

VOZROZHDENIYE BANK
Financial Results for 2003

Management Commentary

Consolidated Financial Statements
(under International Financial Reporting Standards)
and

Auditor's Report

Management Commentary on IAS Financial Results for 2003

We are pleased with the business and financial results of the year. Under Russian Accounting Standards, by which we manage the bank and are regulated by the CBR, our results were very good. Our profit was RUR 100 million (\$3.4 million) and capital grew to RUR 3,036 million (\$103.1 million) as we raised RUR 990 million (\$33.6 million) by issuing new common shares to independent Russian investors in August of 2003. This allowed us to rapidly increase our credit portfolio, which had been constrained by CBR normative ratios.

Measured under International Accounting Standards our results, at only RUR 64 million rubles or 4% return on equity, appear at first to be unsatisfactory, especially compared to the very high results of 2002. However, this is a result of several significant unusual effects implicit in IAS.

The table below shows an analysis of our operating results. We consider our operating profit, RUR 103 million (\$3.5 million) or 7% return on equity, to be more than satisfactory given the heavy costs of expansion that the bank is undertaking to improve our commercial-retail franchise. We believe that as one of Russia's more trusted banks we should be expanding our business and gaining market share. A significant expansion of our capability in the Northwest region was accomplished with the addition of a Representation Office to manage and expand our commercial business in St Petersburg and the surrounding regions. In 2003 we opened one branch, nine sub-branches and added 82 banking machines. One objective measure of our success in achieving our retail goals is the increase in our rank by five places to 10th position among banks in terms of personal deposits during 2003.

In the final quarter of the year we expanded our loan portfolio significantly, which affected our IAS results due to higher provisions. Our new share capital issue was registered only at the end of August 2003. This allowed us to respond to pent-up loan demand and increase our loan portfolio by 20% in the last quarter. While these were, and are, profitable, productive loans, our standard is to provide a 5% reserve for possible losses. Loans increased by RUR 2.8 billion (\$95 million) in the last quarter, resulting in an increase in provisions of RUR 138 million (\$4.7 million). This created a drag on earnings as the level of provisioning was much greater than the three months' revenue of RUR 43 million (\$1.5 million) calculated at the average 6.5% net interest margin on the loans. These loans, now with the full required provision already booked, will have a great positive effect on the following years' results.

Two unusual items significantly affected the comparison with 2002 profit after tax of RUR 573 million (\$18.0 million) or 91% return on average equity. In 2002 we recorded a significant reduction in the required provisions for a single large non-productive loan, as our security position was verifiably strong. The loan, to a car manufacturing company, was declared non-productive during 2002. However, due to the good security we had, and still have, over specific machinery and equipment we had reduced provisions from 50% to 15%. We have been unable to effectively pursue a bankruptcy case due to political involvement of both the Moscow City and Federal Property Ministry and the expectation that bankruptcy might damage our security position. We continue to believe that there will be a full recovery of principal, in spite of the drag on current interest income from this non-productive loan.

We also recorded a significant recovery in 2002 due to the restructuring of our outstanding obligations to the Ministry of Finance under pre-crisis World Bank loan support programs. The 2002 restructuring relates to our obligations to Ministry of Finance under World Bank programs, which had been immunized by purchasing dollar-denominated obligations of the Ministry (MinFin bonds) sufficient to offset interest and principal repayments to the maturity of the obligation. However, RUR 979 million (\$30.8 million) book value of low yielding MinFin bonds on our balance sheet distorted our financial statements and prevented us from focusing on profitable expansion of our lending business. During 2003 these bonds were sold and the

obligation retired in order to free up the financial resources for more profitable lending to ongoing customer relationships.

Excluding these two items our 2002 operating after tax profit of RUR 13 million (\$0.4 million) reflected a return on average equity of 2% compared to this year's RUR 103 million (\$3.5 million) or return on equity of 7%.

IAS Results Analysis

(in millions of Russian Roubles)

2003	IAS Results	Extraordinary Item		Operating Results
		NP Loan	MinFin Restructuring	
Assets (year-end)	26 617	939	0	25 678
Capital (year-end)	2 002			
Average Capital	1 457			
Net Interest Income	1 133	-52	149	1 036
Provisions	307	0		307
Non-Interest Income	1 249			1 249
Expenses	1 823			1 823
Restructuring & Inflation	-149		-149	0
Profit	103	-52	0	155
Tax	45	-12		57
Minority Interest	6			6
Profit after tax	64	-39		103
Return on average Equity	4%			7%
2002	IAS Results	Extraordinary Item		Operating Results
		NP Loan	MinFin Restructuring	
Assets (year-end)	16 582	1 013	979	14 590
Capital (year-end)	912			
Average Capital	627			
Net Interest Income	531	-25		556
Provisions	-454	-417		-37
Non-Interest Income	850			850
Expenses	1 589			1 589
Restructuring & Inflation	328		162	166
Profit	574	392	162	20
Tax	1	-6	0	7
Profit after tax	573	398	162	13
Return on average Equity	91%			2%

AUDITORS' REPORT

To the Supervisory Council of Vozrozhdeniye Bank:

We have audited the accompanying consolidated balance sheet of Vozrozhdeniye Bank and its subsidiary (the "Bank" as defined in Note 1 to the consolidated financial statements) as at 31 December 2003, 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.

