

CentroCredit Bank

2003 Annual Report

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Statement of the Chairman of the Board of Directors to the Customers and Partners

Dear Friends,

The past year was one more step on the path of the ongoing development of the Bank. We strengthened our position as a reliable credit institution, possessing sufficient resource potential, with proven technology for performing a broad specter of banking operations, as is characteristic for a universal commercial bank. By practically all financial indicators, CentroCredit maintains a stable high position among Russian banks.

All of these achievements are without a doubt the result of joint work between the shareholders, executives, and clients of CentroCredit. However, outstanding statistical indicators of the work of our bank are not our main goal. The attention of the shareholders and executives of the Bank is focused on the issues of reliability and stable development, which allows us to look confidently into the future.

Allow me to thank you for your trust, to wish us all success in the current year, and to express my hope for continued development and deepening of our cooperation.

Pavel Kosolobov
Chairman of the Board of Directors

Statement of the Chairman of the Management Board to the Shareholders and Customers

Dear Ladies and Gentlemen

Allow me, on behalf of the Management Board of CentroCredit Bank, to present you the annual report for the year 2003.

The past year may be reasonably considered successful for our Bank.

The situation prevailed in the Russian financial market was very contradictory. A strong positive trend caused by general recovery of the economy and favorable global conjuncture was shaded by rapid negative events resulting in local failures and inefficiency in some areas. Under these circumstances, the Bank used in full such traditional advantages of the Bank as mobility, managing ability, and compactness.

As a result, financial performance was quite convincing:

- Return on assets amounted to 17.9 per cent, which enabled us to become the first Russian bank in terms of this indicator.

It is worth pointing out a number of events of fundamental importance:

- A new customer center started its operations in Moscow. This enabled to enhance the quality of corporate and retail customer servicing up to the best samples of the Russian practice;
- There was successful development of the program of dissemination of plastic cards of the VISA payment system;
- Precious metals operations continued to develop. The Bank ranks among the largest operators with confidence, working both in the domestic and international markets.
- Bank's percentage of factoring operations in the Russian market amounts to 25 per cent;
- The Bank completed development and started test operation of the INTERNET-BANK system, which shall become a basis for comprehensive servicing of retail customers;
- There was rapid increase of funds raised for trust management.

These and many other factors are evidences of further qualitative and quantitative development of the Bank's business, which became possible as a result of our joint efforts.

Allow me to thank you for trust and cooperation.

*Chairman of the Management Board
of CentroCredit JSCB
Andrey Tarasov*



The new client centre – Central Additional Office

General Information

The CentroCredit Joint Stock Commercial Bank (closed joint-stock company) was established in 1989 and has been working successfully in the banking sector for fifteen years based on the general license 121 issued by the Central Bank of the Russian Federation.

On June 23, 2004 the Bank celebrates the 15th anniversary of its activities. Banking in Moscow Journal included CentroCredit Bank into a special project devoted to the 15th anniversary of the Russian banking system under a heading "They were the first ones".

In 2003 the authorized capital of the Bank went up from 989,855,000 roubles to 1,562,235,000 roubles.

By the year 2003, the Bank's equity amounted to 2,5 bln roubles, which enables CentroCredit Bank to be one of the largest Russian banks in terms of equity (39th position as at June 01, 2003 according to Profile journal rating). In terms of net assets, the Bank was on the 38th position as at the specified date.

Due to attraction during the reporting period of a large number of both corporate, and individual customers, and for convenience of their servicing, CentroCredit Bank opened 5 additional operational office in 2003.

In 2003 there was a significant increase of volumes of precious metals transactions performed by the Bank (their volume in 2003 amounted to 23,000,000 roubles, according to the report of the Board of Directors), leasing operations (volumes of these operations went up by 166% during the reporting period as against 2002).

The Bank is one of the leaders on factoring transactions (as compared to data at January 01, 2003, their volume more than doubled and amounted to 172,000,000 roubles at December 01, 2003).

Based on performance in 2003, the Bank made a decision to pay to shareholders of CentroCredit Bank dividends for the amount of over 16 roubles per each registered ordinary share and over 4 roubles per each registered preferred share.

The Bank has a wide-spread network of correspondent relations with such large foreign banks as ABN AMRO Bank N.Y., USA; Union Bank of California International, New York; Raiffeisen Zentralbank Oesterreich AG (RZB), Vienna; Banque Commerciale pour l'Europe du Nord S.A. (Eurobank); Commerzbank AG, Frankfurt am Main.

CentroCredit Bank is a member of the Association of Russian Banks, Moscow Banking Union, National Forex Association and National Stock Association, a participant of the Russian Trading System (RTS, Moscow Stock Exchange (MSE), Saint-Petersburg Stock Exchange, a shareholder and a member of the sections of stock, foreign exchange and future markets of Moscow Interbank Currency Exchange (MICEX).

Due to an exchange intermediary license 470 of November 29, 2001 CentroCredit Bank has a right to future and option deals in exchange trading in the territory of the Russian Federation.

In 2003 CentroCredit Bank received termless licenses of a professional market participant for the following activities: dealer (license number 177-06344-010000 of September 19, 2003), broker (license number 177-06333-100000 of September 19, 2003), securities management (license number 177-06356-001000 of September 19, 2003), and depositary (license number 177-06413-000100 of September 26, 2003).

In December 2003 the State Customs Committee of the Russian Federation repeatedly included CentroCredit Bank in the register of organizations, which may act as guarantors towards customs authorities with a total limit of maximum permitted simultaneous bank guarantees equivalent to 20,000,000 Euros.

CentroCredit Bank prepares financial statements in accordance with Russian and International Accounting Standards. Audit of Bank's performance in 2003 under International Accounting Standards was performed by Deloitte and Touch CIS CJSC.

RESULTS and Perspectives

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The success of most things
depends upon seeing... how long it will take
to succeed.

Charles de Montesquieu



The success of most things
depends upon seeing... >



Analysis of the Economic Situation in Russia and the Development of the Russian Banking Sector in 2003

Economic Situation in Russia

The Russian economy completed the past year with the best results for the last a few years. Stable monthly and quarterly growth continued in terms of nearly all the basic economic indicators. For the majority of indicators, growth rates were higher than the last year, 2002. There was evident increase of investment activity in the economy, including activity of foreign investors in Russia. In 2003, growth of investments amounted to 12.5% against 2.6 in 2002. Direct foreign investments in the Russian economy for January – September 2003 went up by 77.3% as compared to the same period last year. There was growth of real available cash flows and goods and services consumption by population, which growth rates also exceeded dynamics of GDP. For the first time in the last year, growth of industrial labor productivity exceeded increase of real monthly average salary.

Dynamics of key macroeconomic indicators

KEY INDICATORS	1999	2000	2001	2002	2003
Nominal GDP (billions of rubles)	4823,2	7305,6	9039,4	10863,4	13304
Real GDP (annual growth, per cent)	6,3	10,0	5,1	4,7	7,3
Industrial output (annual growth, per cent)	11,6	12,0	4,9	3,7	7,0
Fixed Capital Investments (annual growth, per cent)	3,5	17,3	8,3	2,5	12,2
Producer's Price Index (annual growth, per cent, at year end)	71,0	31,6	10,6	17,5	13,0
Inflation (annual growth, per cent, at year end)	36,6	20,1	18,8	15,1	12,0
Total Exports (\$ bln.)	75,6	105	101,6	107,3	134,4
Total Imports (\$ bln.)	39,5	44,9	53,8	61,0	74,8
Balance of Trade (\$ bln.)	36,0	60,2	47,9	46,3	59,6
FEDERAL BUDGET					
Revenue (RUR bln.)	608	1127,6	1 590,7	2198,5	2588,3
Revenue (% GDP)	12,6	15,4	17,6	20,2	19,4
Expenditures (RUR bln.)	664,7	954,1	1 325,7	2042,2	2361,5
Expenditures (% GDP)	13,8	13,1	14,7	18,8	17,7
Primary deficit (-)/surplus (+), (% GDP)	2,2	4,7	5,5	3,5	3,4
Overall deficit (-)/surplus (+), (% GDP)	-1,2	2,4	2,9	1,4	1,7
Money Supply (narrow, RUR bln. at year end)	324,3	482,7	708,5	940,3	1392,1
Precious Metals and Foreign Exchange Reserves (\$ bln., at year end)	12,5	28	36,6	47,8	76,9
M0 (RUR bln., at year end)	266,6	419,3	584,3	763,3	1100,0
Growth of M0 (annual growth, per cent)	42	57,3	39,4	30,6	44,1
M2 (RUR bln., at year end)	704,7	1144,3	1 602,60	2119,6	3050,0
Growth of M2 (annual growth, per cent)	57,2	62,4	40,1	32,3	43,9
Official RUR/USD exchange rate (at year end)	27,00	28,16	30,14	31,78	29,45
Refinancing rate of the Central Bank (per cent, at year end)	55	25	25	21	16

From the point of view of the factor approach, growth acceleration in 2003 was conditioned by high external growth caused by favorable foreign trade conjuncture for principal commodities of Russian export and resulting in increase of physical volumes of export, by increasing transformation of external demand into internal one, investment, in particular. According to estimates of the Ministry of Economic Development and Trade of the RF, 2 percentage points out of 7.3 percentage points of GDP growth

for the entire 2003 were conditioned by excess of Urals oil price over annual average price for the last 10 years. The largest percentage of growth – about 4.5 percentage points – is defined by principal internal factors, such as growth of investments in fixed capital and of population revenues. In terms of economic growth rates for the last years, Russia outpaces the majority of countries of the global community in spite of commencement of economic growth recovery in industrial developed countries. GDP increase for 2003 as compared to the previous year amounted, according The Economist Journal estimates, to 2.9% in the USA, 2.6% in Japan, and only 0.5% in Eurozone. Macroeconomic stability and steadiness conditioned increase of Russia's sovereign rating by Moody's international rating agency by two grades at a time – up to Baa3 investment grade (08.10.2003). The main disadvantage of economic growth quality is the fact that it was achieved in the frame of the resources export model of country's development.

In 2003, industrial production growth was positively influenced by the following factors: oil production and export (production amounted to 111.2% as compared to 2002, export – 112%); significant growth acceleration in ferrous metallurgy (108.9% against 103% as a result of advanced growth of production of pipes, electroferroalloys, refractory products), as well as in machine-building and metal workings (109.4% against 102% as a result of increase of investment demand in the economy and advanced growth of production output of mining and ore machine-building, railway machine-building and instrument-making, growth of production output of motor-car industry, road construction and utility machine-building, growth of defense production export); retention of sustainable growth of construction material production (106.4% versus 103% as a result of advanced growth in the cement industry, construction ceramics industry and construction materials and products of polymeric raw materials, asbestos industry); renewal of production growth in the power industry (101% against 99.3% in 2002), and coal industry (108.2% versus 96.4%). At the same time, negative dynamics of growth rates was observed in: the light industry (97.7% as compared to 2002 as a result of decline of output in textile and clothing industry); food industry (105.1% against 106.5% in 2002 as a result of decline in fish, sugar, bakery, distillery, tobacco industries); oil processing industry (102% versus 104.7% due to relatively low return on oil processing at domestic enterprises as compared to oil export deliveries).

In the agriculture, in 2003, production output amounted to 101.5% as compared to 2002. Weak growth rates of production were conditioned by decline of grain harvest and reproduction indicators in cattle breeding as a result of low fodder supply. By 01.01.2004, as compared to 01.01.2003, reduction of livestock in all types of businesses totaled to 5.6% (cows – 5.5%), pigs – 4.8%, at the same time, numbers of sheep and goats increased by 1.1%.

Consumer market inflation in 2003 amounted to 12.0% against 15.1% in 2002; that was the first time when this indicator met the annual average target (10-12%), provided for in the Law on Budget for 2003. Growth rates of food product prices (10.2%) had minor decline in comparison to the previous year (11.0%), decline of prices for non-food products was more significant: down to 9.2% as compared to 10.9% respectively. Tariffs for paid services for population increased in 2003 by 22.3% against 36.2% a year before.

According to GosComStat, the number of economically active population at the end of December 2003 amounted to 70.9 million people, or about 50% of total population of the country. Total number of unemployed, calculated by ILO methodology, decreased, as compared to the beginning of 2003, by 125 thousand people (6.4 million people, or 9.1% of economically active population), and amounted to 6.3 million people by the end of December, or 8.9% of economically active population. Annualized average of unemployed went up, as compared to 2002 (5.7 million people, or 8% of economically active population) by 300 thousand people, and totaled to 6 million people, or 8.5% of economically active population.



The Bank of Russia registered the report on results of issue of ordinary and preference shares of CentroCredit Bank for 1.312 billion roubles. Increase of the authorized capital was conducted in a form of capitalization of bank's equity for the amount of 492 million roubles.

Russian Banking Sector in 2003

According to the Strategy of Development of the Banking Sector of the Russian Federation for the middle terms (5 years), set forth in the joint declaration of the Government of the RF and the Central Bank of the RF of 30.12.2001, it was projected that, as a result of Strategy implementation, relation between banking sector assets and GDP might amount to 45-50%, between banking sector capital and GDP – 5-6%, loans to the real sector of the economy and GDP – 18-20%. The main objectives of the banking sector development are strengthening of its stability, increase of quality of services on funds accumulation and transformation into loans and investments, strengthening of depositors' and other creditors' trust, strengthening of defense of their interests, prevention of credit institutions utilization in commercial malpractice. Upon results of banking system development in 2003, one may certify that the main projected indicators are being successfully implemented.

