implementation of the Moscow Administration and Moscow region joint poultry farming project, the Bank extended 78.3 million rubles in guarantees of obligations of the local poultry factories to the Food Department of Moscow.

The Bank's loans to Moscow-based industrial organizations, as well as companies engaged in commerce and services, increased by 30% to 6.5 billion rubles as of January 1, 2005. A presence in 37 regions of the Moscow Oblast enables the Bank to participate in many investment projects for upgrading and re-equipping businesses, development of transportation networks and the agricultural sector as well as social security projects. By early 2005, the businesses of the region had received more than 7.4 billion rubles in loans, of which 807 million rubles were provided to municipal entities.

In promoting the comprehensive socioeconomic development of the Moscow region, special importance is attached to facilitating the use of non-cash transactions, especially the use of bankcards. In 2004, the volume of non-cash payments of individuals increased 1.6 times to more than 5.4 billion rubles. The Bank administers about 1,300 card-based payroll projects in the Moscow region. In the accounting year, the Bank signed agreements for payroll card services with the Government, State Duma and Ministry of Transport for the Moscow region as well as the Region's Administration and Transport Inspection Service. As of January 1, 2005, the Bank had issued more than 325,000 bankcards in the Moscow Oblast.

In 2004 the Bank launched a pilot project for the residents of the town of Serpukhov within the framework of a Social Card program. Such social cards are issued to keep track of residents who enjoy various social benefits as well being used to process payments and provide various benefits in buying drugs, goods and public transportation.

25

Cooperation with system clients

A wide network of branches gives the Bank a competitive advantage in servicing major companies that have an extensively distributed geographic structure.

The Bank's regional network of 123 offices provides services to various groups of clients across the whole industry spectrum: industrial production, transportation, communications, food processing, manufacturing, agriculture, commerce and the fuel distribution industry, among others.

Since 2004, the Bank's branches have been providing services to the entire Mostransavto Group, which consists of more than 50 motor transport enterprises throughout the Moscow Oblast. To deal with the client's many divisions, we use Client-Bank, a remote account access system. Almost all motor transport companies in the Mostransavto Group use the Bank's card-based payroll services.

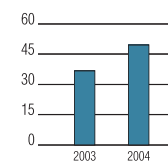
As part of a special purpose transportation program of the Moscow region administration, the Bank is providing financial support for the project to develop the transportation network within Region. It is supporting Mostransavto's expansion plans and extending loans or lease-based financing to increase current assets, build infrastructure for servicing passengers as well as purchasing and repairing the rolling stock. More than one-third of the loans the Bank extended to the Mostransavto Group in 2004 were issued under the guarantee of the Moscow region Administration.

Last year, the Bank promoted cooperation with motor transport companies as part of a bills of exchange plan to purchase fuel and lubricants as well as effect payments for construction materials under the guarantee of Moscow Oblast owned entity Mosavtodor. There are 13 organizations that participate in this plan.

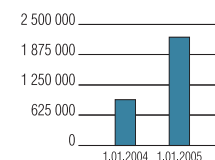
In 2004, Vozrozhdeniye Bank signed an agreement with open joint-stock company Mosobldorremstroy to provide loans and other bank services to the company and its 40 subsidiaries throughout the Moscow region.

The Bank signed a cooperation agreement on bankcard use by individuals for fuel purchases at gas stations owned by the Mega Oil group, which specialize in the sale of oil products.

Client-Bank system payments, %



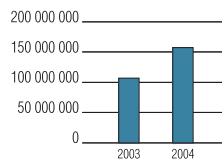
Promissory notes issued by the Bank, Rubles thousand



The Bank counts state-run and municipal enterprises among its good clients. In 2004, cooperation with the Principal Administration of the Pension Fund of the Russian Federation for Moscow and the Moscow region resulted in a centralized payment of old age pensions through the branches of the Bank in the Moscow region, something that had never been done before. More than 1,500 retired residents in the Moscow Oblast received their pensions through a new technology used by the Bank's branches.

