



# Annual Report 2.0.06

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## CentroCredit Bank: General Information

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CentroCredit Joint Stock Commercial Bank was founded in 1989 and for 18 years has been successfully working in the Russian banking sector under General License for Banking No. 121 for the provision of banking services, issued by the Central Bank of the Russian Federation. The Bank also has a license for precious metals operations.

The Bank has a subsidiary in Vologda and also a representative office in London.

The Bank also has a network of correspondent banking relationships with large foreign banks such as Raiffeisen Zentralbank Oesterreich AG (RZB), Vienna; Commerzbank AG, Frankfurt am Main; JP Morgan Chase Bank NA and others.

CentroCredit Bank is a member of the Association of Russian Banks, the Moscow Interbank Union, the Moscow Banking Union, the Moscow Stock Exchange (MSE) and the Saint-Petersburg Stock Exchange. CentroCredit Bank is also a member and stockholder of the Russian Trading System (RTS) as well as a stockholder and full member of the MICEX Stock, Currency and Forward Exchange.

Under License No. 707, to act as intermediary on the stock market, issued 25 March 2005 by the Commodities Markets Commission of the Federal Financial Markets Service of the Russian Federation, the Bank has a right to execute futures and option transactions in exchanges within the territory of the Russian Federation.

The Bank has an unlimited license to operate as a participant in the professional securities market for the following types of business: dealer's activity (License No. 177-06344-010000 of 19 September 2003), broker's (License No. 177-06333-100000 of 19 September 2003), securities management (License No. 177-06356-001000 of 19 September 2003), and depository activity (License No. 177-06413-000100 of 26 September 2003).

The State Customs Committee has included CentroCredit Bank in the Register of Entities authorized to act as a customs guarantor in transactions up to RUR 700 million.

Since 11 November 2004, the State Corporation "Deposit Insurance Agency" has included CentroCredit Bank in its register of banks who participate in the mandatory insurance of deposits (Register No. 161).

According to expert evaluation, the Bank is a leader in the field of factoring operations. The volume of funding in this area was more than USD 150 million in 2006.

The total assets of CentroCredit Bank in 2006 was RUR 17,858 million. The 2006 balance sheet profit of the Bank was RUR 976 million.

The Annual General Meeting of shareholders agreed a dividend payment of RUR 10.20 per common share and RUR 2.55 per preferred share.

In the course of 2006, the Bank's charter capital didn't change but equity capital increased 3.5% to total RUR 4,669 million.

As of 1 January 2007, according to Kommersant newspaper ratings, CentroCredit Bank was among the top CIS banks, being the 72nd largest in equity capital and ranking 20th in capitalization.

CentroCredit Bank prepares its financial statements in accordance with Russian and international accounting standards. The audit of 2006 accounts, in conformity with international accounting standards, was conducted by Deloitte & Touche CIS, while the audit to conform with Russian accounting standards was carried out by LLC "Kollegiya Nalogovikh Konsultantov" (OOO "KNK").

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## Address to Clients and Partners by the Chairman of the Board of Directors

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Dear Friends,

In presenting the CentroCredit Bank 2006 Annual Report, I would like to thank all customers, personnel and stockholders of the Bank for their contributions and their cooperation. The good results for the year are a natural outcome of our joint hard work.

Along with first-rate figures for profitability and efficiency we managed to achieve excellent reliability and also increase the Bank's capitalization.

Stockholders and Management of CentroCredit Bank will continue to pay special attention to the maintenance of our strong business reputation, and the increasing attractiveness of the Bank's services for our customers, as they did throughout 2006.

Sincerely,  
Pavel Kosolobov  
Chairman of the Board of Directors  
CentroCredit Bank



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## **Address to Stockholders and Clients by the Chairman of the Management Board**

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Dear Friends,

I would like to open this traditional address with words of gratitude. Gratitude for your trust in the Bank, your patience and your kindness.

Our cooperation assumes a mutual undertaking of risk. We take a risk by providing you with credits and guarantees; you do so by placing your assets with the Bank and disclosing confidential details of your investment transactions.

I would like to assure you that the main purpose of our Bank is to continue making it fit to meet its responsibility for the obligations it undertakes.

Respectfully yours,  
Andrey Tarasov  
Chairman of the Management Board  
CentroCredit Bank

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Results and Prospects

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# Results and Prospects

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## 1.1

# Analysis of the Economic Situation in the Russian Federation and Development of Russia's Banking System in 2006

## ECONOMIC SITUATION IN RUSSIA

In 2006, high domestic consumer and investment demand and extremely favorable international prices for the country's main exports (oil, gas, ferrous and non-ferrous metals) contributed to further development of the national economy. According to a Rosstat estimate, GDP increased by 6.7% in comparison with the previous year, the third best result since 2001.