Dynamics of principal indicators of the Russian Banking System

billion of roubles

	01.01.2001	01.01.2002	01.01.2003	01.12.2003
Assets	2362,5	3159,7	4145,3	5441,0
% GDP	32,3	35,0	38,2	45,0
Capital	286,4	453,9	581,3	794,7
% GDP	3,9	5,0	5,4	6,6
% assets	12,1	14,4	14,0	14,6
Loans to non-financial legal entities	763,3	1191,5	1612,7	2248,5
% GDP	10,4	13,2	14,8	18,6
Profit	17,18	67,61	92,95	116,65
% capital	6,0	14,9	16,0	14,7
Reference GDP	7305,6	9039,4	10863,4	12104,3

Approximately from the beginning of 2003, percentage of funds, raised by the banking system from individuals, exceeded percentage of funds from enterprises and organizations. For the last two year, growth of rouble deposits of individuals, which amounted to 45.4% in 2002 and 51.6% for 11 months of 2003, exceed growth of assets of the banking system, which was approximately 31% for two years. Growth of funds, raised from enterprises and organizations, was behind growth of assets, and amounted to 21% approximately for two years. The highest growth rates were observed in deposits for a period from 6 months and from 1 to 3 years. Their growth rates amounted approximately to 105% and 90% for 2002 and 85% and 69% for 11 months of 2003 (there were even higher growth rates of deposits for a period of more than 3 years, but they amount only to several per cent of deposits). Growth of individuals' deposits is explained by growth of population's revenues, increase of trust to the banking system of the RF, quite notable inflation, and by real strengthening of roubles in relation to dollar, which took place during the last two years (and in 2003 – also nominal strengthening of rouble). Further strengthening of population's trust to the banking system was facilitated by adoption of the law on insurance of individuals' deposits at the end of 2003, though it was delayed a little.



Percentage of fixed-income instruments in the Absolutniy Fund of CentroCredit Bank amounts to 50%.

Dynamics of principal balance sheet indicators of the Banking Sector

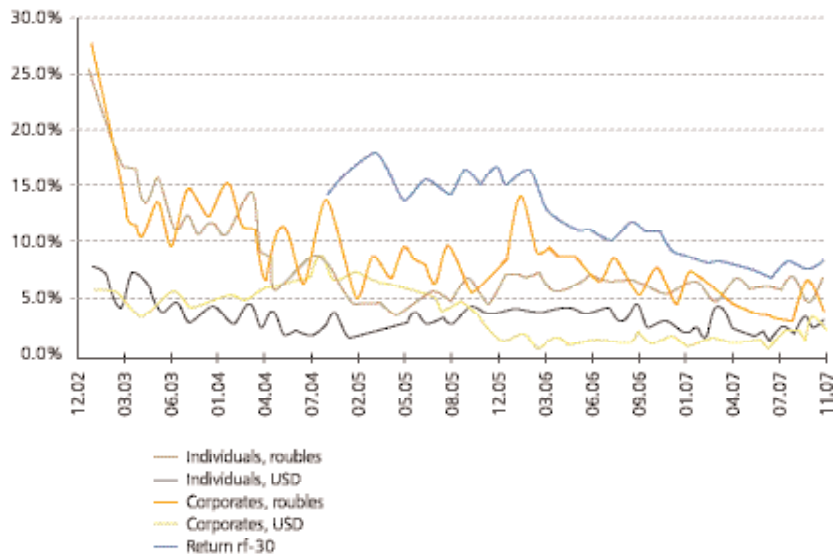
billion of roubles

	01.01.2001	01.01.2002	01.01.2003	01.12.2003
Loans outstanding – total	1082,5	1561,7	2148,8	3056
Including:				
Loans to enterprises and organizations	763,4	1191,4	1612,8	2248,5
loans in roubles	507,4	822,1	1056,9	1520,8
loans in foreign currencies	256	369,3	555,9	727,7
Loans to individuals	44,8	94,6	142,2	281,9
loans in roubles	34,6	78,4	115,9	231,4
loans in foreign currencies	10,2	16,2	26,3	50,5
Loans to enterprises and individuals as percentage of total loans, %	74,7	82,3	81,7	82,8
Investments in securities				
Including:				
Debentures	329,8	366,7	502,6	679,1
Government securities	310,6	338,4	412,8	484,8
Non-residents' debentures	14,7	6,4	22,1	56,4
Other debentures (including corporate bonds)	1,28	12,3	33	64,1
Shares	26,8	32,8	51,3	91,1
Interest in subsidiaries and dependent joint-stock companies	7,4	15,2	17,4	16,6
Individuals' deposits	453,2	690	1046,6	1451,6
Deposits in roubles	304,7	446,4	649,1	984,3
Deposits in foreign currencies	148,5	243,6	397,5	467,3
Funds raised from enterprises and organizations	722,1	902,6	1091,4	1322
Including:				
Funds of enterprises and organizations on current payment and other accounts	458,5	582,7	735	894
Deposits of enterprises and organizations	212	252,4	276,7	305,2
Deposits in roubles	51,3	68,1	101,3	132,1
Deposits in foreign currencies	160,7	184,3	175,4	173,1

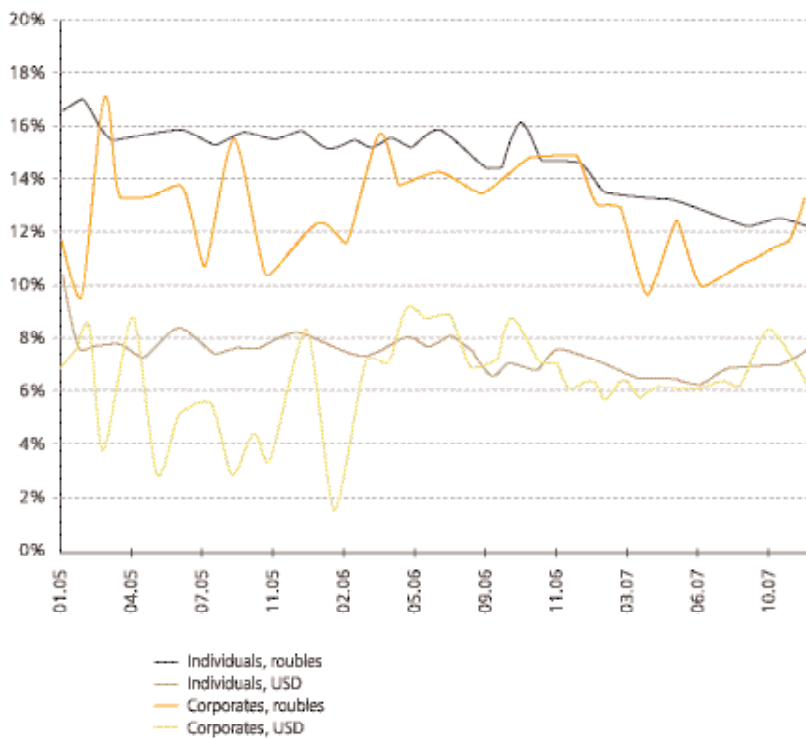
Notable competition to the banking sector in terms of lending to enterprises and organizations was presented by the corporate bonds (rouble and currency) market and by opportunities for large domestic companies to get loans from foreign banks at relatively low interest rates. On one side, this resulted in significant decline of credit interest rates in roubles for legal entities, on the other side, it was an incentive for the banking system to search for new business developments, such as consumer lending to individuals (purchase of consumer durable) and mortgage lending. At that, credit rates for individuals for periods from six months to a year and from 1 to 3 years actually went up during 11 months of 2003, and total lending for all terms doubled.

> RESULTS AND PERSPECTIVES

Dynamics of weighted average interest rates for raised deposits of all terms



Dynamics of weighted average interest rates for raised deposits for a period from six months to a year



Structure of income and expenses of the Banking Sector %

	01.01.2001	01.01.2002	01.01.2003	01.10.2003
Income – total	100	100	100	100
Including:				
Interest received from loans granted,				
Deposits and other placed funds	11,43	13,05	18,03	13,43
Income from securities operations	8,02	6,52	10,13	12,18
Income received from operations with foreign currencies and other currency instruments	40,11	32,71	27,76	37,65
Penalties and default interest	0,23	0,55	0,56	0,12
Other income	40,2	47,17	43,49	36,62
Including:				
Amounts released from reserves and/or provisions	33,53	41,15	35,31	29,04
Fees received	2,92	3	3,77	3,15
Expenses – total	100	100	100	100
Including:				
Interest paid on credits raised	0,91	0,98	1,14	0,66
Interest paid to legal entities on funds raised	2,16	2,44	2,49	1,61
Interest paid to individuals on funds deposited	6,03	3,46	5,04	4,19
Expenses for operations with securities	2,68	3,15	5,42	7,27
Expenses for operations with foreign currency and other currency instruments	39,75	32,73	28,03	39,44
Expenses for management staff	3,3	4,35	6,47	5,06
Penalties and default interest	0,05	0,31	0,05	0,04
Other expenses	45,12	52,57	51,35	41,73
Including:				
Allocations to provisions and reserves	137,61	45,3	41,2	33,6
Fees paid	0,26	0,32	0,48	0,39

At the end of 2003, the Government of the RF entrusted the Ministry of Economic Development, Ministry of Finance, and Ministry for Antimonopolistic Policy in conjunction with the Bank of Russia to work through issue of banking system development in the RF and present a draft of a new revision of the Strategy for Development of the Banking System of the RF by February 01, 2004. The main task of the Russian Banking System development for 2004–2008 is substantial increase of its importance as a factor of the economic growth. The nature of banking sector reforms must facilitate achievement of objectives, set forth in the program of the social and economic development of the RF for medium term – first of all, overcoming raw materials orientation of the Russian economy due to its accelerated diversification and implementation of competitive advantages. In this case, one of the main objectives of the banking sector development is increase of efficiency of its function on accumulation of funds of population and enterprises and their transformation into loans and investments. It is intended to involve representatives of the banking community into final review of the document. According to G. Tosunian, Chairman of the Association of Russian Banks, the strategy must emphasize development of the national banking system. It must provide for concrete measures, which will facilitate the reduction of costs of the banking business. Non-competitiveness against Western banks may substantially weaken due to withdrawal of “numerous piles both in terms of functions, and standards, and obligatory reserves, and many other aspects”. This is especially important in view of the forthcoming currency liberalization, when there will be necessity of competition with banks, which will works with us under transboundary conditions.

Bank's Performance Results in 2003

In 2003, CentroCredit Bank demonstrated, in general, positive dynamics of the main financial indicators.

According to Vedomosti Newspaper, CentroCredit Bank ranks first among Russian banks in terms of profitability – 17.8%.

According to the Russian banks' rating of Expert Journal, upon results of 2003, CentroCredit Bank ranks among the first group large Russian banks of Moscow and Moscow region in terms of financial stability (assets totaling from 5 to 16 billion roubles).

In 2003, business activity ratio of the Bank amounted to 39.5, which is 46.4% higher than a year before. This enabled the Bank to take the 29th position in the ranking of Expert Journal "30 banks – leaders in terms of business activity ratio in 2003".

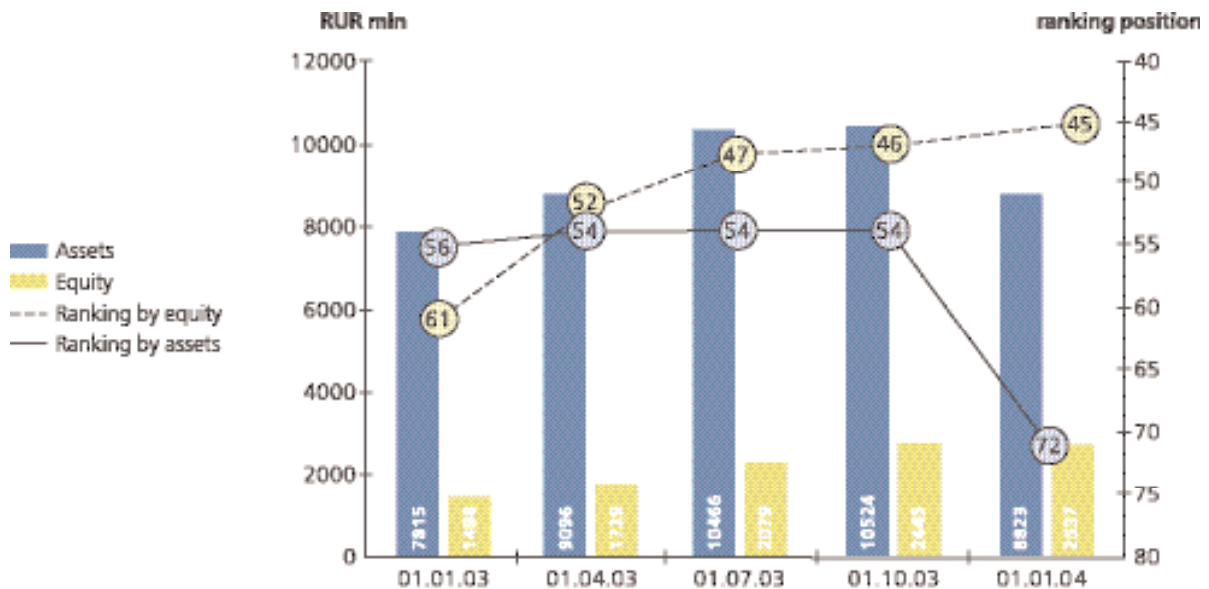
In the Company Journal ranking "The largest Russian banks in terms of equity at 01.01.2004", CentroCredit Bank occupied the 38th place, which is 12 positions up as compared to January 01, 2003.

Bank's book profit went up 2.5 times, and at the end of 2003 amounted to 1,492 million roubles according Russian accounting principles. Upon results of 2003, the Bank remains in the group of 20 Russian banks leading in terms of profit received.