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- 1 We conducted our audit in accordance with International Standards on Auditing. Those Standards require 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.
- 2 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at 31 December 2003 and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Moscow, Russian Federation
24 May 2004

Vozrozhdeniye Bank
Consolidated Balance Sheet as at 31 December 2003
(in millions of Russian Roubles)

	2003	2002
Assets		
Cash and cash equivalents	5 464	1 452
Mandatory cash balances with the Central Bank of the Russian Federation	1 548	987
Trading securities	325	1 317
Due from other banks	413	1 326
Loans and advances to customers	16 753	8 757
Investment securities held to maturity	-	1 010
Other assets	585	335
Premises and equipment	1 529	1 398
Total assets	26 617	16 582
Liabilities		
Due to other banks	93	1 109
Customer accounts	22 465	11 001
Other borrowed funds	877	2 748
Insurance reserves	328	-
Other liabilities	195	198
	23 958	15 056
Subordinated loans	469	492
Exchangeable convertible preference shares recorded as liabilities	123	122
Total liabilities	24 550	15 670
Minority interest	65	-
Shareholders' equity		
Share capital	4 371	4 316
Share premium	1 610	675
Revaluation reserve	26	-
Accumulated deficit	(4 005)	(4 079)
Total shareholders' equity	2 002	912
Total liabilities and shareholders' equity	26 617	16 582

Approved for issue by the Board of Directors and signed on its behalf on 24 May 2004.

D.L. Orlov
President

A.A. Novikova
Chief Accountant

Vozrozhdeniye Bank
Consolidated Statement of Income for the Year Ended 31 December 2003
(in millions of Russian Roubles)

	2003	2002
Interest income	2 227	1 567
Interest expense	(1 094)	(1 036)
Net interest income	1 133	531
(Provision)/release of provision for loan impairment	(307)	454
Net interest income after provision for loan impairment	826	985
Gains less losses arising from trading securities	119	175
Gains less losses arising from investment securities held to maturity	139	-
Gains less losses arising from trading in foreign currencies	141	87
Fee and commission income	717	490
Fee and commission expense	(49)	(29)
Other operating income	182	127
Operating income	2 075	1 835
Operating expenses	(1 823)	(1 589)
(Losses)/gains resulting from restructuring of other borrowed funds	(149)	162
Monetary gain	-	166
Profit before tax	103	574
Income tax expense	(45)	(1)
Profit after tax	58	573
Minority interest	6	-
Net profit	64	573
Gain per share (expressed in RR per share)		
Basic	4	51
Diluted	4	44

Vozrozhdeniye Bank
Consolidated Statement of Cash Flows for the Year Ended 31 December 2003
(in millions of Russian Roubles)

	2003	2002
Cash flows from operating activities		
Interest received	2 168	1 617
Interest paid	(1 020)	(942)
Income received from dealing in trading securities	117	266
Income received from trading in foreign currencies	141	87
Fees and commissions received	683	490
Fees and commissions paid	(49)	(29)
Other operating income received	86	55
Operating expenses paid	(1 432)	(1 491)
Income tax paid	(2)	(1)
Cash flows from operating activities before changes in operating assets and liabilities	692	52
Changes in operating assets and liabilities		
Net increase in mandatory cash balances with the Central Bank of the Russian Federation	(561)	(254)
Net decrease/(increase) in trading securities	929	(1 350)
Net decrease/(increase) in due from other banks	956	(302)
Net increase in loans and advances to customers	(8 481)	(1 726)
Net (increase)/decrease in other assets	(28)	19
Net (decrease)/increase in due to other banks	(993)	160
Net increase in customer accounts	11 790	3 106
Net (decrease)/increase in debt securities in issue	(384)	594
Net (decrease)/increase in other liabilities	(80)	49
Net cash provided from operating activities	3 840	348
Cash flows from investing activities		
Acquisition of investment securities available for sale	-	(78)
Proceeds from disposal of investment securities available for sale	23	343
Proceeds from disposal of investment securities held to maturity	1 098	-
Acquisition of premises and equipment	(306)	(134)
Proceeds from disposal of premises and equipment	-	6
Dividend income received	4	3
Net cash provided from investing activities	819	140
Cash flows from financing activities		
Issue of ordinary shares	990	-
Repayment of CBRF stabilisation loans	(450)	(373)
Repayment of credit facilities from Ministry of Finance of the RF	(1 098)	(45)
Dividends paid	(9)	(3)
Net cash used in financing activities	(567)	(421)
Effect of exchange rate changes on cash and cash equivalents	(80)	28
Effect of inflation on cash and cash equivalents	-	(208)
Net increase/(decrease) in cash and cash equivalents	4 012	(113)
Cash and cash equivalents as at the beginning of the year	1 452	1 565
Cash and cash equivalents as at the end of the year	5 464	1 452

Note: The effect of the revaluation of foreign currency balances was eliminated from the above consolidated statement of cash flows.

Vozrozhdeniye Bank
Consolidated Statement of Changes in Shareholders' Equity for the Year Ended 31 December 2003
(in millions of Russian Roubles)

	Share capital	Share premium	Revaluation reserve	Accumulated deficit	Total shareholders' equity
Balance at 1 January 2002	4 316	675	-	(4 649)	342
Net profit for the year	-	-	-	573	573
Dividends declared and paid on preference shares	-	-	-	(3)	(3)
Balance at 31 December 2002	4 316	675	-	(4 079)	912
Revaluation of premises and equipment, net of taxation	-	-	26	-	26
Net loss for the year	-	-	-	64	64
Share issue					
- Nominal value	55	-	-	-	55
- Share premium	-	935	-	-	935
Other movements	-	-	-	19	19
Dividends declared and paid on ordinary and preference shares	-	-	-	(9)	(9)
Balance at 31 December 2003	4 371	1 610	26	(4 005)	2 002