The Bank signed an agreement on cooperation with Russian Post, for the regions where the Bank has branches. A pilot project in the Moscow region involves provision of settlement and cash services at a uniform rate to post offices of Russian Post Service. In the future, a phased implementation of the project is planned in other regions where the Bank and Russian Post are jointly located. In 2004, Vozrozhdeniye Bank entered into an agreement with Moscow Railway, a branch of the national railway company, RZHD, respect to payroll card services and cash collection and settlement services.

Cash volumes, Rubles thousand



The Bank has developed cooperation with leading insurance companies such as SK VSK, Ingosstrakh, MAKS, Rosgorstrakh-Stolitsa, UralSib, SK Energogarrant and SK ROSAGROSTRAKH. The Bank's branches are providing services to a number of regional offices of these companies. For example, the Bank's branches in the Moscow region provide services to 25 offices of Rosgorstrakh-Stolitsa, of which 18 use card-based payroll services and the Client-Bank remote access system.

The regional branches of the Bank also provide services to other systemic multi-branch companies in various sectors of the economy.

27

Financing of foreign trade transaction of clients

Ratings assigned to Vozrozhdeniye Bank by Moody's International Rating Agency enhance the potential for attracting long-term resources on the international markets in order to finance clients' foreign economic activities.

In 2004, we effected a number of transactions using credit lines of international banks such as the Bank of New York and Hungarian Export-Import Bank Ltd. From the latter, Vozrozhdeniye raised a total of more than 3 million Euros to finance deliveries to Russia of Hungarian-made equipment.

In 2004 an agreement became effective between Vozrozhdeniye and AKA Ausfuhrkredit-Gesellschaft mbH, a German bank, under the guarantee of HERMES Kreditversicherungs-Aktiengesellschaft, a German export agency. The German partner provided the Bank with a credit line of 5 million Euros for a period of 5 years. The first tranche of 502,000 Euros was used to finance a purchase of a LIEBHERR truck crane by one of the Bank's clients.

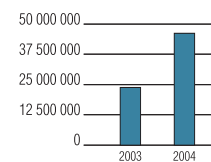
In March 2005, the Bank signed a 2.55 million Euros, 3-year export credit line agreement with ForeningsSparbanken AB, also known as Swedbank of Sweden, to finance purchases by Russian companies of Scania trucks. The Bank has already signed a contract for 1.8 million Euros, financed by this Swedish bank.

Retail business

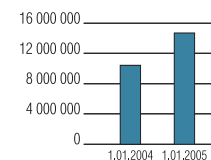
Vozrozhdeniye sees strengthening of its retail business as an essential integral part of its overall development strategy. An increase in the number of retail clients and enhanced sales allow for diversification of the client base, contribute to attraction of long-term resources for credit operations and are one of the promising sources of higher income.

In 2004, the Bank concentrated its efforts on addressing a number of issues. These involved increase in the volume of operations with individuals, development of new retail products, improvement of the technology on which services can be based, greater efficiency of channels for their delivery and more aggressive promotion of

Bank export–import operations,
Rubles thousand



Individual deposits,
Rubles thousand



28



retail products on the market. As a result, in 2004, the overall number of individual clients rose by 28%. The Bank has increased its share of the market of personal deposits, ranking on a regular basis among the top 10 Russian banks.

To develop the retail business, we must steadily improve our operations with individuals. For this purpose, the Bank is upgrading its information and technical base, which will allow it to reduce the time required for handling each client, the number of documents to be executed and employees assigned to this transaction. The Bank's branches are extending opening hours for servicing individuals and increasing the number of employees dealing directly with clients.

Deposits by individuals

Vozrozhdeniye Bank sees individuals' deposits as an important means to increase the asset base. In 2004, the Bank committed itself to strengthening its position in the market for individual savings. By early 2005, the volume of funds on private individuals' accounts was 14.8 billion rubles, an increase of 44% over 2003. This significantly exceeded the growth rate of the banking sector in Russia, which grew by 30%.