The main income items, which influenced on the financial result of the CentroCredit Bank at January 01, 2004, are (according Russian accounting principles):

- > income from securities operations – 1,431 million roubles, or 67% of total income;
- > interests received on loans granted – 482 million roubles, or 23%;
- > income from cash and settlement services – 92 million roubles, or 4%;
- > income from operations with foreign currencies and precious metals – 83 million roubles, or 4%;
- > income from services in the securities market – 31 million rouble, or 1%;
- > other income – 1%.

Dynamics of CentroCredit Bank Ratings according Russian accounting principles ("Expert" magazine)



Total assets of CentroCredit Bank amounted to 9.7 billion roubles at January 01, 2004, which is 33% lower than a year before. This decrease was caused by purposeful reduction by the Bank of its securities portfolio. Being guided by intent to reduce risk of loss from possible devaluation in the financial markets and to balance assets and liabilities structure, the Bank reduced its financial leverage and conducted portfolio restructuring, having sold some securities in the 4th quarter.

According to the diagram "Assets structure of CentroCredit Bank at 01.01.2004", one may see that percentages of main groups of assets – Securities portfolio and Loan portfolio – as at January 01, 2004 amounted to 49% and 30% of total assets accordingly. Bank's loan portfolio went up by 625 million roubles (28%); its value at January 01, 2004 amounted to 2.9 billion roubles.

The third position in terms of percentage of total assets of CentroCredit Bank is occupied by Non-earning assets – 12%, or 1.5 billion roubles, which value went up to 305 million roubles (26%) during 2003 due to acquisition of a new building by the Bank, as well as to more than twice increase of balances with the Bank of Russia.

The fourth position – IBL granted and correspondent accounts – 8%, which is 441 million roubles higher (168%) than a year ago. This increase is first of all linked to review of the strategy of CentroCredit Bank in the IBL market – active attraction of funds in 2001 – 2002 was replaced by active placement of funds in the second half of 2003.

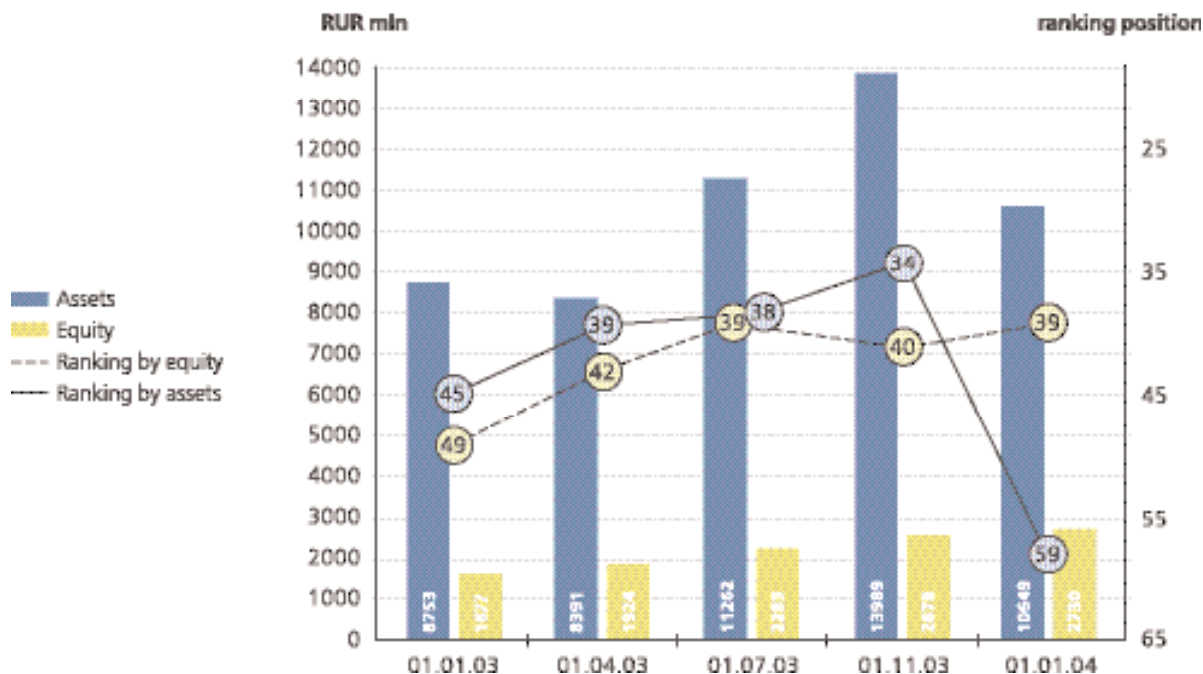
Precious metals value increased, as compared to the previous year, 3 times and amounted to 74 million roubles at January 01, 2004, and its weight totaled to 1% of total assets (0.2% at 01.01.2003).

Total liabilities of CentroCredit Bank reduced, as compared to the previous year, by 36%. Their value amounted to 7.2 billion roubles at January 01, 2004. Reduction of liabilities was related to above-mentioned decrease of financial leverage of the Bank.

Liabilities on REPO deals reduced significantly – by 2.8 billion roubles in absolute terms, and by 69% in relative terms – at January 01, 2004, they amounted to 1.3 billion roubles, or 17.5% of total liabilities.

The first position in terms of percentage of total liabilities of CentroCredit Bank is occupied by Funds raised from customers, which is 75%. As at January 01, 2004, their value amounted to 5.2 billion roubles, which is 2.3 billion roubles higher than by the end of 2002.

Dynamics of CentroCredit Bank Ratings according Russian accounting principles ("Profile" magazine)



> RESULTS AND PERSPECTIVES

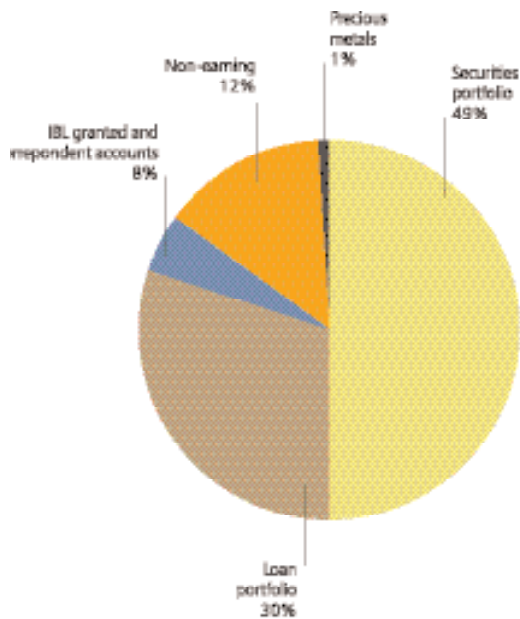
Total funds raised from customers consists of funds raised from legal entities (2.2 billion roubles; growth for 2003 – 9%), funds raised from individuals (0,5 billion roubles; growth for 2003 – 86%), Bank's own bills (2.5 billion roubles, growth for 2003 – 75%).

Value of IBL raised and correspondent accounts reduced by 68%, or 951 million roubles and amounted to 443 million roubles at January 01, 2004, of 6% of total liabilities of the Bank. The most notable reduction was in attracted securities-back interbank loans – 79%, or 892 million roubles.

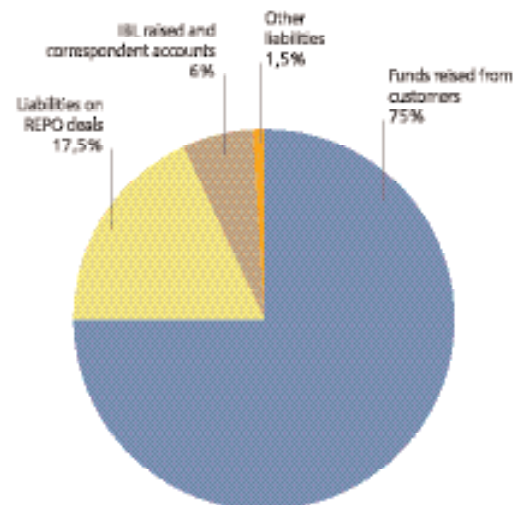
According Russian accounting principles authorized capital of CentroCredit Bank increased in 2003 by 492 million roubles, or 60%, and amounted to 1,312 million roubles. At that, Bank's equity, calculated in accordance with Regulation of the Central Bank of the Russian Federation, having increased in relative terms also by 60%, in absolute terms increase by more than 1 billion roubles, and amounted to 2,708 million roubles at January 01, 2004.

The principal indicators of CentroCredit Bank performance in 2003 certify its financial stability, steady liquidity and profitability, as well as its dynamic development in the past year.

Assets structure of CentroCredit Bank at 01.01.04



Liabilities structure of CentroCredit Bank at 01.01.04



Bank's Goals and Objectives for the year 2004

- > Bank's participation in the system of individual's deposit guaranteeing.
- > Increase of corporate customers by 35%, and their funds – by 50%, and increase of retail customers by 40%, and their funds – by 50%.
- > Increase of the loan portfolio by 50%.
- > Increase of Bank's equity by 30%.
- > Additional issuance for the amount of 20% of the authorized capital.
- > Return on equity (ROE) 15%.
- > Award of international credit ratings comparable with the largest Russian banks.
- > Membership in the MasterCard international payment system.

From the point of view of the internal infrastructure:

- > Restructuring of Bank's business units with an objective of efficiency enhancement and new business development.
- > Introduction of the budgeting system in the Bank, in general, and in its business units.
- > Introduction of the internal electronic document circulation system.

19.01.2004

DENGI

Sergey Yeremin, Deputy Chairman of the Management Board of CentroCredit Bank: "From my point of view, the fact that submission of consolidated financial statement will facilitate the formation of more civilized investment climate in Russia is indisputable".

MANAGEMENT System



Management System Principles	20
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Always in motion... with forces united.
Semper in motu viribus unitis.

Latin motto



Always in motion... [>](#)



Management System Principles

The management system principles used successfully during the last years remain unchanged. The main objective of perfection of the management system of the Bank in 2003 continued to be the attainment of competitive advantages due to the quality, speed, and efficiency of implementation of management decisions.

Strategic management was undertaken by the Board of Directors and was aimed at definition of the basic principles of the activity of the Bank, the choice of strategic partners and the development of a series of basic programs, such as the perfection of banking technologies, the realization of the long-term planning system, and further growth of the Bank's capital.

Operational management is the area of responsibility of the Management Board of the Bank, and it is conducted through the permanent collective working bodies – the Financial and Credit Committees at the Management Board of the Bank.

At the regular meetings of the Financial Committee, the critical questions of the development and realization of strategies and financial policy are discussed, monitoring of the current financial condition and liquidity of the Bank takes place, the achievement of planned indicators, limits, and economic norms set by the Central Bank of the Russian Federation are evaluated.

The main goal of the Credit Committee is the achievement of the optimal combination of a strictly centralized policy for risk management, implemented with the use of limits and interest rates mechanisms, while providing the functional bodies of the bank with maximum independence.

The decisions of the Financial and Credit committees are binding for all departments whose activity they affect.

Information and analytical materials, developments and day-to-day decisions taken by the Finance and Credit committees are important elements for supporting the activity of the Management Board and Board of Directors of the Bank.

Human Resource Management was built upon an understanding of the fact that human resources potential is the main condition for the achievement of the set strategic goals. The Bank regularly conducts appraisal of staff performance and qualifications, and the mechanisms for rewarding excellent performance are constantly being improved.

Corporate Management was based on understanding the importance of observing a balance between the interest of stockholders, senior executives, and personnel.

PR Management relies upon the maximum possible transparency of information and good will in relation to clients, partners, employees and the public.

Administrative Management, the development of the automated banking systems, telecommunications infrastructure, and communications systems was accomplished taking into account the maximum convenience for customers, above all through use of remote access technologies.

Members of the Board of Directors

Pavel N. Kosolobov (1964 year of birth)

Chairman of the Board of Directors

In 1987, graduated from the University of Peoples' Friendship named after Patrice Lumumba, holding the Order of Peoples' Friendship.

Married.

Arsen B. Kanokov (1957 year of birth)*

Member of the Board of Directors

In 1981, graduated from Moscow Institute of National Economy named after G. V. Plekhanov, holding the Order of the Labor Red Banner.

Married. Has three children.

Igor V. Kosolobov (1967 year of birth)

Member of the Board of Directors

In 1993, graduated from Moscow State University named after M. V. Lomonosov.

In 2003, completed the 2nd higher education, having graduated from Moscow State University of Economics, Statistics and Informatics.

Married. Has three children.

Andrey A. Pankovskiy (1960 year of birth)

Member of the Board of Directors

In 1982, graduated from Moscow Institute of Railway Transport Engineers, holding the Orders of Lenin and of the Labor Red Banner.

Married. Has two children.

Andrey N. Surmilo (1964 year of birth)

Member of the Board of Directors

In 1986, graduated Leningrad Higher Military and Political School of Air Defense named after Yu. V. Andropov.

In 1993, completed the 2nd higher education, having graduated from the Military Institute holding the Order of the Red Banner

Married. Has one child.

Andrey I. Tarasov (1959 year of birth)

Member of the Board of Directors

In 1982, graduated from Moscow Aviation Institute named after S. Ordzhonikidze, holding the Order of Lenin and October Revolution.

Married. Has two children.

Valeriy M. Telegin (1942 year of birth)

Member of the Board of Directors

In 1965, graduated from Moscow Finance Institute.

Married. Has two children.

