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 NP Loan	Extraordinary Item MinFin Restructuring	Operating Results
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 NP Loan	Extraordinary Item MinFin Restructuring	Operating Results
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%