Dealing with individuals' deposits requires that credit institutions be socially responsible and superbly reliable. The key element is conservative risk management principles. These principles came fully to bear during the summer credibility gap among depositors.

At the time, the management of Vozrozhdeniye Bank used every possible means to pursue a customer-oriented policy. The Bank did not introduce limitations on amounts to be withdrawn or any charges for early termination of deposit agreements. All offices of the Bank functioned as usual and the Bank took active steps to provide explanations by posting news on a regular basis on the corporate site and publishing articles in the mass media with assessments of and comments on what was happening in the banking sector. The Bank held negotiations with major clients to prevent a significant simultaneous outflow of cash. Two additional factors also played a role in minimizing potential adverse effects that the turmoil and panic among investors had on the Bank: a reliable brand and a solid business reputation. Our brand and reputation took years and the collective effort of all employees of the Bank to develop. These steps enabled us to fully meet legitimate demands of individual clients, preserving the Bank's image as a reliable and stable financial institution, which prudently safeguards the interests of every client.



29

In 2004, in compliance with the applicable legislation, the Bank underwent audits for compliance with the requirements for participation in the deposit insurance plan. On December 9, 2004, following these reviews, Vozrozhdeniye Bank was registered as participant # 276 in the plan for compulsory deposit insurance. This permits us to continue operations involving funds of individuals and an additional guarantee for the savings of the Bank's depositors.

During 2004, the Bank actively promoted its specialty deposits with a floating rate from Vozrozhdeniye's collection of best deposits. The main advantage is that customers do not lose any interest in case of early withdrawal of funds.

As depositors have begun to favor long-term investment, the Bank offered a new product – a “Gold reserve” three-year deposit that retained all advantages of the Bank's specialty deposits.

In 2004, there was a demand for the Bank's new product, a “Multi-currency” deposit, which enables customers to monitor changes on the foreign currency market and promptly convert their funds to the currency of choice.

The Bank was one of the first in Russia to introduce special programs such as Housing Project and Auto Project that permit customers to accumulate an initial installment, receive additional interest on deposits and special allowances while creating a positive client record.

Credit programs for individuals

In 2004, the Bank's portfolio of credits extended to individuals rose 2.4-fold to 867 million rubles and, at June 1, 2005, equals more than 1 billion rubles. The dynamic development of the Bank's retail credit operations is a result of improved lending technology, development of new products as well as advertising and information campaigns in the regions where the Bank has a presence.

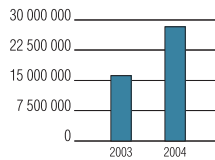
Mortgage lending. Provision of credits to purchase housing is one of Vozrozhdeniye's priority areas in retail banking as well as an important source of income.

In 2004, the Bank began financing the purchase of real estate on the secondary market within the framework of the government program of the Agency for Housing Mortgage Lending (known by its Russian acronym, AIGK). The Bank is effecting such transactions in Moscow, Moscow region, Saint Petersburg and eight other regions of Russia. The program involves provision of credits for a term of up to 27 years under the security of an

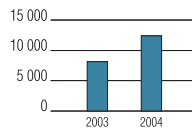
30



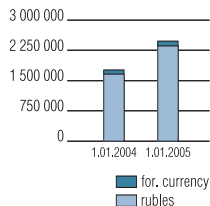
Bank cards operations volume,
Rubles thousand



Bank cards operations number,
thousand



Funds on card accounts,
Rubles thousand



apartment being purchased without guarantors or any additional security. AIGK refinances credits extended by the Bank by assuming the mortgages as security. By June 1, 2005, AIGK has refinanced more than 150 mortgage loans issued by the Bank.

Under an agreement signed in early 2005, Vozrozhdeniye became an agent of AIGK, which allows it to provide a full range of financial services in mortgage lending at all regional offices of the Bank. Cooperation between the Bank and the Agency will enable the Federal program to be extended to regions that had not yet participated in the program.