Membership of the Bank's Revision Commission

Akhmed B. Zhamanov

Mikhail V. Potapov

Eugeny I. Maksimov

* On December 07, 2003, left the office of the member of the Bank's Board of Directors due to election as a deputy of the State Duma of the Russian Federation. On March 04, 2004, Kasym A. Eristov (1966 year of birth) was elected as a member of the Bank's Board of Directors. In 1990, graduated from Moscow Agricultural Academy named after K. A. Timiryazev, holding the Order of Lenin and Labor Red Banner. Married. Has two children.

Chairman of the Bank's Management Board

Andrey I. Tarasov

Membership of the Bank's Management Board

Chairman of the Management Board

Andrey I. Tarasov

1st Deputy Chairman of the Management Board

Kirill Eu. Shershun

Deputy Chairman of the Management Board

Sergey A. Yeremin

Deputy Chairman of the Management Board

Vitaliy S. Larichev

The annual shareholders meeting of the Bank, which took place on March 04, 2004, resolved not to pay any remuneration (expenses compensation) upon results of 2003 to member of the Board of Directors, collective executive body, and to the members of the Revision Commission.

Management of independent business units of the Bank

Banking services, products and technologies

Department's Director

Dmitriy V. Peshkov

Lending and Project Finance

Department's Director

Eduard Yu. Kovaletov

Assets management

Department's Director

Alexander V. Alekseyev

Corporate Finance

Department's Director

Sergey A. Berezovoy

Treasury

Department's Director

Ilya Yu. Korbashov

Accounting, analysis, planning and control

Department's Director

Sergey A. Yeremin

International Business

Department's Director

Maksim S. Safonov

Legal and Information Support

Member of the Board of Directors – Department's Director

Andrey N. Surmilo

Security

Department's Director

Pavel I. Pavlov

IT

Head of the Department

Igor A. Avilkin

Bank's development

Member of the Board of Directors – Head of the Department

Igor V. Kosolobov

Maintenance

Head of the Department

Mikhail N. Smirdan

Remote business units of the Bank

Representative office CentroCredit CJSC JSCB in the United Kingdom (London)

Member of the Board of Directors - Chief Representative –

Valery M. Telegin

CentroCredit Bank (closed joint-stock company) Branch in the city of Vologda

Branch manager

Sergey M. Moskvina

Kabardino-Balkarian Branch of CentroCredit Bank (closed joint-stock company) in the city of Nalchik

Branch Manager

Sergey D. Sobolev





Chairman of the Management Board

Andrey I. Tarasov

Deputy Chairman of the Management Board

Sergey A. Yeremin

Deputy Chairman of the Management Board

Vitaliy S. Larichev

1st Deputy Chairman of the Management Board

Kirill Eu. Shershun

Organizational Structure and Human Resource Management

Organizational Structure of the Bank

Governing Bodies

General Shareholders' Meeting
Board of Directors

Executive Bodies

Chairman of the Management Board
(sole executive body)
The Management Board
(collective executive body)

There are Financial and Credit Committees established at the Bank's Management Body

Functional Divisions

Banking Services, Products and Technologies

Analytical Group
Corporate Services Department
Non-trade Operations Department

Lending & Project Finance

Documentary Operations Department
Lending Department
Project Finance Department

Asset Management

Methodology Department
Securities Department
Monetary circulation and Correspondent Banking Department
Precious Metals Department
Depository
Asset Management Support Department

Corporate Finance

Corporate Consulting Department
Investment Projects Department

Treasury

Analytical Sector
Planning Sector

Accounting, Analysis, Planning and Control

Consolidated Accounting and Planning Department
Financial and Analytical Department
Accounting and Financial Reporting Department
Internal Control and Compliance Service
Tax policy, examinations and calculations

International Business

International Business and Relations with International Financial Organizations Department
Special Projects and Programs Department

Legal and Information Services

Legal Services Department
Administrative Department
Press Service

Security

Economic Monitoring Department
Guard and Control Department

IT Department

Information Security Sector
Information-Support Sector
Maintenance Sector
Software Development Sector
Technical Department

Bank Development

Corporate Finance Department
Marketing and Advertising Department

Maintenance Services Department

Representative Offices and Branches

The CentroCredit Bank Representative Office in the United Kingdom (London)
The CentroCredit Bank (closed joint-stock company) Branch in the City of Vologda
The CentroCredit Bank (closed joint-stock company) Branch in the City of Nalchick (Kabardino-Balkarian Republic)

Human Resource Management

As the end of 2003, there were 439 employees working at the Bank. The average age of employees was 35. During the year, the number of bank employees increased by 47% due to increased volume of work, the opening of new business directions, and the development of the Bank's network of additional offices.

The organizational changes that took place at CentroCredit Bank in 2003 were greatly facilitated by a well-balanced personnel policy. In connection with the dynamic growth of the Bank, a structural reorganization was undertaken, in order to facilitate achievement of the strategic goals and tasks of the Bank. Under these conditions, the significance of the human resources rose substantially. A modern system for employees' recruitment and appraisal allows for the most effective use of their professional and personal qualities. Specific aspects of personnel policy, such as career planning and preparation of staffing reserve, yielded their results – during the course of the year many employees of the Bank were promoted and are playing managing roles in newly created and dynamically developing structural divisions.

CentroCredit JSCB sets high requirements to the qualifications and professional qualities of employees, understanding that only a well-coordinated team of professionals is able to withstand competition in the banking sector of the economy. 64% of our employees have a higher education, 7% have two degrees, and 8 employees have scientific degrees or titles. Great attention is paid to employees' skills up-grading through continuing training. Specialists are regularly sent to participate in consultancy seminars and conferences on banking subjects.

The management of the Bank strives to create favorable conditions for development of talents, and for increasing the productivity of employees. For this purpose, such forms of incentives as bonuses, gifts, and salary raises are actively used. Special attention should be paid to the social benefit programs, which allow all employees to use the services of medical institutions through a medical insurance program, and also to improve their health at sports facilities. Corporate events and holiday celebrations, which allow for building team spirit and supporting corporate culture, have become a tradition.

The Bank constantly works with professional clubs, personnel and consulting agencies. This cooperation has allowed the introduction of modern technologies for staff audits, comprehensive appraisal of personnel, motivation and stimulation of employees for results achieved. Good contacts with leading Moscow institutions of higher education allow the Bank to attract promising senior students for internships, and then to invite those who excel to work at the Bank permanently.

CUSTOMERS and Partners Relations



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He that is slow
to promise, is most accurate to perform.

Jean-Jaques Rousseau



He that is slow
to promise, [>](#)



Customer Relations Policy

Corporate customers

CentroCredit Bank is a universal customer oriented bank providing a full range of high-technology financial products and services. The Bank strives to improve its infrastructure in accordance with the needs of customers and to create an informational and resource base for the successful conduct of client business. In this way the Bank provides the same quality of service both for large corporate clients and for small and medium-sized businesses.

A continuous constructive dialogue with clients, attention to their problems, efficient and transparent decision making and informational openness have become the principles of the Bank's relations with customers. Customers are informed concerning all events that are important for the activity of the Bank, financial reports are provided, as well as auditors' opinions and the data of rating agencies. The Internet is used widely for speed and convenience in providing information about the Bank.

Each financial product of the Bank has been developed to be easily customizable to specific needs of consumers, taking into account their personal requirements and the specifics of their operations. The Bank's personal managers-experts deal directly with the introduction of banking products with the goal of ensuring maximum efficiency in interaction of all divisions of the Bank. This allows the best results to be achieved for both the Bank and the client.

The banking sector development demonstrated demand for personal manager services, and in 2003 the Bank continued to develop its policy of selecting personal managers for clients, paying special attention to professional recruitment of personnel and their skills up-grading. The personal manager function at the Bank is performed by highly qualified specialists who have many years of work experience. High level of preparation allows them to competently consult clients on the widest range of banking service issues. Studying the specific character and the particularities of clients' business operations, taking into account their wishes and needs, the personal managers develop individual schemes for optimizing their financial flows and operations. Thus, clients can always receive high-quality consulting assistance in applying for a loan or developing a business plan for attracting investments, and likewise for foreign trade documentation, organizing investment activity, cash services, and installation of the newest information systems. It is obligatory that they assist in technical preparation of the contracts of the clients with the corresponding divisions of the Bank. Services of personal managers of CentroCredit JSCB are provided to clients for free.

The clients of CentroCredit Bank represent a wide range of industries. Among the clients of the Bank, there are trading and manufacturing enterprises, mining and extraction enterprises, companies in the service industries and public organizations. The varied areas of the Bank's clients' activity signify the presence of demand for various financial products, which implies segmentation of the client base by industry type and work with the specific characteristics of each industry group. In this way, the Bank not only provides the standard types of services, but also develops special products based on analysis of development dynamics of industry groups and the structure of supply-distribution chains, and then it can offer full-service products. Here a wide range of various types of bills of exchange, clearing and settlement schemes are used, as well as special schemes for crediting, organization of investments between participants of various stages of the same technological process, mutual factoring and other financial technologies. A packaged provision of services, customized for specific industry groups of clients has been positively received, confirming the success of the Bank's strategy of mutually profitable cooperation with the customers.

Traditionally the Bank invests significant amounts in the development and implementation of new technologies. This allows our clients to utilize the most technologically advanced services. From the very beginning the Bank was focused on development of centralized customer servicing. Rejection of a broad branch network and a large number of offices was fully justified by the maximum concentration of professionals in the head office of the Bank, on one side, and by direct client access to banking services through remote access systems, on the other side. This means full geographical independence of the client from the Bank, making all contacts possible through the "Bank-Client" and "Internet-Bank" remote access systems. In this way, a client receives unlimited access to all financial services from any point on the globe, saving time and financial resources. All of the listed information systems are available 24 hours a day, 365 days a year.

In addition to the above-stated principles of customer relations policy of the Bank, there is another characteristic of CentroCredit Bank's works with customers – that is implementation of guarantee of Bank's reliability through high professionalism of personnel, continuous monitoring of Bank's performance, and transparency of financial statements and reasonable conservatism of investments. The best proof of success of our principles is when the Bank's clients say: "We do recommend you to all our partners".

Private Banking

The retail banking service conducted by CentroCredit JSCB means above all provision of our clients and their family members with a range of high-quality financial services, which provides for:

- > *personal contact with highly-qualified client managers;*
- > *strict confidentiality;*
- > *ustomization of services to the individual needs of clients;*
- > *orientation towards long-term partner relationships.*

Servicing individual customers at CentroCredit JSCB means a broad choice of basic banking services and related assistance for the following products and services:

- > *banking services;*
- > *investment banking services;*
- > *asset management;*
- > *tax planning;*
- > *financial Consulting;*
- > *consulting services in foreign financial markets;*
- > *additional services.*

The banking servicing offered fully meets the most demanding requirements of customers and can be adjusted in accordance with specific preferences of any client. When using any banking service offered, individual clients of CentroCredit Bank receive full and regular reports for all operations conducted:

- > *mandatory reporting in accordance with regulatory norms;*
- > *consolidated analytical reporting on all operations;*
- > *in accordance with the preferences of the client, reports on various operations.*

In servicing individual customers, there is a flexible approach to payment for the Bank's services. The rates and fees for operations depend not only on the size of the operations with various instruments, but also on the overall volume of client's operations, including all operations for the entire period of relations with CentroCredit JSCB.

Providing services on asset management, CentroCredit JSCB offers an opportunity to get loans backed with customer's assets, works through all the taxation issues, and conducts tax planning. Having decided to invest funds based on our recommendations. The customer may define the investment policy and select an appropriate investment instrument.

An opportunity for simultaneous provision of commercial banking, investment banking and personal services enables CentroCredit JSCB to promote comprehensive servicing of its customers.



Thanks to growth of assets and capital, CentroCredit went up from the 300th to the 40th position in the rating of Russian banks during the last three years.

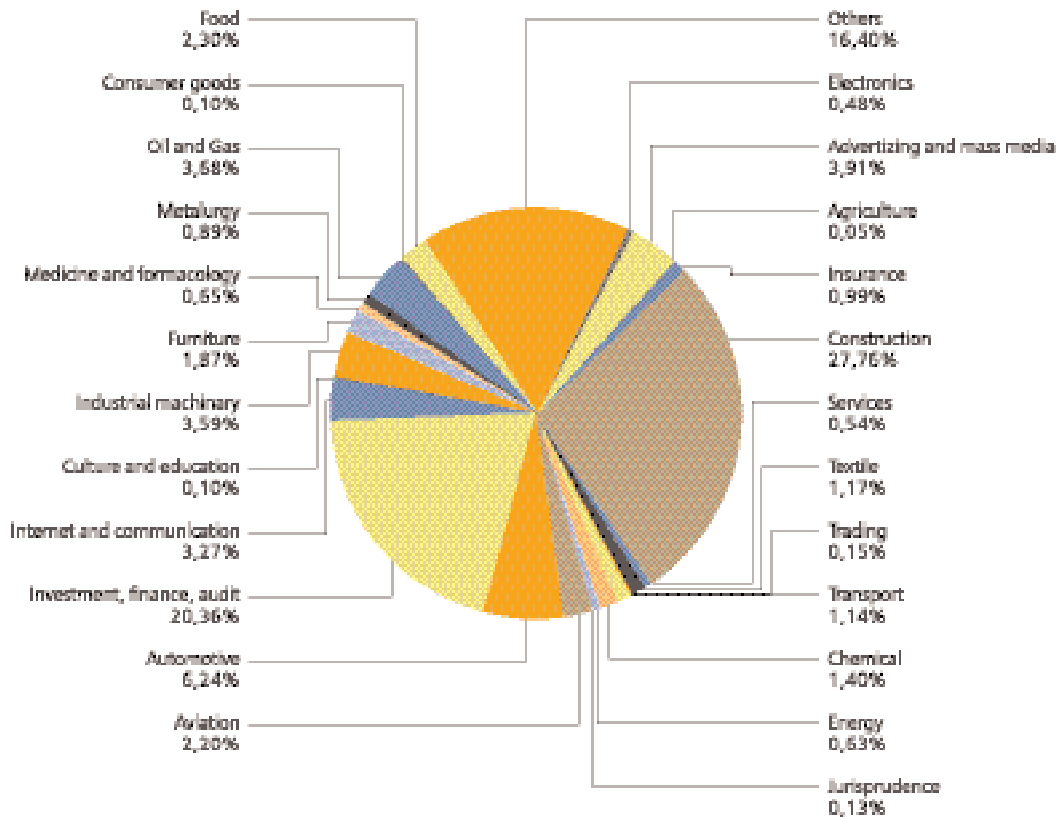
Corporate Banking

Expansion of CentroCredit Bank's clientele in 2003 was characterized by doubling of funds, raised from Customers due to a flow of new customers, on one side, and as a result of deepening of cooperation of existing customers of the Bank, on the other side. We proceed from an assumption that clients select the Bank based on recommendations and opinions of their partners.