TABLE 1. Dynamics of basic macro-economic parameters

Key parameters	2001	2002	2003	2004	2005	2006
Nominal GDP (US\$ '000,000,000)	306.6	345.0	430.2	582.4	751.0	987.7
Real GDP growth (% change per annum)	5.1	4.7	7.3	7.1	6.4	6.7
Industrial production (% change per annum)*	4.9	3.8	7.0	6.1		
Industrial production (% change per annum)**		3.1	8.9	7.3	4.0	4.4
Capital expenditures (% change per annum)	10.2	2.8	12.8	13.7	10.5	13.5
Producer's price index (% change per annum, end of reference period)	10.7	17.1	13.1	28.8	13.1	10.2
Inflation (per cent per annum, end of reference period)	18.8	15.1	12	11.7	10.9	9.0
Exports (US\$ '000,000,000)	101.6	107.3	135.9	183.2	243.6	303.9
Imports (US\$ '000,000,000)	53.8	61	75.4	97.4	125.3	164.7
Trade balance (US\$ '000,000,000)	47.9	46.3	60.5	85.8	118.3	139.2
<b>Federal Budget</b>						
Income (as a % of GDP)	17.6	20.2	19.4	20.7	23.7	23.6
Spending (as a % of GDP)	14.7	18.8	17.7	16.5	16.3	16.1
Primary deficit (-) or profit (+) (as a % of GDP)	5.5	3.5	3.4	5.5	8.7	8.1
Total deficit (-) or profit (as a % of GDP)	2.9	1.4	1.7	4.2	7.7	7.5
Monetary basis (narrow, RUR '000,000,000, end of reference period)	708.5	940.3	1,392.1	1,644.6	2,160.6	3,002.0
International reserves (US\$ '000,000,000, end of reference period)	36.6	47.8	76.9	124.5	182.2	303.0
M0 (RUR '000,000,000, end of reference period)	526.8	690.4	1,002.1	1,332.7	1,765.8	4,250.7
M0 growth (% change per annum)	47.2	31.1	45.1	33.0	32.5	38.8
M2 (RUR '000,000,000, end of reference period)	1,452.9	1,949.4	2,843.7	3,939.9	5,436.1	8,014.1
M2 growth (% change per annum)	37.8	34.2	45.9	38.5	38.0	47.4
Official US\$ / RUR exchange rate (end of reference period)	30.14	31.78	29.45	27.75	28.78	26.38
Refinancing interest rate (% , annual base, end of reference period)	25	21	16	13	12	11

\* by old method.

\*\* by new method.

The high level of consumer demand was supported by growth in real disposable incomes (by 10.2% in 2006 and 11.1% in 2005), including real wages. Growth of consumer demand in 2006 was substantially supported by consumer lending.

Increase in capital expenditure in 2006 was 13.5% compared to 10.7% in 2005. The drivers of investment expansion were, besides growth of government investment, a considerable increase in private domestic and foreign investment particularly in the oil and gas, retail trade and transport sectors. The increase in investment was followed by growth in construction (this was more than 18% in the period September to December 2006, in December alone it reached 25.7%). In particular, housing construction experienced considerable growth (15.2% in comparison with 6.1% in 2005).

The fast growth of retail trade also featured in the rise of GDP. In 2006 the increase in retail trade turnover was 13% (against 12.8% in 2005). Growth of retail trade was supported by sustainable growth of real value in incomes and real wages.

The increase in industrial production in 2006 (according to Rosstat data, in 2002 comparable prices) was 3.9% compared to 4.0% in 2005, with a noticeable slowdown in December. Slowdown of growth in December was largely caused by abnormally warm weather which led to a decrease in demand for heat energy and stagnation reoccurred in the process industries. In 2006, the increased growth shown by processing industry was 4.4% (against 5.7% in 2005).

Most raw material industries enjoyed favorable international prices and increased their production. High consumer demand, supported by an easing of customs regulation on the import of light industry goods, contributed to growth in production of leather, leather items, shoes, textiles and clothing. At the same time, rate of growth in the engineering industry and production of fertilizers slowed considerably, which, in balance, led to a general slow down of the process industry as a whole.

Value of exports grew by 25% in 2006 (against 32.9% in 2005) with a slowdown in the rate of monthly increase from September as a result of the fall of international oil prices. The share of fuels and raw materials in the structure of exports increased. In 2006, the market experienced peak prices for oil and a number of non-ferrous metals (nickel, etc).

Imports increased in 2006 growing to 30.8% (against 28.7% in 2005). Growth of imports was stimulated by the ruble's higher exchange rate as well as by growth in investment. Investment played the most important role (at least in the second half of the year), leading to a rise in the share of investment goods in the import structure. Machinery, equipment and vehicles were the main Russian imports in 2006, their share of total imports was 47.7%. Import of machinery, equipment and vehicles increased by 50.9% in value terms, including a 28.5% increase in imports from CIS countries and 53.8% from the rest of the world. Such considerable growth can be explained partly by the repeal of import duties on technology equipment not manufactured in Russia. The number passenger vehicles imported increased by 35.6% and the import of trucks by 19.2%.