Loans for purchase of motor vehicles

In 2004, the Bank started a program for provision of loans to individuals for purchase of motor vehicles. During the year, the Bank promoted cooperation with a number of major car dealers and made agreements with dealers such as Inkom-Avto, Avtomir, Lada-Favorit, offices of Mitsubishi in Krylatskoye and Taganka, Avtoreal and others.

Payment and credit cards of the Bank

In 2004, the Bank continued to focus on increased sales of products based on bankcards, development of our service infrastructure and creation of additional opportunities for cardholding clients.

The Bank is among the top ten credit institutions in terms of active promotion and the level of payment card services and is one of the largest issuers of chip cards among Eastern Europe banks.

During 2004, the number of cards issued by the Bank increased by more than 125 thousand and by early 2005 it had totaled 531 thousand of which 84% are combined cards, i.e. complete with a chip and a magnetic strip. The Bank issues and accepts all types of cards of international payment systems, Visa International and MasterCard International as well as accepting Union Cards and STB Cards, using its own processing center. The amounts credited to special card accounts of our clients equaled 28.2 billion rubles, an increase of 2.8 times over 2003. During 2004, the amount of funds on special card accounts increased by 42% and was equal to 2.7 billion rubles by early 2005. The turnover for the cards of Vozrozhdeniye bank was 29 billion rubles, an increase of 1.9 times over 2003.



31

In 2004, the Bank developed and offered a number of new services to holders of bankcards. It started issuing Visa revolving credit cards. As such a program involves higher credit risks, potential holders of credit cards were limited to employees of companies using the Bank's card-based payroll services. We started issuing express Visa Electron bankcards, which enables a card to be issued in just 20 minutes. Vozrozhdeniye started issuing MasterCard chip bankcards effective for three years. Also, we put into operation the Internet component of Your Account 7/24 Information system, which allows clients to obtain information about the state of their account and transactions effected through bankcards in real time via the Internet. The service also provides extra options such as freezing of an account and release of a blocked account.

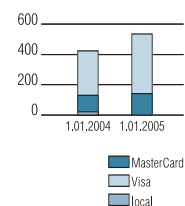
Vozrozhdeniye Bank has been promoting ATM services including payment of utilities, services provided by mobile operators (MTS, Beeline and Megafon) and NTV+, increase in deposits, transfers to other accounts maintained by the client as well as repayment of consumer loans and credit card debts. In 2004, more than 13.6 million various transactions were effected through the Bank's ATM network. In 2004, we introduced 88 ATMs of which 19 accept cash. As of January 1, 2005, the Bank had a total of 312 ATMs. Vozrozhdeniye is servicing the largest network of round-the-clock ATMs in the Moscow Region. As of January 1, 2005, the Bank had introduced 180 ATMs in the Moscow Region of which 14 accept cash. The number of cash centers amounted to 121. Over 2004, the number of trade and servicing organizations that maintain contractual relations with the Bank in the area of bankcard settlement services increased by 40% to 869. The turnover of non-cash acquiring transactions in the trade and services network was double that of 2003.

Other banking products

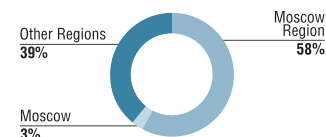
The Bank effects transfers with or without opening of accounts both in rubles and foreign currency. All branches and offices of the Bank accept payments from individuals of utilities, personal loans of other banks and services provided by mobile phone operators and satellite TV broadcaster NTV+.

The volume of payments in 2004 increased to 6.7 billion rubles, 1.8 times greater than 2003.

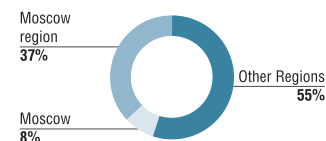
Bank cards, thousand



Installed ATMs, for 01.01.2005



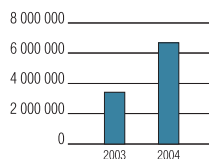
Trade & service points, for 01.01.2004



32



Individual payment volumes,
Rubles thousand



In 33 of the Bank's branch vaults, clients can lease safety deposit boxes for any length of time. At all of the Bank's offices, clients can purchase commemorative and collectable coins made of precious metals. By early 2005, individuals were effecting currency exchange transactions at 117 currency exchange offices of the Bank.