For many new customers, CentroCredit JSCB became a settlement bank only upon recommendations of their business partners, which are existing customers of the Bank. Having familiarized with high quality of services, efficiency and attentiveness of our employees, customers transfer nearly all their financial flows to CentroCredit Bank. One of the main attractive features of the Bank for its corporate customers is growth of account turnover. CentroCredit Bank is a center of financial flows of entire production and commerce chains in the petrochemical, light, machine-building and other industries and commercial businesses.

Cooperation with our customers proved that intelligent, moderately conservative financial policy and high-quality management have positive influence on reputation of CentroCredit JSCB. The Bank has never followed the principle "the end justifies the means", thus, attracting new customers at any price is not a task of Bank's management. Primary attention is paid to increase of quality of servicing and expansion of the range of offered services for the existing Customers, building up partnership relations with them, and to development, if necessary, of individual cooperation schemes. For instance, the Bank may allow conducting urgent payment after completion of an operational day of the Bank, and there is also an opportunity to perform counter-payments within one operational day. Customers may be offered to use remote access systems – "Client-Bank" and "Internet-Bank", which enable to manage a current account from the customer's office.

Clients Industrial Structure



Payment services in foreign currencies

Being a shareholder and a member of the Moscow Interbank Currency Exchange since its establishment, CentroCredit Bank offers to its customers services on conversion operations without intermediaries and with a minimum bank fee. A well-developed network of correspondent banks, application of letter of credit forms of payment in the course of export and import operations, opportunities for accelerated performance of international payments make cooperation with the Bank particular convenient for businesses involved in foreign trade.

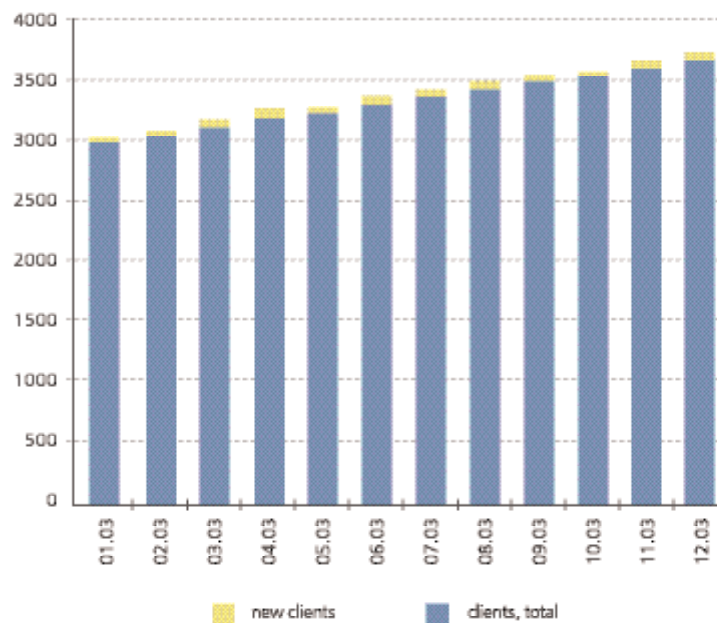
Cash operations

CentroCredit JSCB receives and enters in customer's accounts funds, received from then, at the say of receipt and fulfils customers' instructions on withdrawal of funds from the current account both within the cash plan of the business, and upon preliminary applications, or without them. The Bank offers commercial companies to open operational cash desks at customer's premises. Professionalism of employees of the Bank's Settlement Department ensures competitive advantages of the Bank in the market of settlement services and creates reputation of a reliable Bank.

Cash collection and valuables transportation

The Bank provides services on cash proceeds collection, performs its secure transportation and deposit. It is also possible to enter cash proceeds in the customer's account at the day of collection. In addition to this, we offer services on valuables transportation.

The New Clients Amount Increase during 2003



30.01.2004

INTERFAX

Total balances on customers' accounts with CentroCredit Bank by the end of 2003 amounted to 2.002 billion roubles, which is 24 per cent increase.

Attraction of new customers

The past year was crucial for the Bank in many respects. During the year, the Bank formed a hard-working and highly professional team, it continued to expand its clientele, and offered a number of new products and services.

With an objective of activation of customer relations, the Bank implements the strategy of attraction of counterparties of the existing customers, develops a new pricing program, perfects servicing technologies, unifies approaches to customer servicing.

Time proves that different customers require different approaches. We build such relations with a customer when any person, approaching us, may use the best services available in the financial market. Living with the present and looking forward to the future, one needs selecting a right way for capital application. Any way starts with the first step. For a person, who made a decision on necessity of professional approach to his finances, the first step is a meeting with a development department manager.

At the first stage, the task of the development department manager is to define what the customer wants. Even it may seem simple, this process is quite complicated, and outcomes of the process define efficiency of the development of entire program for solution of a certain task. To make an optimal decision, the Customer has an opportunity to receive consultancy on all financial issues of interest to him. It is important that the manager always rates first the interests of the customer, and make recommendations concerning financial products only based on the customer's interests. The only thing the customer must do is to make a choice.

Internet Banking

Working with bank no more is associated with constant visits to bank's front offices, preparation of paper payment orders and time lost on the road. Customers do not choose a bank because of location, not any more. This was stopped by the first appearance of the Client-Bank system. However, even the best system, built upon telephone linkage between the customer and the Bank's server is not able to ensure absolute efficiency and simplicity of connection.

The way out of the situation was found when CentroCredit Bank was one of the first to propose to its customers a remote account management system – Internet-Bank. In the course of system formation, developers took into account various customers' needs: requirements to hardware and software, simplicity of operation, efficiency, reliability, security, no failure, accessibility and many others.

Nowadays, there is no need to be concerned with telephone line load, sufficiency of modem communications, necessity of installation of additional equipment in the customer's computer. All the customer needs is Internet access. Upon registration and visit to a special site of the Bank, you may manage your account as easy as in the well-familiar Client-Bank system.

The customer has an opportunity to make payments from his office, from any other place of the world with the Internet access, from any computer – from the office, a hotel or an Internet cafe. Our system ensures necessary security and confidentiality while being very efficient. If the customer uses Internet due to professional or any other needs, this system will be much cheaper for him as compared to other remote account management systems.

However, that was not the peak of the system development. In 2003, a project of Internet Banking development for individuals was introduced. The project has successfully passed development and testing stages. It was highly rated by representatives of an international rating agency, and will be offered to our customers in 2004.

CentroCredit JSCB is always keeping an eye on technical progress, connecting new developments in the area of science and technology with financial processes and techniques, by offering to its customers a number of services, which other banks are only beginning to focus on.

Retail Banking

One of the most fast-developing lines of the Bank's business in 2003 is retail banking. The Bank managed not only to increase volumes of raised funds and transfers, but also to expand the product range for private individuals.

Customers used a number of services including opening of current and term deposit accounts, conducting all sorts of operations on these accounts, performance of bank funds transfers both from current accounts, and without account opening, renting of lock boxes for safe custody of documents and valuables, funds depositing, opening of VISA CentroCredit Bank credit cards, payment for utilities and communication services.



Number of bank's customers went up during 2003 nearly by 20 per cent from 3,073 to 3,684.

With an objective of expansion of the clientele and the range of services for individuals and increase of the Bank's fee income, in 2003 CentroCredit Bank CJSC JSCB continued to expand the network of provision of services for urgent funds transfers with account opening. Total volume of paid out and sent transfers for 2003 amounted to 3.02 million dollars and 2.87 million roubles. Due to automation process, speed of transfer processing is 3 minutes. Time required for transfer is 3 minutes. Hence, to make transfer of funds from Moscow to Vladivostok or Los Angeles, the customer requires only 8 minutes. An amount of funds transfer without account opening may not exceed an equivalent of 2,000 US dollars, thus this system may be used for moneyed assistance to relatives and friends, or, for example, if use miscalculated financial needs for a distant journey, then you may always receive some help from home within a short period of time. According to estimates of the Bank's experts, in 2004 turnover of funds transfers will go up by 45% and will total to 5 million US dollars. A number of customers using this service will go up by 60% and will amount to 11,200.

High quality of retail banking is impossible without expansion of the banking infrastructure. In 2003, the number of cash desks outside the cash center went up to 15. During the reporting year, there were 11 cash desks opened outside the cash center. Using services of operational cash desks outside the cash center, Bank's customers have access to all services of the Bank on current and term deposit accounts, funds transfers without account opening, payment for goods and services of businesses. It worth pointing out qualitative growth of indicators on the total volume of Individuals' funds accepted as a payment for goods and services in operational cash desks outside the cash center. In 2002, total volume amounted to 886.46 million roubles as compared to 2003, when the amount of payment exceeded 1,715.63 million roubles.

CentroCredit Bank CJSC JSCB is a member of VISA International payment system. During the past year, cardholders of the Bank performed 42,210 transactions for the total amount of 215.41 million roubles. By the end of the year, balances on card accounts exceeded 96 million roubles.

Servicing of bank cards provides for an individual approach to setting credit limits, efficient control over card accounts' status, and taking measures to counteract fraud with plastic cards.

In 2004, the Bank plans to become a member of the MasterCard International payment system; it also intends to issue MasterCard Standard and MasterCard Gold credit cards. This will enable customers of the Bank to pay for goods and services with VISA and MasterCard cards through one and the same account.

Volume of funds raised from individuals went up from 292 million roubles up to 1,600 million roubles in 2003. Percentage of term deposits went up from 90 million roubles to 400 million roubles. This increase is an evidence of growing trust to the Bank, on one side, and the fact that the Bank managed to offer various products meeting preferences of a wide spectrum of customers, on the other side.

In 2003, 23,164 individuals used services of the Bank, out of which 12,654 customers became permanent customers of the Bank.

This increase of the number of customers and volumes of operations is conditioned by special attention, which Bank's employees pay to establishment of close and long-term relations with customers and to individual approach to each customer.



CentroCredit Bank came to the first group of rating "BANKS-LEADERS IN TERMS OF DEVELOPMENT DYNAMICS IN THE FIRST SIX MONTHS OF 2003".

Lending Policy

Increase of money supply in 2003 caused quite a notable decline of return in the area of banking operations, which was followed by growth of credit investments.

Some of the trends and lines of the banking services development were questionable. In particular, many experts point out increase of risks and do not exclude possible occurrence of crisis situations. However, favorable macroeconomic situation, mostly caused by stably high oil prices, allows being optimistic, at least, about the nearest future.

In 2003, CentroCredit JSCB performed reasonably conservative lending policy. In particular, the Bank did not support retail programs conducted by many banks, considering them as costly and risky.

The main line of Bank's development in 2003 was expansion of cooperation with large and medium-size corporate businesses. For instance, the Bank offered its customers to expand cooperation in the area of factoring and leasing operations.

The main objective of the Bank's lending policy was ensuring of necessary return under condition of conforming to acceptable risk of investments and the most complete satisfaction of Bank's customers' needs for additional funding for their businesses.

The Bank provided loans within its equity and attracted funds ensuring matching of placed and attracted resources by terms and volumes, while complying with economic norms of operations set by the Central Bank of the RF for commercial banks. Bank's income from lending operations in 2003 amounted to 1064 million roubles, which 1.6 times higher than in 2002.

The main task of credit operations was formation of a high-quality loan portfolio diversified by subjects of credit relations, customer's industry, lending terms and types of security offered to the Bank. As at January 2004, the Bank's loan portfolio amounted to 2870 million roubles.

As a result of the weighted lending policy of the Bank in 2003, there were no credit risk losses.

This was possible due to setting of general and specific lending limits, thorough analysis and selection of loan applications, system of loan sanctioning by the Credit committee existing at the Bank, continuous monitoring of changes in borrower's financial position in the course of the lending term, identification of early warning signs of problem loans and measures on problem loans repayments, as well as to a system of control over risks at each stage of lending, available at the Bank.