The value of imported food and agricultural raw materials (except textiles) increased by 23.9%, including 33% growth in imports from non-CIS countries, while overall imports from CIS countries decreased by 8.2%. During 2006, the import of food was constrained by quite strong competition from Russian producers leading to a decrease in the share of food in Russian imports in 2006 by 17.7% to 15.7%. In 2006, actual purchases of frozen meat increased by 5.3%, butter by 24.1%, citrus fruits by 24.6%, coffee by 39.2%, wheat by 240% and cigarettes by 190%. The supply of poultry decreased by 3.5%, sunflower oil by 23.9%, raw sugar by 9%, white sugar by 44.1% and alcoholic and soft beverages by 9%. The value of imported textiles, textile goods and shoes, and of chemical products increased by 51.4% and 33.7% respectively. Share of textiles, textile goods and shoes in the total volume of imports grew from 3.7% to 4%, and the share of chemical products decreased from 16.5% to 15.8% compared to 2005.

International reserves (gold and foreign currency reserves) increased 211% from USD 57,699 million in 2005 to USD 121,492 million in 2006. As of 1 January 2007, gold and currency reserves stood at USD 303,732 million.

While negative population growth in Russia persisted in 2006 there were some signs of an improvement in the situation. The rate of natural decrease in population was the lowest in the last seven years. Over 11 months of 2006, 1,358,500 children were born, 17,100 (1.3%) more than over the same period of 2005. Compared with the same period January–November 2005, deaths decreased by 116,500 or 5.5%. This was partly due to steps taken since January 2006 to improve access to and the quality of medical assistance within the framework of the national healthcare project. A steady decrease in mortality from major diseases has begun to show. Comparing January–November 2006 to the same

period of 2005, mortality from cardiovascular diseases decreased by 4.7%, lung diseases by 12%, and accidental and violent deaths by 10.3% including those caused by alcohol by 19.7% and traffic accidents by 6.3%.

Infant mortality continues to decrease. The number of deaths among infants aged less than one year decreased by 1,000 (from 14,800 deaths in January–November 2005 to 13,800 in the same period in 2006), or 6.8%.

In the President's address to the Federal Assembly of the Russian Federation of 2006, demographic issues were mentioned as a priority. A pro-birth policy was introduced. This policy assumes financial support of motherhood as well as development of a service infrastructure for parents and children (support of obstetrics and maternity hospitals, day-care centers and kindergartens, and system of guardianship and tutorship).

In 2006, the Government made efforts to improve migration policy. The measures taken were aimed at the preparation of new legislation simplifying procedures for registering foreign residents in Russia and the obtaining of work permits. There was a toughening of responsibility for violation of the rules for the employment of immigrants, protection of consumer rights and the interests of Russian citizens, support of employment priority for Russian citizens in filling vacancies and newly created jobs, evaluation of the employment needs of foreign workers and the issuing quotas for the employment of foreigners in Russia.

Along with these new migration regulations that facilitate registration and employment of foreign workers, new stricter sanctions for violation of legislation have been introduced. These encourage foreign citizens to enter, stay and work in Russia on a legal basis and encourage employers to abide by the new rules for the employment of foreign workers.

Positive economic and social processes leading to considerable changes in the area of people's employment made a great impact on the labor market in 2006. According to employment surveys conducted by Rosstat, the number of people employed in the economy increased during 2006 from 67.6 to 69.1 million (2.2%), 55% of all those employed work in large and medium-size enterprises and organizations.

At the same time, a considerable growth in those employed in the informal sector took place. According to the survey results relating to the third quarter of 2006, the number of employed in this sector increased by 5.3% over the same period in 2005 to 13.9 million people. The share of those employed in the informal sector is around 20%. Development of the informal economy is a consequence of a continuing lag in the development of a legal basis for small and medium business. It is also caused by the high costs of creating of new jobs in the formal sector.

In general, the number of economically active in Russia increased from 73.9 million in 2005 to 74.2 million people in 2006.

Negative economic factors had less impact on demand for labor in the reporting year. At the same time employment restructuring, which takes place in all developed economies when the demand for service sector workers grows while declining in the industrial sector, manifested itself in Russia. Over the last year, employment increased in the following sectors: construction, wholesale and retail trades, repair of vehicles and home appliances, hotels and restaurants, health-care and social services, public administration and military service, and mandatory social protection. At the same time, employment decreased in agriculture, hunting and forestry, mining, process industries, production and distribution of electricity, gas and water.

Unemployment averaged 5.3 million, or 7.2% of the economically active population, in 2006 using ILO measures, a decrease of 300,000 people. Today's unemployment is largely relative with the availability of jobs not corresponding to the structure of the workforce. In 2006, around 39% of unemployed were aged 30 or less, which is a sign of higher and secondary professional education needing to address the reality of the labor market while the main industry sectors and other areas of the economy restructure.