The Bank has been expanding the range of banking products to include the services provided by Vozrozhdeniye's partners in order to gain a higher income.

Vozrozhdeniye Bank is one of the major partners of Western Union. More than 60 specialized offices of the Bank in the Moscow region and 87 throughout Russia effect money transfers via the Western Union system. In terms of the number of such offices, the Bank occupies third place in Russia. The volume of transfers during 2004 rose to 1 billion rubles.

With introduction of compulsory insurance for owners of motor vehicles, the Bank offered to arrange customers' insurance policies directly at the offices of the Bank. At the moment, we offer a full range of motor vehicle insurance products of our leading insurance company partners.

In 2004, the Bank began to cooperate with Kit, a mutual fund management company, and included in its range of products a proposal for clients who wish to take a risk with some of their assets but at the same time expect to receive greater revenues compared to deposits.

The Bank's own operations

Operations on financial markets

In 2004, the Bank's operations on financial markets continued to show a positive trend. The volume of conversion transactions increased 1.7 times (13.5 billion US dollars in 2004 and 7.8 billion US dollars in 2003), the volume of interbank lending in rubles was equal to 183 billion rubles.

Last year, the Bank pursued a more aggressive investment policy on domestic financial markets. In 2004, the volume of investment dealings amounted to 43.6 billion rubles. Early 2005 saw an increase in the volume of investment in corporate bonds and stocks issued by Russian companies (205 million rubles and 210 million rubles respectively). At the same time, the Bank gradually scaled back investments in foreign currency instruments as a result of the stronger national currency and expected increase in the global interest rates.



33

The Bank has developed trust management and broking services to allow it to pursue this promising line of business to increase the customer service potential of the Bank. In 2004, we established a corresponding infrastructure for dealings on financial markets and started negotiations with potential participants in the project.

Cooperation with financial institutions. Correspondent relations.

In 2004, the Bank continued to promote cooperation with foreign and international financial institutions, mainly in the area of foreign currency settlement transactions.

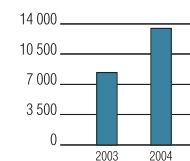
The Bank's correspondent network enables it to make settlements, which are primarily effected in US dollars and Euros, with banks of virtually any country. The volume of settlement transactions on correspondent accounts rose by 40% compared to 2003 largely due to payments under export contracts of the Bank's clients.

With respect to correspondent relations with Russian Banks in 2004, the Bank continued to pursue one important avenue – widening the circle of counterparts on the interbank market as well as getting them to establish or increase unsecured credit lines for effecting mutual transactions. By early 2005, the total volume of credit lines, which had dropped as a result of the summer credibility gap, had not only reached, but exceeded the previous level by 8%. The Bank entered into 27 general agreements on interbank transactions. The number of counteragent banks has risen to 224 and includes 10 foreign banks.

In 2004, the Bank established correspondent relationships with 7 Russian banks. As of January 1 2005, the Bank had opened 49 loro accounts in Russian rubles and 48 in foreign currency. The Bank has a network covering 61 Russian banks, 122 foreign banks, including 7 banks within the CIS.

In 2005, we continued to improve the correspondent network and enter into interbank contracts, mainly with subsidiaries of foreign financial institutions. We have increased credit lines established for the Bank and entered into banknote contracts with regional banks and branches of Moscow-based banks to meet foreign currency cash requirements of Vozrozhdeniye's branches.

