

VOZROZHDENIE BANK

Financial Results for 2005

Management Commentary

Auditor's Report

Consolidated Financial Statements
(under International Financial Reporting Standards)

Full IFRS statements, with notes, are also posted on the bank's web-site www.vbank.ru

Management Commentary on IFRS Financial Results for 2005

We are very pleased to provide our commentary on the business and financial results for 2005. Under International Financial Reporting Standards (IFRS) our profit after tax was RUR 544 million (\$19 million), an increase of 18% from the previous year, and our return on equity was 19%. Earnings per share were 28 rubles (\$0.97) up from 22 rubles (\$0.79). Our equity increased 26% due to retention of earnings and extinguishing the contingent liability relating to our convertible preferred shares, which became common shares in 2005. There is no longer any dilution of earnings due to convertible securities.

We are pleased to note that this is the second year in which we can fairly say that unusual items do not distort our results and that our return on equity reflects the underlying strength of the bank's operations. We have some gains still to make in terms of efficiency as the business grows and our technology improvements begin to reduce the growth in operating expenses. Although we are close to our targeted return of a minimum 20% ROE, we feel that in 2006 we will be able to exceed this target return.

The Russian economy continues to develop well, with sound government fiscal policies. We see significant strengthening in our core markets; independent businesses and retail banking. Small and medium sized businesses in the regions in which we operate are now developing real strength as they mature into stable operations. We now provide banking services to over 40,000 companies and are providing a broader range of services and support as we build solid relationships with our clients. One of the most significant is payroll services. We now provide over 700,000 individuals, employees of our commercial customers, with debit cards to allow direct payment of their monthly salaries.

Perhaps the greatest changes in the financial system have to do with a greater acceptance by individuals of banks as a useful and necessary part of their lives. Our business is based on relationships with all clients; for individuals this means not just providing a debit card, but better ways to use their money, to save and to borrow. This is appropriate given our position as 10th largest bank by deposits from individuals. The consumer loan and mortgage programs we initiated in 2004 grew very strongly last year and by year-end we were the 9th largest issuer of new mortgages for purchasing residences. We are clearly consolidating our position as one of Russia's top ten retail banks.

We are expanding our network in order to serve existing clients better and to attract new clients in regions where we see the greatest growth in diverse economic activity. Last year we added 16 new branches to reach 138; today we have over 140. For many individual clients the most useful and convenient way of banking is by using bank machine – ATMs. We installed almost 100 new ATMs in 2005, most with the ability for clients to deposit cash as well as take it out. This has increased the use of ATMs for payments and other transactions. Last year 20 million transactions, including 5.5 million payments, were made using ATMs.

Our expansion is reflected in the significant growth of assets, which reached \$1.7 billion at year-end, a 60% increase from the previous year. Our retail lending programs, initiated only in 2004, are growing very rapidly and now comprise 11% of our loan portfolio, up from only 4% the previous year. We are a leading bank in working with the Federal Housing Financing Agency (AIGKh). We have issued 1.3 billion rubles (\$45 million) in new mortgages of which one-third have been refinanced with AIGKh.

Net interest income grew only slightly as margins decreased somewhat and a stricter application of IAS standards required loan fees, treated as interest income, to be amortized over the life of the facility. We have also carried a higher proportion of lower yielding liquid securities as we rebuilt our liquidity which was reduced last year by the summer confidence crisis. Our loan portfolio continues to be very sound; the portion of past due loans was reduced by half and equals only 1.4% of the total loan portfolio. We have maintained our provision for possible losses at a prudent 5% of the portfolio or 1.6 billion rubles (\$56 million).

Non-interest revenue grew 46% with the largest portion contributed by a 449 million ruble (\$16 million) increase in income from corporate and individual fees and commissions for banking services. The number of actual banking transactions exceeded 32 million, a 40% increase during the year. The Bank has issued over 700,000 international debit and credit cards and the volume of funds placed on card accounts and transaction volumes increased by 70% last year. The Bank now provides payroll services to over 2,500 corporate clients.

Operating expenses grew 34% as volumes increased and the branch network expanded. The bank has 5,100 employees a 13% increase from the previous year primarily due to the expanded branch network. Staff costs make up 56% of operating expenses, a slight reduction from the previous year. Our cost/income ratio, 70%, is high due to investments in new technology and the costs of branch expansion. Increasing efficiency as our core banking technologies are implemented this year and increasing use of electronic banking by our clients will help us achieve our 60% target within three years.

Profit before tax increased 35%, however our tax rate this year under IFRS increased sharply as tax loss deductions from previous years are no longer available. Taxes increased by 117 million rubles, reducing the increase in after tax profit to 18%.

Financial Trends IFRS Results	RUR (Millions)			USD (Millions)		
	2005	2004	2003	2005	2004	2003
Assets (year-end)	49,109	30,627	26,775	1,706	1,104	909
Average Assets	39,868	28,701	21,679	1,385	1,006	715
Equity (year-end)	3,273	2,604	2,160	114	94	73
Average Equity	2,938	2,382	1,603	102	86	54
Net Interest Income	2,111	2,054	1,133	73	74	39
Provisions	247	467	307	8	17	10
Non-Interest Income	1,880	1,272	1,249	65	46	42
Expenses	3,037	2,258	1,823	105	81	62
Disposal, Restructuring & Inflation	0	-94	-149	0	-3	-5
Profit	707	507	103	25	19	4
Tax	163	46	20	6	2	1
Minority Interest	0	0	6	0		
Profit after tax	544	461	89	19	17	3
Return on Equity	19%	19%	6%			
Return on Assets	1.36%	1.61%	0.41%			
Earnings per share	28 r	22 r	6 r			