In the course of loan applications consideration, the Bank conducts comprehensive analysis of borrower's creditworthiness, assesses its financial stability with an objective of non-repayment risk identification, and evaluates quality of the security offered to the Bank. The analysis takes into account a number of factors, namely:

- > *The borrower's wish to meet financial obligations towards the loan provided, the experience of its executive management, the success of the firm, the position among companies in its industry, the level of management, its credit track record, and the borrower's reliability. In the course of credit decision making, the Bank gives a preference only to enterprises and organizations, which have been successfully working for a significant period and have a positive credit track record;*
- > *J Borrower's ability to meet financial obligations under the loan provided, based on the financial potential of the firm. In the course of borrower's financial position assessment, the Bank sets tough requirements based on domestic and Western lending practices;*
- > *Sufficiency of equity to ensure for the solvency of the borrower (the possibility of loan coverage). In case of insufficiency of funds on payment (current) accounts (overdraft), loans are granted with the establishment of a credit limit for a sum not more than 1/5th of the minimal monthly credit turnover of the customer's account (deposits to the account) during the course of the four previous months (while excluding the three maximum deposits in each month). For loans for working capital replenishment in a form of lines of credit, there are limits of current outstanding debts, which should be within of the monthly average turnover of the company with the Bank;*
- > *The acceptability and adequacy of the security offered by the borrower to the Bank. As an additional means of the default risks reduction, the Bank considered the following: bank bills of exchange; inventories including the ones in transit, motor vehicles, real estate and other assets; shares, bonds, bills of exchange and other securities of privatized companies and commercial organizations; guarantees and letter of undertaking of enterprises and organizations that have a stable financial*

15-21.09.2003

EXPERT

As for CentroCredit Bank, it came to the second (reliability) group from the fourth one, by-passing the third group.

position. As a rule, the size of security was not less than the total of the principal of and the interest on the loan. Evaluation of property and the title to it was conducted based on their market value while taking into account possible recourse-related costs, changes in the market situation and the time necessary for sale of the property. As a rule, the collateral's value was fixed at about 50–70% of the market value;

> The industry of the borrower, regional, political, and economic risk, the forecast and prospects of development of the industry. In consideration of changes in the economic situation, preference was given to domestic manufacturers and trading companies, and also to companies operating in the service sector.

Classification of risk groups is conducted by the Bank in accordance with the methodology of the Central Bank of the Russian Federation. Loans are granted to borrowers who were categorized in the minimal risk group. In accordance with the requirements of the Bank of Russia, a loan loss provision was created not less than 100% of the estimated possible amount. The total size of the loan loss provision at the end of the year was 256.91 million roubles. The Bank conducts on a monthly basis a reevaluation of credit risk for each loan.

Due to the clear and well-considered credit policy of the Bank in screening of loan applications, and continuous monitoring of the financial position of borrowers, the over-due loans at the end of the year were 32.23 million roubles, or 0.89% of the total loans.

The main priorities of the Bank's lending policy for 2004, as before, will be formation of the high-quality loan portfolio, diversified by industries of borrowers, terms and types of lending.

Special attention will be paid to further expansion of Bank's services for corporate customers.

22-28.03.2004

EXPERT

In terms of financial stability, there are not six but eight leading credit institutions. North-Eastern Alliance and CentroCredit Bank proved their right to be in the first group of financial stability.

Leasing

In the course of its operations, the Bank has constantly expands the range of services provided to customers. The primary focus for introduction of new banking products is the maximum development and optimization of the business of our customers, satisfaction of their urgent needs. With this objective in mind, the Bank started to develop such financial service as leasing.

Leasing enables the customer to create a universal and flexible system for realizing his long-term investment projects. The main advantages of leasing financing as compared to traditional lending, or purchase of equipment with company's own funds are as follows:

- > *The client who uses leasing expands production and arranges maintenance of equipment without large one-time expenses and necessity of attracting loans — as a result, there is an optimal debt to equity ratio ed in the balance sheet of the company;*
- > *Capital assets are not increased, and funds are released enhance the working capital of the company;*
- > *The client optimizes its taxable income due to:*
 - *Allocation of total leasing payments to costs of sales of products (works, services);*
 - *Application of accelerated depreciation with an acceleration ratio of up to 3.*

In this case the Bank provides this service directly, without involvement of leasing companies, which enables our customers to save money on fees for leasing operations.

Thus, by offering potential buyers of equipment to acquire it through a leasing scheme, we not only assist them in modernization of their fixed assets, which ensure competitive advantages, but also in optimization of the financial position of companies.

Factoring

Competition existing in the system of market relations requires from a company of a more flexible work with customers, Consumers of goods (works, services) currently consider their potential suppliers not as counterparties suitable for a one-time transaction, but as long-term partners providing an entire range of services and opportunities, starting with conditions for goods supply, logistics and convenient financial terms of purchases (discount and extension mechanisms etc.). All other things being equal, the customer will focus on a supplier, who may offer more favorable conditions in terms of postponement of goods shipped.

In order to survive under conditions of tough competition, companies have not only to perfect their production processes, but also to increase the commercial component including more often utilization of financial means of communications with buyers. One of the main ways to attract or to retain a consumer becomes a possibility of provision of postponement of payments for supplied goods.

In defining an optimal source of funding for working assets replenishment (including cases of availability of cash gaps), one should take into account the following characteristics: short-term nature, necessity of security provision, requirements to the current financial position of the company, convenience of funds raising.

In addition to this, upon provision of deferral of payments for supplied goods, the company not only freezes its working assets, but also faces credit risks, which are not typical for it. Credit risks, which are not properly assessed due to absence of a methodology, relevant infrastructure and qualified personnel, may significantly reduce already low opportunities and wish of a supplier to provide credits to buyers at its own expense.

In case of insufficiency of current income to cover expenses during a certain time period, linked to intensive growth of the company, which results, as a rule, in cash gaps, a need occurs to attract additional sources of funding, such as increase company's equity, loans, issue of bonds, bank lending, using of new bank products: leasing and factoring.

Factoring is one of the perspective and new directions of banking services development. The criterion for selection of this service as an alternative to traditional lending was more comprehensive and customer-oriented financial servicing, based on flexible lending of supplies for buyers under conditions of payment deferral, which enhances bank's customer's competitiveness in the market.



Capital of CentroCredit Bank went up by nearly 60 per cent during 2003 — from 1 billion 696 million roubles up to 2 billion 708 million roubles.

(according Russian accounting principles)

What are benefits of factoring for a supplier?

On one side:

- > rapid increase of sales;
- > getting new customers;
- > offering its customers with optimal purchase terms and conditions;
- > qualitative increase of competitiveness in the market;
- > procurement of goods from suppliers at lower prices due to rejection of payment deferral on their side.

On the other side:

- > receiving more flexible and optimal – as compared to a traditional banking loan – funding of growing sales in case of insufficiency of its own working assets;
- > turning deferral payment sales into immediate payment sales: the customer does not need any more to wait for payment of goods by buyers because he receives the most part of payment immediately after delivery;
- > refusing from a bank loan:
 - and he does not need any security, and hence, the supplier will not bear any costs related to loan formalization;
 - and the supplier does not need to overpay for use of bank's funds because in lending, he must account for time for purchase of raw materials and production of goods in calculation of the lending term.

In addition to this, the bank handles all the necessary documents on accounts receivable of the customer and controls timely payment for deliveries – the bank completely releases customers from work with debtors and defends from losses in case of infringement of payment terms and conditions.

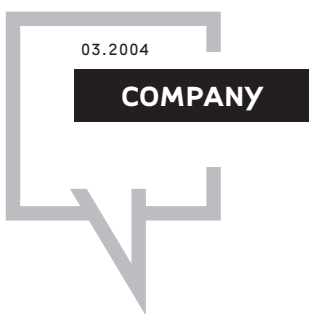
Thus, factoring is a highly efficient instrument of customers funding enabling them not only to increase working assets but also to manage their financial flows more efficiently and more flexible with an objective of cost minimization and sales growth.

Upon results of 2003, CentroCredit CJSC JSCB increased the volume of factoring operations 2.5 times and retained the second place in the Russian factoring market. During this year, this service clientele was replenished not only by companies – typical users of factoring, i.e. companies from the food industry, consumer goods wholesale companies, but also large metallurgical plants.

Opinion of our customers

I. V. Burov, Financial Director of Tushino-Pivo Group of companies.

“Our company has been working with CentroCredit CJSC JSCB under the factoring system since 2000. This type of funding is interesting not only because it enables to satisfy needs for additional working capital without additional costs and time with an objective of further provision of commodity credits to our customers, and thus, to increase company's competitiveness in the market. First of all, factoring is unique because of an opportunity of building of planned cash and commodity flows on its basis. This flexible and dynamic service enables to plan beforehand material and financial operations of our company, commodity logistics. Service on accounts receivable monitoring and management released us from necessity of routine work on collection and analysis of this information. In general, I believe that this new banking service will develop in Russia as actively, as in the West”.



CentroCredit bank is 23rd by the equity capital and 26th by assets among the largest russian banks according to IAS presented for the year 2002.

Financial Market Activities

Brokerage

In 2003, CentroCredit Bank was active in the securities market. The Bank continued to work actively on the program of development and perfection of brokerage services for legal entities and individuals. Number of customers using brokerage services of CentroCredit Bank went up by 10%. Trading turnover on customer operations with securities in 2003 amounted to over 10 billion US dollars. There was much done in terms of improvement of quality of servicing and reduction of brokerage operations costs, which enabled the Bank to retain moderate pricing policy combined with a large number of various financial services and high level of customer servicing in the securities market.

CentroCredit JSCB has a modern technology of brokerage servicing, which is capable of ensuring high level of services for large corporate customers and comfortable conditions for individual investors. The Bank performs brokerage servicing in all the significant segments of the Russian securities market – both at major exchanges (MICEX, RTS, MSE), and in the over-the-counter market. CentroCredit Bank is a dealer in the government securities market. Customers are offered investments in shares of Russian issuers, government securities, corporate and municipal bonds.

Being an active participant of the Russian corporate bond market and having partnership relations with its leading operators, CentroCredit Bank provides its customers with the most favorable opportunities for operations with these dynamically developing stock market instruments. High liquidity of the bond market and developed infrastructure enable investors to diversify their securities portfolios significantly with an objective of risk optimization.

The Bank continued to develop the Investor Internet-trading system. At the end of 2003, the Bank started to provide an opportunity for deals at SGK RTS and with shares of Gazprom OJSC at Saint-Petersburg Stock Exchange. CentroCredit Bank offers to its private customers servicing in a specialized dealing room equipped with individual work stations.

CentroCredit JSCB has a status of the Clearing firm and provides services on brokerage servicing of customers in the forward markets of RTS (FORTS) and MICEX. Usage of derivative instruments (future and options) enables customers to hedge their operations, which reduces risks significantly. In the second half of 2003, the Bank started to participate in a joint project of MICEX and leading Russian banks aimed at development of the forward market at MICEX, which enabled to offer customers, involved in export and import activities, a new product – currency risk hedging through USD/RUR futures contracts with depth of up to six months.

Trust management

In 2003, there was substantial development of trust management of customer's assets in the stock market. Total assets in trust management at the end of the year amounted to over 2 million US dollars.

Trust management provides for work with investors in two directions:

- > *individual portfolio investing;*
- > *investing funds in the General Bank Management Fund (GBMF) "Absolutniy".*

Customers' funds management under trust management agreements has a number of advantages including:

- > *individual approach to solution of tasks of a concrete investor in consideration of such factors as investment volumes and terms, directions and instruments, periodicity of withdrawals and additional investment of funds;*
- > *wide choice of investment directions and instruments;*
- > *opportunities for transfer and return of assets both in form of cash and in form of securities (for individual portfolio investments);*
- > *beneficiary under trust management agreement may be presented both by management sponsor, and by any third party;*
- > *information and consultancy support for the customer;*
- > *high quality of management and decline of general risks of securities investment;*
- > *manager's remuneration depends on management results.*
- > *the trust manager will help you to make the most efficient decisions in the following areas:*
- > *Definition of investor's objectives and risk profile in terms of investments in the securities market;*
- > *In the course of provision of services on investor's funds management, the manager uses an individual approach to solution of tasks of each concrete investor in consideration of specifics of the legislation regulating operations in the securities markets of various investor groups.*
- > *Selection of concrete products of trust management.*
- > *Based on investor's investment preferences, definition of the range of instruments for investments. Based on the investment time horizon, definition of an optimal management strategy and timing of investments.*

- > Agreeing material terms and execution of trust management agreements.
- > In the course of agreeing material terms of trust management agreements, special attention is given to detailed definition of the investment declaration, which will become a basis for manager's activities in the course of investor's assets trust management.

The manager defines timing of investments providing for both additional investments and pre-term withdrawal of funds from the portfolio. Manager's remuneration principles, set forth in the trust management agreement, take into account specifics of operations with various financial institutions and motivate the trust manager for achievement of investor's objectives of investments in the securities markets.

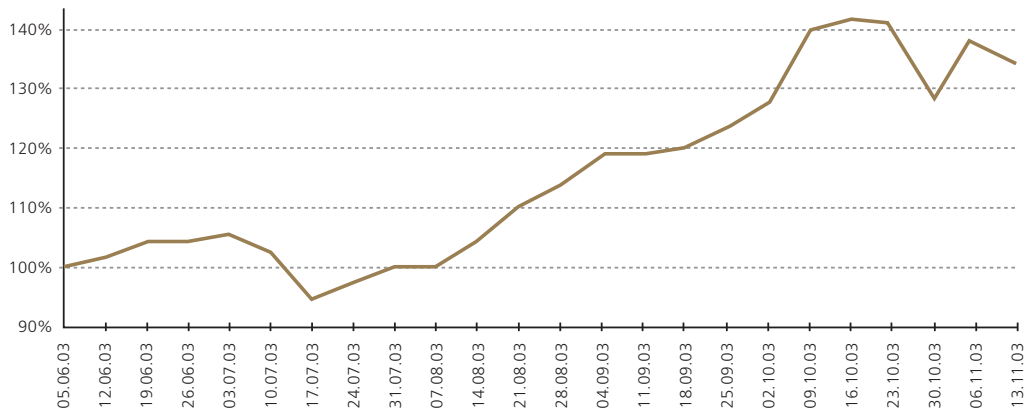
- > Opening of trust management accounts and assets transfer.
- > For accounting for and performance of operations with customer's assets transferred for trust management, there are separated accounts of trust management to be opened in the Bank of Russia, and there are separate accounts in authorized depositories. A moment of assets transfer to trust management is a moment of receipt of funds for investments in securities on bank trust management accounts, or a moment of securities entering in the trust management deposit account.