Exchange operations volumes, USD million



Regional Development

In 2004, the Bank continued to expand its business in economically developed areas of Russia and increase its regional presence. In doing so, the Bank followed the lead of basic concepts which shape operations of its branches:

- optimization of costs to open new divisions and maintain existing ones;
- economic potential of establishing new offices, ensuring a return and effective use of investments, meeting target figures for profit and income expense ratios;
- a single regionally-oriented range of products, expansion of the range of banking products and services making them as customer-friendly as possible;
- a unified system of operational control, financial planning, performance analysis and tight risk control;
- unification of information technologies which involves a single computer-aided system for all offices of the Bank, gradual relief of the branches of technical workload and shifting their focus to sale of banking products;
- transparency and openness with respect to operations of the branch offices.

By June 2005, the Bank has already opened 4 new offices in the Moscow region, one in Rostov-on-the Don and a representation in Kaluga. At present, the network of the Bank's branches has 126 offices in 19 regions of Russia: 59 branches, 2 representations, 44 sub-branches and 21 operational cash departments.

In the Moscow Region, the Bank enjoys a leading position. Vozrozhdeniye's offices operate almost in all district centers, with a total of 82 offices in the Moscow Oblast. Last year, 2 new offices were opened in Krasnogorsk, in the Moscow region. To increase the volume of business in the regions of Russia, the Bank opened new offices in Stavropol, Kislovodsk, Volgograd, Volgodonsk, Rostov-on-the Don and Komsomolsk-on-the Amur.

Last year, we introduced a new way to develop the regional network: representation offices. Specifically, we opened the Northwestern Regional Center representation. Initially, it was assigned with a task of promoting the branch in Saint Petersburg and strengthening its position on the region's banking market. In spite of the tough competition in the financial arena, the office managed to increase the volume of services provided by the branch and secure for the Bank a stronger position in the region through involvement in a number of projects, which are important for the market development. In 2004, we took on several major corporate clients including Baltika Brewery open joint-



35

stock company, Water Channel Saint Petersburg, a federal unitary state-run enterprise and Lenoblgas.

The Bank's working assets in the region have increased by 9 times over the past year, due to a greater volume of loans extended to the city's major companies such as LOMO Company, Gruzomobil Corporation and Northwestern Leasing Company. Through the work of the Northwestern Regional Center work, the Bank bid and won the right to handle bond agreements for LenSptetsSMU Holding and Moststroy N6 Company.

Banking and information technologies

The intensive growth of business volumes, the rapid increase of retail banking services, and the development and delivery of more complex banking products required Vozrozhdeniye Bank to find new approaches to a number of crucial decisions and practical steps in the area of technology:

- focus of the branches on customer service;
- centralization in head office of functions not related to customer service at the branches, especially reporting requirements;
- ensuring operation of the network of branches through a single data base;
- centralized administration of the branches' applied programs.

To provide a comprehensive solution to current issues related to introduction of the new computer-aided banking system and automation of business processes as well as to ensure the best possible interaction of functional and technological divisions, the Bank has set up a Technology Committee. For a tighter fiscal and cost control, in 2004 we put into commercial operation a system of financial planning and managerial accounting that allows for an integrated approach in formation of the Bank's budget and strict implementation thereof. The head office has launched a computer-aided business accounting system, which is one of the modules of the new computer-aided banking system.

The Bank is concentrating on improving the technology used to provide services to individuals. The branches in the Moscow Region have begun to implement a transaction system for individual clients, which represents a transition stage in the changeover to a new computer-aided retail system for the Bank. The latter will allow for



comprehensive services with respect to registration of deposit agreements and applications for issuance of bankcards, acceptance and processing of cash payments from customers in favor of any third parties, processing of payments and transfers via Western Union, non-cash payments through ATMs, electronic money transfers from one account to another through ATMs, and non-cash repayment of loans extended by any third party banks. In 2004, along with the Pension Fund of Moscow and the Moscow Region, the Bank implemented a project involving centralized payment of old age pensions in the Moscow Region.

A number of elements play an important role in development of the Bank's technologies such as automation of the sequences of its banking operations, improvement of software as well as upgrading of hardware.

In 2004, we continued our efforts to set up a centralized accounts preparation system and relieve the branches of some of their technical functions related to preparation of financial statements. As part of the Bank's participation in the deposit insurance plan, a system for preparing a register of liabilities was created.