The average number of officially registered unemployed in 2006 (1.77 million people) decreased compared to 2005 (1.85 million people) by 81,000 people — 2.4% of the economically active population. Over 1.5 million people received monthly unemployment allowance.

Nominal and real wages continued to grow as they have over the past few years: according to preliminary Rosstat estimates, in 2006 the average nominal wage before taxes was RUR 10,736 (24.5% higher than in 2005). Real wages over January–December 2006 grew 113.4%, while in 2005 growth was 112.6%.

In 2006, the proportion of the population living below the poverty line was 16.0% against 18.45% in 2005. This takes into consideration that average income per capita grew faster than the cost of living. The number of people with incomes lower than the official minimum subsistence decreased from 26.3 million in 2005 to 22.8 million in 2006.

A feature of the present times in Russia is that, beside social groups where poverty is usually widespread (families with many children, single parent families with children, solitary pensioners, disabled, and the unemployed), those employed in the so-called “budget sector” of the economy form a large part of the poor. In 2006, the share of those in government employment in healthcare, public education, culture and science was, according to preliminary data, 10.6%.

In 2006, the top-ten to bottom-ten percentile income ratio increased somewhat to 15.3 times compared to 14.9 times in 2005. This gap in the size and structure of incomes can be explained by the different sources of income of the different groups. Over the past year the top-ten percent, or the richest, received 30.2% of all monetary income (29.9% in 2005), while the bottom-ten percent received only 2%, the same figure as in 2005.

## THE BANKING SYSTEM IN RUSSIA IN 2006

In 2006, the rapid growth of the Russian banking system continued. In particular, assets of the banking sector increased by 44.1% to RUR 14,045.6 billion, while share of assets in foreign currency in total assets decreased. Capitalization of credit organizations grew by 36.35 up to RUR 1692.7 billion. Lending to individuals was the most rapidly developing direction of funds allocation. Measured by the size of the banking system compared to the general economy, Russia is steadily catching up with Eastern European Countries such as Poland, Bulgaria, Hungary and the Czech Republic where the ratio of total banking assets to GDP lays within the range of 50% to 80% and ratio of banks' total capitalization to GDP is about 7–10%. During 2006, the number of operating credit organizations in Russia decreased from 1253 to 1189.

Main parameters of the development of the banking system are shown in the *Table 2*.

**TABLE 2. Dynamics of the Russian banking system key parameters**

Billion RUR	01.01.01	01.01.02	01.01.03	01.01.04	01.01.05	01.01.06	01.01.07	Growth compared to 2005
Assets:	2,362.5	3,159.7	4,145.3	5,600.7	7,136.9	9,750.3	14,045.6	44.05%
as % of GDP	32.3	35.00	38.2	42.4	42.0	45.0	52.8	
Capital:	286.4	453.9	581.3	814.9	946.6	1,241.8	1,692.7	36.31%
as a % of GDP	3.9	5.00	5.4	6.2	5.6	5.7	6.4	
as a % of liabilities	12.1	14.4	14.00	14.6	13.3	12.7	12.1	
Loans to legal entities in the non-financial sector (residents):	763.3	1,191.5	1,612.7	2,266.9	3,149.9	4,110.6	5,966.2	45.14%
as a % of GDP	10.4	13.2	14.8	17.2	18.5	19.0	22.4	
Loans to individuals:	44.7	94.7	142.2	299.7	618.9	1,179.3	2,065.2	75.12%
as % of GDP	0.6	1.05	1.31	2.27	3.64	5.44	7.76	
as % of assets	1.89	2.99	3.43	5.35	8.67	12.10	14.70	
Deposits of individuals:	445.7	678.0	1,029.7	1,517.8	1,977.2	2,754.6	3,793.5	37.70%
as a % of assets	18.9	21.5	24.8	27.1	27.7	28.3	27.0	
Profit for the current year:	17.18	67.61	92.95	128.406	177.943	262.097	371.547	41.76%
as a % of capital	6.0	14.9	16.0	15.8	18.8	21.1	21.9	
GDP (for reference)	7,305.6	9,039.4	10,817.5	13,201.0	17,008.0	21,665.0	26,621.3	

According to Garegin Tosunian, President of the Association of Russian Banks, yet more rapid growth of the banking sector is constrained by lack of financial resources. First of all this concerns long-term government and private sources, primarily pension funds that in most Western countries are the main source of long-term lending. On the liabilities side, banks are not allowed to stop pre-term withdrawal of long-term deposits, which limits the banks' capacity. All this inhibits long-term lending which, in turn, impedes the development of technologically advanced sectors and projects where breakeven can be in 5–7 years rather than in 2–3 years. This is also a serious obstacle to the development of mortgage lending where the time-frame is even longer. As for industry, many process companies continue financing their investments mainly from their own resources, their share of capital investment over the last few years remains at the 61–68% level. The low percentage of borrowings can be explained by the disproportion in the terms and conditions of lending suggested by the banks and the needs of industry.