Basic management strategies of CentroCredit Bank:

- > Conservative – the portfolio is built from coupon and discount securities ensuring guaranteed return. Corporate bonds – 80%, shares – 20%.
- > Moderate – 50% of the portfolio consists of coupon and discount securities and 50% - of shares of Russian issuers.
- > Aggressive – the portfolio is formed of shares of Russian issuers.

Annual average return of the Aggressive portfolio of CentroCredit JSCB totaled to 50% per annum.

Aggressive portfolio of CentroCredit JSCB



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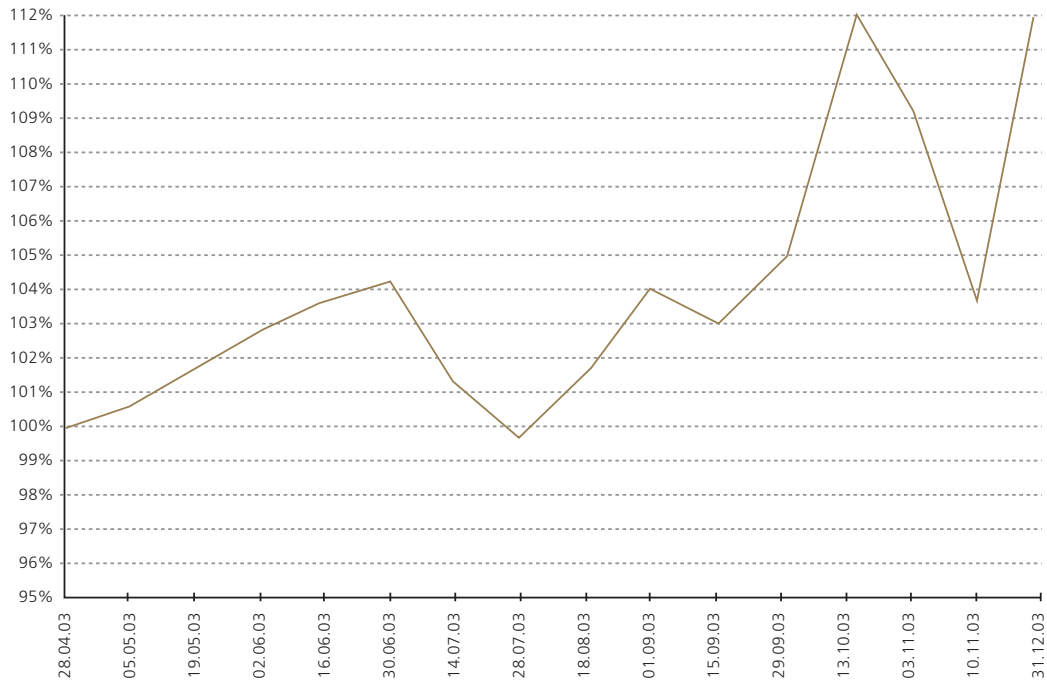
FINANSY

Shareholders meeting of CentroCredit JSCB resolved to pay dividend for 53.564 million roubles.

> CUSTOMERS AND PARTNERS RELATIONS

"Absolutniy" GBMF is governed by the Moderate strategy, which presumes investment of 50 per cent of fund's assets in fixed-income instruments (bonds, bills of exchange, deposits).

"Absolutniy" GBMF pricing diagramm



Depository activities

CentroCredit Bank's depository performs its activities based on the termless License of a professional securities market participant № 177-06413-000100 of September 26, 2003.

CentroCredit JSCB is a member of the National Stock Association (NSA).

Depository activities of CentroCredit Bank are insured by Soglasniye IC LLC.

The Depository provides its customers with the full range of custodial services. To enhance customers' opportunities for operations with securities in the frame of the leading Russian trading systems, in the OTC market, as well as with various financial instruments available in international markets, the Depository significantly expanded its correspondent network with other depositories. During 2003, there were 16 correspondent accounts opened with superior depositories, and by the end of 2003 their number amounted to 59.

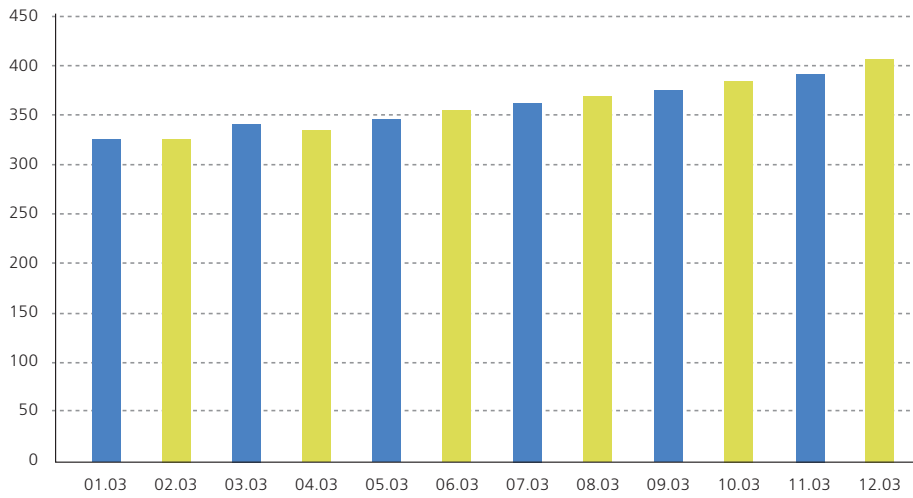
By the end of 2003, the number of issues of securities of various issuers, accepted for servicing by the Depository, amounted to 300.

Systems of electronic document turnover with National Depository Center NP, Depository Clearing Company CJSC, Rosbank JSCB and Central Moscow Depository allow speeding up fulfillment of depository orders of customers.

The Depository provides an opportunity for settlements with notes of CentroCredit Bank in deposit accounts with the use of the Client-Bank remote system.

Depository's incomes for 2003 nearly doubled. This was achieved through a flexible pricing policy, high professional level of Depository's employees, which allowed attracting new customers.

Number of opened deposit accounts, Growth dynamics



Operations with bills of exchange

In 2003, CentroCredit Bank substantially increased its trading turnover in the bills of exchange market, which amounted to over 300 million US dollars. There was significant expansion of both the range of financial instruments, and a number of counterparties. Next year, the Bank to provide its customers with new services in the bill of exchange market, such as organization of bill of exchange loans, underwriting and market maker services on bill of exchange operations.

Correspondent Relations and International Transaction

In 2003, CentroCredit Bank continued to develop its network of correspondent relations. Striving for strengthening of its positions in the interbank market and improvement of customer servicing, CentroCredit Bank conducts systematic work on expansion of cooperation with banks both in Russia, and abroad. Opening of correspondent accounts with other banks enables to provide our customers with more flexible settlement schemes, shortens time for payment transfers, and allows working actively in the interbank market.

Quality of the correspondent network enabled the bank to make payments in euros, US dollars, soft currencies with maximum efficiency and effectiveness.

Both in the domestic, and international markets, CentroCredit Bank develops business relations with reliable and experienced partners. As a result, the Bank managed to create the most favorable conditions for customers' settlements and for its own operations.

Last year, the main correspondent banks of CentroCredit CJSC abroad were: BANK OF TOKYO-MITSUBISHI, NEW YORK BRANCH, "Union Bank of California International, New York", "Raiffeisen Zentralbank Oesterreich AG (RZB), Vienna", "Banque Commerciale pour l'Europe du Nord S.A. (EUROBANK)", "Commerzbank AG, Frankfurt am Main". A network of ten foreign correspondent banks allows providing customers with a wide range of services in the area of international settlements, selecting optimal routes for payments transfer, speeding up operations.

During the past year, there were 18 vostro correspondent accounts (including one non-resident) opened by the Bank. By now, there are 69 vostro correspondent accounts and 69 nostro accounts. Closing of non-working accounts was conducted in line with opening of new correspondent accounts. Primary services offered to banks include: opening and running correspondent accounts in all types of currencies; accrual of interests on balances on correspondent accounts; operations in the domestic forex market; documentary operations; cash operations, secured transfer of valuables by the collection service; stock market operations.

CentroCredit Bank continuously perfects its technological basis, which is governed by the principal strategic line – expansion of the range of services offered, increase of customer servicing quality and introduction of new banking products. Thanks to electronic communications means, CentroCredit Bank efficiently works with its correspondents. Its services helped regional banks to increase efficiency of distributed liquidity management on their correspondent accounts.

The basis of our long-term cooperation with foreign and Russian banks is accuracy and highly qualified implementation of each transaction. Partners are attracted by mutually beneficial cooperation schemes, which are offered by the Bank, and by a variety of services.

In 2003, the Bank continued development of cooperation with counterparty banks in the interbank market. There was active work conducted on establishment of limits for counterparty banks for development of cooperation in the interbank market. In 2003, there were 39 general agreements signed concerning terms and conditions of cooperation in the area of transactions in the Russian forex and money markets.

In 2003, the Bank retained its status of an active participant of the interbank lending market. Deals with interbank loans were conducted both to maintenance of current liquidity, and for earning of arbitrage profit.

In the frame of the program of Bank's development as a universal credit and financial institution offering a wide range of high quality services, it is planned to continue studying and applying positive experience of Russian and foreign banks in the area of settlements in roubles and foreign currencies, strengthening of existing business relations, searching for new partners and expansion of a number of correspondent banks both in Russia, and abroad.

Precious Metals Operations

In 2003, the precious metals market retained the trend to strong price shifts. Instability of the global policy and rapid fluctuations of world currencies were not missed by this market segment. This year the precious metal market demonstrated once again, that in addition to the value of precious metals themselves, gold, and then silver, platinum and palladium have quite a significant political component to them. Gold is an equivalent of the global instability, which was clearly evidenced by the past year.

Under these difficult conditions, CentroCredit Bank managed to fulfill all the plans, increased the turnover, and, thanks to the weighted policy, obtained a flow of customers and profitability of precious metals operations.

As before, the Bank has been providing a range of services offered in the precious metal market and also works on new products in the gold-mining sector.

The Bank is also an active participant of the interbank market, and turnover in this market amounted to 600 kg of gold a month. The work is performed in the frame of earlier concluded General Agreements with all the large market participants; the Bank also opened metal accounts with some leading world banks.

In addition to the standard range of services, the Bank provide jewellery businesses with precious metal lending, which represents over 70% of working assets of any jewellery enterprise. The existing system of work with enterprises using precious metals in its business activities enables to use a flexible approach to customer's wishes in terms of price fixing and settlement terms, which is – in view of serious fluctuations of precious metal rates – becoming extremely important for producers.

CentroCredit Bank conducts operations with metal accounts, and, one may say, that access to the world market will enable to master the full range of services on metal accounts. The Bank realizes opportunities for opening and running of metal accounts both in ready metal, and non-ready metal, which allows conducting operations on transfer of metals, as well as a number of other transactions; this provides customers with an opportunity to treat their precious metal assets as easy as cash.

In 2002–2003, the Bank started and successfully completed the program of advances to gold-mining companies; this helped the Bank not only to get profit but also to strengthen its positions in the precious metal market. In 2003 – 2004, CentroCredit Bank increase advancing volumes up 3 tons of gold, providing users of subsoil with a number of exclusive services, enabling gold-mining enterprises to reduce the risk at the stage of preparation to the mining season and decrease actually paid interests for funds utilization; this also helped the Bank to decrease the time of resources withdrawal and increase return of projects on gold-mining advancing.

The Bank implements a number of precious metal mining projects in various RF regions, such as Chukotka, Yakutiya, and Magadan region. There is a control system enabling the most efficient monitoring of schedules and project stages compliance, which helps to minimize risks and provide in-time assistance to gold-mining enterprises, thus, increasing projects' efficiency. The weighted and professional approach to this industry provides a huge potential for development; introduction of modern banking technologies enables to reduce risks and to increase efficiency both for the Bank, and for enterprises themselves.

The Bank also provided the full range of services for individuals, including sale of measuring bullions of 1 kg, sale of precious metal coins and handling of metal accounts.

Having succeeded in various areas of precious metal operations, including advancing, running of metal accounts, lending, sale of precious metals, coins etc., the Bank conducts active work in terms of penetration to the international market of precious metals, and develops new services for gold-mining enterprises and other "precious" customers of the Bank.

Investments and Project Finance

In 2003, the corporate finance department continued projects started in 2002 and performed a number of new deals.

In the area of direct investments

- > *The Bank completed a deal on acquisition and structuring of a set of licenses in more than 20 large cities of Russia for provision of cable television services in MMDS ranges. In customer's interests and upon customer's instruction, the deal was completed with sale of the holding group of companies – license holders.*
- > *The corporate finance department provided customers with realized weighted average return of 48% on capital invested in a project of provision of services for automated commercial accounting for power at "large power industry" facilities in the frame of launching of the competitive wholesale power market. Repayment to investors of the principal amount of invested capital was performed within one year of the date of investment. The company for provision of commercial accounting services, established in 2002, is developing successfully and expanding the scope of operations.*

A new project of our customers in the area of direct investments, which started in Autumn 2003, is acquisition and completion of construction of a plant for copper rod production.

In the area of LBO deals and investment consulting.