Human Resource management

The efficiency and competitive ability of Vozrozhdeniye Bank are based on the promotion of a corporate culture, an ideal combination of financial and moral incentives for employees, and the appropriate environment for their professional growth.

The policy of HR management is designed to make the most of our employees' potential. When employing highly skilled personnel, the Bank seeks to provide them with guarantees of high quality professional training and career growth as well as ensure appropriate work conditions and financial incentives.

Vozrozhdeniye Bank has a staff of more than 4,500 employees, with more than 80% of them having higher and specialized secondary education. In recruiting personnel, we give preference to specialists with relevant college degrees, hands-on banking experience and excellent communication skills.

Employees under 35 account for 37% of the Bank's staff. More than 30% of employees have more than 10-year experience with Vozrozhdeniye Bank.



37

In 2004, as part of the general training program for the Bank's employees, we provided refresher courses in the main banking areas, specifically training of young professionals including top of the class students and graduates of leading educational institutions. Last year, more than 1500 employees of the Bank underwent training.

Refresher courses provided last year for employees covered several areas:

- seminars and conferences, conducted by external training centers in Moscow and in other Russia cities. The training was organized by the International Moscow Financial and Banking school and the Banking Institute of the Association of the Russian banks, "Novy Paritet" Financial Center, "Informzaschita" training center, the Stock Market and Management Institute and others;
- corporate training was dedicated to such questions as the changes in current legislation, information on the new Bank's products and the way to work with them. The leaders and lecturers at corporate seminars were the Bank's specialists and top managers, as well as external consultants and experts, including leading staff of the Bank of Russia, Moscow City Municipal Tax Inspectorate (IMNS), and Moscow Region Mortgage Corporation.

The Bank has a system of training and development of a personnel reserve for effective substitution for vacancies or new positions due the increase of the business activity in head office and in the Bank's branches.

Activity for society's benefit.

The Bank's social policy is traditionally aimed at responding to the specific social objectives. The Bank provides aid to the least protected social groups, including children, disabled persons, as well as the Great Patriotic War veterans.

On the initiative of Dmitry Orlov, the President of the Bank, Vozrozhdeniye initiated the financing and organization of the TV memorial war chronicle, "We did our best to make this day closer", dedicated to the 60th anniversary of the end of World War II and the Great Patriotic War. The project was realized with the overall support of the Administration of the Moscow Region and personally of Boris Gromov, the Governor. The project is dedicated to the population of the city and the suburbs of Moscow who participated in the Great Patriotic War, to their enormous contribution to the defense of the capital of our motherland and to the defeat of the enemy in the vicinity of Moscow, to the universal goal – the Victory over Fascism. The TV marathon of 39 films is being



transmitted on the 3rd TV channel. The TV project will last throughout the whole year 2005, which has been declared the Victory Year.

Last year the Bank also provided sponsorship to a number of public organizations, including the Russian charitable foundation Illustrated books for blind children, the International public foundation The Union of Social Protection of Children, and the Moscow Public Fund of the War Veterans.

The Bank pays serious attention to the education and upbringing of youth, provides support to secondary and primary schools, provides funds for the student scholarships and organizes practical training. Last year such practice in headquarters and offices of Vozrozhdeniye Bank in Moscow Region was organized for more than fifty students of the grammar school No.1518, students of the Moscow Banking School, the Russian State Linguistic University, Moscow Academy of Economics and the Law, and the Financial Academy of to the Government of the Russian Federation.

The Bank maintains strong relations with the Financial Academy and the President of Vozrozhdeniye Bank is the president of the Council of Trustees of the Academy.

The Bank contributes to the development of culture and provides sponsorship for restoration of ancient monuments. In 2004, the Bank made a donation to St. Nicolas Belomorsky Cathedral in Karelia.

The social and public plan of the Vozrozhdeniye Bank for 2005 foresees continuation of the charitable sponsorship to cultural and educational establishments and financing of public funds supporting the socially least protected groups of population.