So that the national banking system can run efficiently within the WTO, it is necessary, at least, to build up a level playing field for Russian banks in comparison with foreign ones. In other countries, preferences granted to national banking systems are transparent. However, in Russia, beside the problem with long-term resources, banks have to meet the highest mandatory reserves requirements. Reserves are withdrawn without compensation. In addition, banks are obliged to perform some functions of state control (such as fiscal, currency, customs control, etc.) at their own expense.

Development problems facing the Russian banking system, including those already mentioned, were considered at a session of the Presidium of the State Council of the Russian Federation on 14 November 2006. The session resulted in a number of assignments by the President of the Russian Federation, including, in particular, the following:

■ To charge the Government of the Russian Federation, in cooperation with the Central Bank of the Russian Federation and with participation of the Association of Russian Banks, to consider the issues of the role of the banking system in the implementation of national projects and the social and economic development of the regions, at a session of Presidium of the State Council of the Russian Federation:

- to work out and implement measures for further strengthening of the national banking system; increasing the level of capitalization and the competitiveness of banks; improvement of the refinancing system; stimulation of investment, including long-term lending, into the real sector of the economy; and simplification of procedures of subordinated lending, IPOs and mergers;
- to adopt regulations necessary for inclusion of individuals' pension savings into banking turnover, in particular by way of issuing long-term mortgage securities;
- to take additional measures aimed at the development of educational lending;
- to adopt the regulations necessary for a more extensive use of Russia's network of post offices for the provision of financial and banking services to individuals and small businesses;
- to support further development of the system of deposit insurance, including establishment of terms and limits of compensation and rates of insurance premiums and mechanisms of collection;
- to make the necessary decisions to reduce bank administrative costs related to performing obligatory control functions on behalf of the state, in particular, by optimizing the scale and terms of submission of all types of bank reports.

■ To charge the Government of the Russian Federation, in cooperation with the Central Bank of the Russian Federation, regional executive authorities and with the participation of the Association of Russian Banks, to work out a program for providing access to bank services for people in small and medium-size towns and the rural population by expanding the local presence of the banks and non-banking credit organizations.

The Association of Russian Banks also suggested the introduction of tax deductions on profits used to increase bank capitalization as well as for investors, simplification of procedures for getting subordinated credits, and facilitation of IPOs for banks.

The share of credit organizations under the control of non-residents increased in 2006 (see Table 3). It was caused by a more dynamic development of non-resident banks working in Russia for a some time and by increased ownership of Russian banks or shares in Russian banks through acquisition by foreign companies (Impexbank by Reiffeisen Group, Investsberbank by Hungarian OTPBank, part of Rosbank's capital by group "SociOtO GOnOral"). At the same time, state-owned banks — Sberbank and VTB — announced additional issues of stock in the first half of 2007, which will inevitably lead to a rise in their share in the market. As for the strategy of allocation and obtaining funds by the above mentioned groups of banks, non-resident banks provide a large portion of their assets as inter-bank credits, they are more active in lending to individuals but less active in taking deposits from them, largely obtaining their funds from abroad instead.

**TABLE 3. Key parameters of performance of credit organizations with foreign share capital exceeding 50%, market share.**

	01.01.03	01.01.04	01.01.05	01.01.06	01.01.07
	%	%	%	%	%
Assets	8.1	7.4	7.6	8.3	12.1
Capitalization	7.1	6.6	7.8	9.3	12.7
Correspondent accounts with non-resident banks	22.9	19.7	14	10.5	23.1
Credits and other forms of financing of non-financial organizations, including non-resident legal entities	7.1	6.1	6.2	7.4	10
Credits to the banks, deposits in the banks and other forms of financing of the banks	25.9	22	15.8	17.1	22.5
Deposits of the individuals	2.2	2.2	2.9	3.4	6.2
Deposit and other accounts of legal entities	10.4	9.3	9.4	9.6	13.3

### Bulletin of the Association of Russian Banks, 07.08.2006

**As of today, CentroCredit Bank is the oldest member of Moscow Banking Union having been a member since 1989.**

## 1.2

## CentroCredit Bank — Operating Results and Reports for 2006

CentroCredit Bank has been operating in the Russian banking field for over seventeen years. Each of these years has confirmed the Bank's reputation as a reliable and efficient partner offering its clients a wide range of banking services of the highest quality. The Bank wrote another page of success in 2006 with new achievements and new experiences to put in the Bank's history book.

### ASSETS AND THEIR PROFITABILITY

As of 1 January 2007, according to published reports, CentroCredit Bank's assets totaled RUR 16,980 million. The effective combination of profitability and main asset groups risk allowed the Bank to allocate its equity capital and liabilities in a most efficient way and to yield an annual return of 7.3% on assets. According to The Expert magazine's rating of the 200 largest Russian banks, CentroCredit Bank ranks fourth among large banks in Moscow and the Moscow Oblast for return on assets. The Bank considers this a real success taking into consideration that the Bank also scored the highest position for financial sustainability.

