Management Commentary on IFRS Financial Results for 2004 May 20, 2005

We are very pleased to provide you with our commentary on the business and financial results for 2004. Under International Financial Reporting Standards (IFRS) our profit after tax was RUR 456 million ($16.4 million), five times greater than the previous year, and our return on equity was 19%.

Although there are still challenges in the development of the Russian economy, we feel that the trends are moving in the right direction. A crisis of confidence in the banking system last summer impacted the bank's retail depositors briefly, but our efforts to ensure confidence, maintaining full ATMs and effectively managing our liquidity, allowed us to fully satisfy our customers until the Central Bank was able to restore confidence. An important example of the improving regulatory environment is the government's deposit insurance program into which we have been accepted. It will become fully effective next year and although it covers individual deposits only to the level of 100,000 rubles, that is, in fact, the median level of our customers' deposits.

There is increasing diversity in the economy. In spite of the extremely important role that natural resource companies obviously play, our own commercial business growth shows an increasing number of successful small and medium sized companies in our own target market. The number of our commercial customers rose almost 10% to over 37,000. Our commercial lending remains very important and sound.

We have been expanding our network, especially in regions which are supportive of independent business and retail strength. We have increased the number of our full service branches by 9 to 122. Our network of ATMs grew to 312 and we introduced a new type of ATM which allows customers to deposit cash by machines. This has greatly expanded our ability to service our 780,000 retail customers. The number of the Bank's plastic cards in use increased almost 30% to well over half a million. Perhaps the greatest business improvement has been the success of our retail lending; new programs for credit cards, consumer loans, car loans and mortgages were introduced in 2004. We are clearly consolidating our position as one of Russia's top ten retail banks.

Measured under International Financial Reporting Standards, our assets grew by 14% to RUR 30.6 billion, ($1.1 billion). Our Shareholders' equity grew 21%, entirely due to retained earnings as we did not issue new shares in 2004 as we had the previous year. Our return on equity rose from 6% in 2003 to 19% in 2004. Our earnings were reflected in a rise to 27 rubles per share from 6 rubles.

This year we are pleased to report that there were no significant extraordinary items. We feel this level of earnings appropriately reflects sustainable operating earnings for the bank. We will, of course, try to continue to improve our financial results as we expand our services to our clients and the strength of our distribution network and product range.

The table below shows a three-year summary of our financial results. Excluding the effects in 2002 of a significant provision reversal and restructuring profits, you can see the strength in underlying earnings while we have managed expenses well considering our business expansion.

As you will see in note 3 to our IFRS results, we have corrected an error relative to the inflation adjustment and assessment of depreciation of our fixed assets. This error occurred some time ago but we have restated the initial position of 2003 results with the effect of reducing accumulated depreciation and therefore increasing premises and equipment and capital by RUR 158 million ($5.7 million). The resulting reduction in deferred tax charge increased 2003 profit by RUR 25 million ($0.9 million).

For the first time, we have provided a breakout by significant lines of business and by geography in note 24. While we expect that retail assets will grow to balance more closely the retail liabilities over time we are pleased with the early acceptance of these products by the market and the initial results. The geographic distribution table shows the strength of branch results outside of Moscow Oblast and Moscow City. We believe this reflects the success of our strategy of expansion in the diversifying regions of the Northwest and Southern European Russia.

Our net interest income grew by 81% as we have increased margins on our commercial loans and reduced non-performing loans. We have a very productive relationship with the Government Agency for Mortgage Credit (АИЖК) and had initiated about 300 mortgages since we launched this product during the latter half of 2004: half had already been packaged and sold by year-end. More recent trends show accelerating growth. We are also very pleased with the growth in consumer and car loans, individual overdraft facilities and credit cards. We have strategically priced these products at reasonable rates, consistent with our retail strategy of building a long term relationship with our individual customers.

Past due credits, at 3% of gross loans, reflect almost entirely a single major loan, initially granted many years ago. We sold one-third of this position in 2004 and recorded a loss of RUR 111 million ($4 million) but have maintained a strong security position on the remaining $25 million and expect to be able to fully recover the remainder during the current year. Including this, our credit losses and write-offs for the last two years have been well less than 1%. Still we feel it prudent to provide for potential losses at roughly 6% of our commercial loan portfolio and this has built a level of provisions to RUR 1.4 billion ($54 million), twice the level of past due loans.

In non-interest revenue our fees and commission growth of 47% (RUR 315 million or $11 million) more than offset lower gains on securities and currency trading. A large part of this success is due to the more effective retail work, credit and debit cards and ATMs which for the first time allow cash input for bill payments and deposits.

Although non-interest expenses grew by 24%, that growth is still 38% less of operating income increase. We have been working hard to increase the effectiveness and efficiency of our branches in spite of their increasing number and product range. We will continue to see significant increases in our efficiency as the benefits of new systems being implemented this year are reflected in financial results.

Financial Results Trends

IFRS Results	RUR (Millions)			USD (Millions)		
	2004	2003	2002	2004	2003	2002
Assets (year-end)	30 627	26 775	16 582	1104	909	522
Average Assets	28 701	21 679	15 201	1 006	715	490
Equity (year-end)	2 604	2 160	1 045	94	73	33
Average Equity	2 382	1 603	694	86	54	22
Net Interest Income	2 054	1 133	531	74	39	17
Provisions	467	307	-454	17	10	-14
Non-Interest Income	1 288	1 249	850	46	42	27
Expenses	2 258	1 823	1 589	81	62	50
Disposal, Restructuring & Inflation	-94	-149	328	-3	-5	10
Profit	523	103	574	19	4	18
Tax	50	20	1	2	1	
Minority Interest	-17	6		-1		
Profit after tax	456	89	573	16	3	18
Return on Equity	19%	6%	83%			
Return on Assets	1.59%	0.41%	3.77%			
Earnings per share	27	6	51			
EPS - fully diluted	25	6	44			