- > *Upon a customer's order, the corporate finance department prepared and implemented debt financing of two deals on acquisition of majority shareholdings of industrial enterprises. Within the pre-determined terms, the customer completely repaid loans received through refinancing in other banks against property of acquired companies as a security. In the course of the deal, the corporate finance department provided services on analytical support at the stage of planning and consulting on deal structuring. At the stage of deal implementation and conducting of settlements, the customer was provided with the investment banking infrastructure.*
- > *In 2003, we provided consultancy on issues of investment raising and preparation of an information memorandum to one of the largest carriers of oil and oil products – BaltTransService Company.*

The evidence of customer's satisfaction with quality of our work is repeated applications of customers for investment banking services. We are proud of this fact and are sincerely grateful to our customers for adherence to the Bank.

International Business

Many Russian enterprises desperately need cheap resources for renewal of fixed assets and funding of their foreign trade operations. Nowadays, international business is one of the obvious sources of long-term resources. In consideration of its customers' interests, CentroCredit Bank actively develops this line of business.

Being one of Russian banks enjoying confidence of Western financial institutions, CentroCredit cooperates with its corporate customers in the area of medium-term and long-term financing of import with the use of less expensive resources of international markets.

For instance, financing of foreign trade operations became one of components of the Bank's portfolio of products and services, offered to corporate customers. The Bank has all the necessary resources and infrastructure for handling business in the area of trade finance: our international correspondent network counts 200 correspondent banks, which enables to perform customers' settlements within the shortest time frame; the Bank is recognized by leading financial institutions – a number of the first-class international banks opened for the Bank lines of credit on documentary operations, which allow making deals with foreign counterparties with the maximum benefit for our customers.

CentroCredit Bank achieved high results in the area of trade finance in the Russian market. The Bank applies instruments, which are widely recognized as reliable and convenient and which enable customers to significantly reduce commercial and financial risks in the course of export and import transactions.

The range of products and services offered by the Bank in the area of trade finance include: > *открытие, авизование и подтверждение документарных импортных и экспортных аккредитивов;*

- > *opening, advising and confirming documentary import and export letters of credit;*
- > *issuing and advising of bank guarantees including tender guarantees, performance bonds, payment guarantees, stand-by letter of credit;*
- > *documentary import/export collection;*
- > *pre-export, post-export and post-import lending.*

In the second half of 2003, volumes of Bank's operations in the area of trade finance nearly tripled, and received profit doubled.

In the area of documentary trade finance, CnetroCredit Bank cooperates with the largest international banks located all over the world.

Upon customer's request, the Bank may conduct all the operations via nearly any foreign banks in various regions of the world using its traditional correspondent banks. Development of the Bank's international business is largely supported by established contacts with subsidiary companies of international financial institutions working in Russia.

Organization of medium- and/or long-term financing (up to 5 years, for an amount of up to 10 million US dollars, in some cases over 10 million US dollars) in a form of direct lending to the customer at the expense of related loan received from a foreign bank, or in a form of issue by CentroCredit Bank of guarantees to secure customer's obligations under the loan provided to it directly by a foreign bank. This is a basis for increase of a term of import contracts financing and/or for cost reduction.

CentroCredit Bank established partnership relations with export insurance agencies of Austria, Hungary, Germany, Italy, Spain, Poland, Slovakia, the USA, Czechia. The Bank conducts negotiations with export agencies of the UK, Finland and France.

IT and Software Support

In 2003, the Bank performed a range of works on development of the technical and technological basis, enabling expansion of the range of offered services, increase of customer servicing quality and introduction of new banking products.

The Bank created and launched an information and technical infrastructure of the Central Additional Office, built on utilization of virtual network technologies. Reliability of all the Bank's systems was increased due to backup of power supply, air conditioning, fire security networks and computing facilities. A net cross-bridge screen was introduced; there were connections established with several additional offices and ATMs.

In the frame of works on development of the automated bank system "Diasoft 5NT", a new gateway was installed and is operated for exchange of payment documents between the ABS and SWIFT international settlements system. the Bank renewed REUTERS DEALING 3000 and Xtra facilities. Electronic document turnover between MICEX, DCC and HDC was established. The technology of foreign exchange deals processing was amplified with ForEx conversion deals with automatic operations loading from Reuters Dealing 3000 and Reuters Deal Sputnik and their further reflection in the books of records.

The Bank paid special attention to further development of the distant banking system. the Bank introduced a number of new versions of the Client-Bank system, which reflect current changes in the RF legislation and expanding functions of the system, in particular, in terms of operations of remote Bank's cash centers. A module for Gazprom shares trading was introduced as well as of other issuers for operations in SGK RTS sites in the Internet-trading system. In conjunction with the developer, BIFIT LLC, the Bank developed and introduced a testing operational system of Internet banking "iBank-2" for remote servicing of individuals.

The Bank continues to work on perfection of software for automation of accounting for securities operations. It completed the development of a software module on accounting for trust management operations including calculations of a unit and manager's remuneration, general bank management fund. There is a range of programs developed for accounting for operations with bills of exchange of outside issuers and on accounting for precious metal operations. The Bank is successful in introduction of electronic document turnover.



Balance sheet profit of CentroCredit Bank, according to the RF standards, increased in 2003 more than 2.5 times.

(according Russian accounting principles)

FINANCIAL Statements



Do not count your chickens... before they are hatched.
English proverb



Do not count your chickens... [>](#)



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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of the Joint Stock commercial bank
"CentroCredit":

We have audited the accompanying consolidated balance sheet of the Joint Stock commercial Bank "CentroCredit" (hereinafter – the "Group") as of 31 December 2003 and the related consolidated profit and loss account and statement of cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements as of 31 December 2002 and the year then ended were audited by another auditor, whose report dated 2 July 2003 expressed an unqualified opinion with regard to these consolidated financial statements.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2003, and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.



30 June 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2003

(in Russian Roubles and in thousands)

	2003	2002
Interest income	1,105,336	703,820
Interest expenses	(272,313)	(274,141)
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	<u>833,023</u>	<u>429,679</u>
(Provision)/recovery of provision for loan losses	<u>(147,581)</u>	<u>2,546</u>
NET INTEREST INCOME	<u>685,442</u>	<u>432,225</u>
Net gain on securities	142,787	985,914
Dividend income	218,221	65,824
Net gain/(loss) on foreign exchange operations	33,382	(6,044)
Fee and commission income	117,592	72,438
Fee and commission expense	(9,666)	(13,934)
Other income	<u>45,306</u>	<u>17,032</u>
NET NON-INTEREST INCOME	547,622	1,121,230
OPERATING INCOME	1,233,064	1,553,455
OPERATING EXPENSES	<u>(367,778)</u>	<u>(302,503)</u>
OPERATING PROFIT	865,286	1,250,952
Provision for impairment of securities available-for-sale	(19,376)	(14,075)
Provision for losses on other transactions	<u>(41,784)</u>	<u>(657)</u>
PROFIT BEFORE INCOME TAX, LOSS ON NET MONETARY POSITION AND MINORITY INTEREST	804,126	1,236,220
Income tax expense	<u>(316,804)</u>	<u>(118,686)</u>
PROFIT BEFORE LOSS ON NET MONETARY POSITION AND MINORITY INTEREST	487,322	1,117,534
Minority interest	<u>(6,105)</u>	<u>—</u>
NET PROFIT BEFORE LOSS ON NET MONETARY POSITION	481,217	1,117,534
Loss on net monetary position due to inflation effect	<u>—</u>	<u>(89,864)</u>
NET PROFIT	<u>481,217</u>	<u>1,027,670</u>

On behalf of the Management Board

Chairman
A. Tarasov

Chief Accountant
L. Zimina

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2003

(in Russian Roubles and in thousands)

	2003	2002
ASSETS:		
Cash and balances with the Central Bank of the Russian Federation	991,120	466,277
Loans and advances to banks, less allowance for loan losses	849,246	432,242
Trading securities	3,692,965	–
Securities purchased under agreement to resell	136,803	73,606
Loans and advances to customers, less allowance for loan losses	2,870,048	2,245,355
Securities available for sale, less allowance for impairment	953,405	6,417,946
Fixed and intangible assets, less accumulated depreciation	187,377	28,740
Assets of discontinuing operations	–	4,860,674
Other assets, less allowance for losses	37,447	7,539
TOTAL ASSETS	<u>9,718,411</u>	<u>14,532,379</u>
LIABILITIES AND EQUITY		
LIABILITIES:		
Deposits from banks	443,341	1,394,704
Securities sold under agreements to repurchase	1,267,781	4,092,758
Customer accounts	2,719,941	1,517,322
Debt securities issued	2,492,465	1,425,242
Deferred tax liabilities	5,283	–
Liabilities of discontinuing operations	–	2,626,478
Other liabilities	67,829	121,625
	<u>6,996,640</u>	<u>11,178,129</u>
Subordinated debt	<u>222,000</u>	<u>118,000</u>
Total liabilities	<u>7,218,640</u>	<u>11,296,129</u>
Minority interest	6,125	–
SHAREHOLDERS' EQUITY:		
Share capital	1,562,235	1,070,235
Treasury shares	–	(80,380)
Revenue reserves	931,411	2,246,395
Total shareholders' equity	<u>2,493,646</u>	<u>3,236,250</u>
TOTAL LIABILITIES AND EQUITY	<u>9,718,411</u>	<u>14,532,379</u>
FINANCIAL COMMITMENTS AND CONTINGENCIES	3,095,990	1,637,327

On behalf of the Management Board**Chairman**
A. Tarasov**Chief Accountant**
L. Zimina

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2003

(in Russian Roubles and in thousands)

	Share capital	Not paid-in capital	Treasury stock	Revenue reserve	Total shareholders' equity
31 December 2001	1,070,235	(358,942)	(308,862)	1,256,530	1,658,961
Paid-in capital	–	358,942	–	–	358,942
Sale of treasury shares	–	–	228,482	–	228,482
Dividends declared	–	–	–	(37,805)	(37,805)
Net profit	–	–	–	1,027,670	1,027,670
31 December 2002	1,070,235	–	(80,380)	2,246,395	3,236,250
Sale of treasury shares	–	–	80,380	–	80,380
Share capital increase	492,000	–	–	(492,000)	–
Distribution of capital of companies consolidated in the year 2002 (including deferred taxes for the amount of RUR 151,178 thousand)	–	–	–	(1,250,637)	(1,250,637)
Net profit	–	–	–	481,217	481,217
Dividends declared	–	–	–	(53,564)	(53,564)
31 December 2003	<u>1,562,235</u>	<u>–</u>	<u>–</u>	<u>931,411</u>	<u>2,493,646</u>

On behalf of the Management Board

Chairman
A. Tarasov

Chief Accountant
L. Zimina

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2003

(in Russian Roubles and in thousands)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before income taxes, minority interest and after loss on net monetary position	804,126	1,146,356
Adjustments for:		
Provision/(recovery of provision) for loan losses	147,581	(2,546)
Provision for impairment of securities	19,376	14,075
Provision for losses on other transactions	41,784	657
Depreciation charge and impairment of fixed and intangible assets	21,757	15,421
Net change in accruals	<u>(20,499)</u>	<u>21,271</u>
Cash flow from operating activities before changes in operating assets and liabilities	<u>1,014,125</u>	<u>1,195,234</u>
Changes in operating assets and liabilities (Increase)/decrease in operating assets:		
Minimum reserve deposit with the Central Bank of the Russian Federation	(167,451)	(162,066)
Loans and advances to banks	(179,266)	14,123
Trading securities	(3,688,388)	5,974
Securities purchased under agreement to resell	(63,197)	1,617,257
Loans and advances to customers	(788,761)	(13,569)
Other assets	(10,768)	(582,336)
Increase/(decrease) in operating liabilities:		
Deposits from banks	(949,496)	198,505
Securities sold under agreements to repurchase	(2,824,977)	3,350,535
Customer accounts	1,201,379	476,886
Other liabilities	<u>(100,069)</u>	<u>703,748</u>
Cash (outflow)/inflow from operating activities before income taxes	<u>(6,556,869)</u>	<u>6,804,291</u>
Income tax paid	<u>(326,172)</u>	<u>(11,545)</u>
Net cash (outflow)/inflow from operating activities	<u>(6,883,041)</u>	<u>6,792,746</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed and intangible assets	(180,394)	(18,839)
Disposal of subsidiaries, net of cash disposed	1,003,303	-
Proceeds from sale and redemption of securities/(purchase of securities)	<u>5,476,561</u>	<u>(7,659,539)</u>
Net cash inflows/(outflows) from investing activities	<u>6,299,470</u>	<u>(7,678,378)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Share capital increase	-	358,942
Sale of treasury shares	80,380	228,482
Proceeds from debt securities issued	1,051,266	786,721
Subordinated debt received/(paid)	104,000	(467,614)
Dividends paid	<u>(53,564)</u>	<u>(37,805)</u>
Net cash inflows from financing activities	<u>1,182,082</u>	<u>868,726</u>

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONTINUED)

(in Russian Roubles and in thousands)

	2003	2002
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	598,511	(16,906)
INFLATION EFFECT ON CASH (INCLUDING CHANGE IN VALUATION ALLOWANCES)	–	(9,332)
CASH AND CASH EQUIVALENTS, beginning of the period	<u>203,200</u>	<u>229,438</u>
CASH AND CASH EQUIVALENTS, end of the period	<u>801,711</u>	<u>203,200</u>

Interest paid and received by the Group in cash during the year ended 31 December 2003 amounted to RUR 256,983 thousand and RUR 1,069,507 thousand, respectively.

Interest paid and received by the Group in cash during the year ended 31 December 2002 amounted to RUR 271,654 thousand and RUR 722,604 thousand, respectively.

On behalf of the Management Board

Chairman
A. Tarasov

Chief Accountant
L. Zimina



“Our shareholders support management’s efforts aimed at ensuring transparency – we show what we have”, explains Andrey Tarasov, Chairman of the Management Board of CentroCredit Bank.

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> FOR NOTES

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