In 2006, the Bank focused its main efforts on the development and improvement of services and products for corporate and individual clients.

The Bank's loan portfolio grew by 27.8% or by RUR 1.3 billion in 2006 to total RUR 6.1 billion as of 1 January 2007. In the reporting year loans to corporate clients increased by 23.7%, leasing operations doubled and factoring increased by 13%. The share of loans as a percentage of the Bank's assets was, by the end of the year, 36%.

Over 2006, the Bank made RUR 601 million of gross interest income from its total loan portfolio.

Incomes from commission charged for all of the Bank's services to corporate and individual clients reached RUR 203 million, or about 10% of the Bank's total income.

In 2006 a considerable share of the Banks' assets comprised its securities portfolio. As at 1 January 2007, net investment in securities equaled RUR 7.1 billion, or 49.1% of the Bank's assets, of which RUR 2.6 billion was in government bonds and RUR 1.4 billion in high-reliability corporate and municipal bonds.

The security portfolio is the main source of stable income for the Bank and a flexible and effective liquidity management tool.

Profit from securities operations in 2006 was RUR 866 million including RUR 419 million of coupon income from fixed-income securities.

As for liquidity, while the average annual Quick Ratio (H2) within the Russian banking system was 53% in 2006, CentroCredit Bank's ratio equaled 69.9%. Current liquidity ratio (H3) was 90.7% (against a 75% average for the Russian banking sector). The Bank actively used REPO operations as an instrument for obtaining additional resources against its securities from the Central Bank and in the interbank market. As of 1 January 2007, corporate and government bonds employed in REPO operations totaled RUR 3.5 billion.

In the past year, as in 2005, CentroCredit Bank ranked seventh in the MICEX rating of "Top-10 leading operators in the inter-dealer REPO market". The Bank's activeness in the stock market is also confirmed by its position in the "Leading operators of MICEX stock exchange in December 2006" in which CentroCredit Bank, according to Ratings&Rankings magazine (No. 2[40] of 2007), ranks 47th by share transactions (RUR 4.4 billion) and 38th by bond transactions (RUR 304 million).



Bank-Managed Mutual Funds (BMMF) are a growing aspect of the Bank's development. During 2006, the size of BMMF capital increased by RUR 20 million and as of 1 January 2007 had reached RUR 54.7 million. The value of a share in BMMF "Maximum" increased by 22.9% and in BMMF "Absolute" by 14.0% (according to Kommersant-Money, No. 3 of 29 January 2007). The new BMMF "Index" fund was registered on 10 October 2006. Over the last quarter of 2006, its profitability was 79% in annual terms.

In 2007 CentroCredit Bank will continue consolidation of its position in the market of servicing corporate and private clients by concentrating on growth of high-margin and low-risk assets, at the same time reducing share of securities in its portfolio.

## EQUITY AND LIABILITIES

Over 2006, the Bank's equity capital grew by RUR 157 million or by 3.5% to total RUR 4,669 million. According to The Finance magazine's rating "The 200 largest Russian banks by equity capital" CentroCredit Bank ranks 49th as of 1 January 2007.

The main source of the Bank's equity capital is its registered capital which, as of 1 January 2007, stood at RUR 2,978 million or 63.7% of total capital. This is almost twice the average for Russian banking which, according to the Central Bank, is 36.5% (as of 1 December 2006).

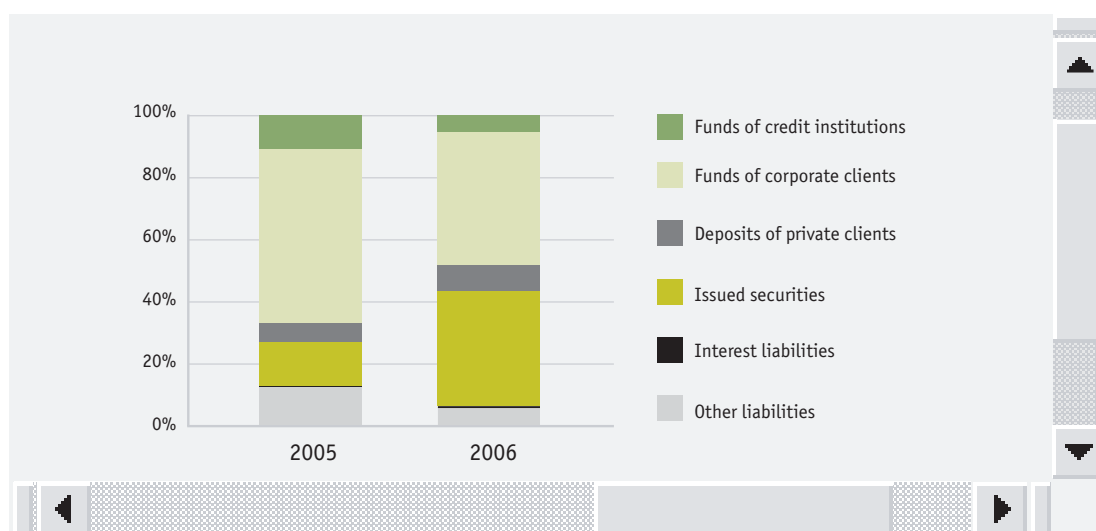
The Bank's capital sufficiency ratio (H1) was 35% by the end of 2006 (against 27.9% by the end of 2005) confirming the Bank's high development potential against the background of the persistent problem of capital insufficiency in the Russian banking system.

Issue of RUR 2,001 million worth of interest-bearing convertible nominal bonds was a major event of 2006. As of 1 January 2007, these bonds made up 21% of all of the Bank's liabilities. These bonds mature in five years, considerably increasing the Bank's long-term liabilities and contributing to the broadening of active operations. Terms of issue provide for the bonds convertibility to common shares on maturity. When this happens, the Bank will increase its registered capital and utilize the new source of funding.

It is important to point out the reduction of interbank loans in the Bank's total liabilities from 7.2% at end of 2005 to 3.2% as of 1 January 2007.

Funds obtained from customers during the year were RUR 6.6 billion. As of 1 January 2007, the balance of corporate and individual client accounts was RUR 4.9 billion, or 51% of the Bank's total liabilities. Basically client accounts, thanks to the large number of corporate clients, serve the Bank as a sustainable source of low-cost funding.

Diagram: Structure of the Bank's Liabilities



## BALANCE SHEET PROFIT

The Bank's 2006 balance sheet profit before taxes totaled RUR 976 million.

This level of stable profit enables the Bank to pay out 15% of net income as an annual dividend to shareholders which, in 2006, amounted to RUR 104.7 million.

### The main sources of income for the Bank in 2006 included:

	Million RUR
Net income from interest and the like, excluding coupon income from government bonds	516
Net income from securities operations	866
Income from commission	203
Net income from trading in precious metals and other financial instruments	250

According to Kommersant-Money magazine's rating of the most profitable banks, CentroCredit Bank ranks 46th, while according to The Expert magazine's rating of equity capital profitability the Bank ranks 30th at 20.9% and, by return on assets, as mentioned above, it ranks 4th with the figure of 7.3%. It has to be noted that, according to The Expert, the other banks with similar or better figures for return on assets came from the groups between 2nd to 5th in sustainability.

However, amount of equity capital, good liquidity ratios and stable high returns position CentroCredit Bank in excellent financial health and place the Bank as a leader in the first group in sustainability along with Vneshtorgbank, Gasprombank, and Probusinessbank (The Expert, No. 11 of 4 March 2007). Among the banks in this group, the highest return on assets after CentroCredit Bank was achieved by Vneshtorgbank (3.8%).

Thus CentroCredit Bank has the best combination of sustainability and effectiveness of all large Russian banks.

**ITGuide.Ru, 28.02.2007**

**In the first quarter of 2006, CentroCredit Bank signed a contract for SAP NetWeaver BI (Business Intelligence) management software. After completion of a system integration process which took four months, the product was successfully launched and is now in operation.**

## 1.3

### Prospects for Development of the Bank in 2007

Distinct and clear positioning of the Bank within the Russian financial system is the main objective in 2007. Success in achieving this objective depends on progress in the following areas:

- Compliance with all existing regulations in the Russian system of banking and financial control;
- Priority selection of the most highly competitive banking services that the Bank can provide;
- Provision of the necessary human and technological resources for promotion of the selected services;
- Concentration of all financial and administrative resources in the “main line of attack”, i.e. for gaining the position of lead market-maker for the selected priority services.

**Izvestiya, 25.10.2006**

**“Index Fund” managed by CentroCredit Bank is a new product in its range of BMMF mutual funds. The portfolio of this fund consists of shares of Russian companies listed on the MICEX stock index.**

Chapter 2...

Open



[Results and Prospects](#)

[Bank Management System](#)

[Relations With Clients and Partners](#)

[Financial Statements](#)

- Management Principles and Strategy ▶
- Organization Structure of the Bank ▶
- Personnel and Social Policy ▶



# Bank Management System

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## 2.1 Management Principles and Strategy

The Bank's management principles and strategy, so successful over the last few years, did not undergo any serious changes in 2006. The main goal of improving quality, timeliness and efficiency of the Bank's management system in 2007 will be to achieve competitive advantage by way of strengthening centralization of corporate governance together with the inclusion of specialists in the committees and working groups set up by the Bank's Management Board to help in the process of managerial decision-making.

**Strategic management** is exercised by the Board of Directors and establishes the main directions of the bank's activities, selection of the development strategy and approval of the main budget parameters.

**Operational management** is undertaken by the Management Board and exercised jointly with permanent collegial committees of the Management Board, i.e. Financial Committee and Credit Committee.

The Management Board and the Committee members at their regular meetings discuss key issues of determining and implementation of strategy and financial policy, monitoring the current financial condition and liquidity of the Bank, evaluating compliance with operational factors set by the Central Bank, such as plan figures, targets and ratios.

The Credit Committee is responsible for the implementation of the Bank's credit policy and keeping the balance between profitability and lending risk by using mechanisms such as limits, transfer prices and interest rates.

Decisions made by the Management Board and the Committees are mandatory for all departments concerned.

Information and analytical materials, working papers and operational decisions made by the Financial and Credit Committees are an important component in support of the activities of the Bank's Management Board and Board of Directors.

**Personnel management** is based on the understanding that human resources are vitally important for the implementation of strategic goals. The Bank continually improves staff compensation and benefits.

**Corporate governance** seeks to provide an ideal balance of the interests of shareholders, management and staff.

**Image management** rests on maximum possible transparency and fairness towards clients, partners, employees and the general public.

**Technology management** and the development of the Bank's automated systems, telecommunications and connection system infrastructure are aimed at maximum client convenience — mainly on the basis of remote access.

## 2.2 Organization Structure of the Bank\*

### Management Bodies of the Bank

#### *General Meeting of the Bank Shareholders*

#### *Board of Directors of the Bank*

##### **Pavel N. Kosolobov**

(born 1964)

Chairman of the Board of Directors

*Graduate of the Lumumba University of Peoples' Friendship in 1987*

##### **Sergey A. Yeremin**

(born 1956)

Member of the Board of Directors

*Graduate of Moscow Finance Institute in 1982 with a diploma in Finance and Credit. Graduate of the same college in 1988 with a diploma in International Economic Relations.*

##### **Vladimir S. Zhamborov**

(born 1953)

Member of the Board of Directors

*Graduate of Kabardino-Balkarian State University in 1975, Graduate of the Dagestan Institute of management and business in 1998.*

##### **Ilya Yu. Korbashov**

(born 1970)

Member of the Board of Directors

*Graduate of Lomonossov Moscow State University in 1993. Graduate of Plekhanov Russian Economic Academy in 1998.*

##### **Andrey I. Tarasov**

(born 1959)

Member of the Board of Directors

*Graduate of Ordzhonikidze Moscow Aviation Institute in 1982. In 2006, graduated from the Russian Academy of the National Economy with an MBA and Doctorate in Economics.*

### Auditing Committee of the Bank

##### **Natalya D. Frolova**

##### **Natalya V. Perepelitsyna**

##### **Kirill V. Sukholet**

*The Annual General Meeting of Shareholders on 26 March 2007 agreed the motion that Members of the Board of Directors and of the Auditing Committee should receive no compensation for the results of the year 2006.*

### Senior Management of the Bank

#### *Executive Chairman of the Management Board (individual executive body)*

**Andrey I. Tarasov**

#### *Management Board*

*(collegial executive body)*

##### *Chairman of the Board*

**Andrey I. Tarasov**

##### *Deputy Chairman*

**Igor V. Kosolobov**

##### *Deputy Chairman*

**Vitaliy S. Larichev**

##### *Deputy Chairman*

**Andrey N. Surmilo**

##### *Member of the Board*

**Larisa V. Zimina**

#### *Financial Committee at the Management Board of the Bank*

#### *Credit Committee at the Management Board of the Bank*

#### *First Deputy Chairmen of the Management Board*

**Sergey A. Yeremin**

**Kirill Ye. Shershun**

#### *Deputy Chairmen of the Management Board*

**Ilya Yu. Korbashov**

**Igor V. Kosolobov**

**Vitaliy S. Larichev**

**Dmitriy V. Peshkov**

**Andrey N. Surmilo**

#### *Chief Accountant*

**Larisa V. Zimina**

\* As of 26 March 2007, in accordance with the motions of the Annual General Meeting of CentroCredit Bank shareholders for 2006.

## Representative Offices and Branches of the Bank

### *Representative office of CentroCredit Bank in the United Kingdom (London)*

*Head of the Representative Office*  
**Natalya A. Bogomolova**

### *Branch office of CentroCredit SCB, Bank in the city of Vologda*

*Manager of the Branch Office*  
**Andrey O. Sofiychuk**

At present, Bank shareholders include six individuals and 41 organizations, all resident in Russia. Shares of main stockholders do not exceed 20%.





## 2.3 Personnel and Social Policy

The Bank is a living organism that can immediately react to changing market situations in Russia and worldwide. This is why, in 2006, it underwent considerable reform of its management structure. As at the end of 2006, the Bank had 491 staff.

The Bank focuses on improving the quality of staff by providing career development, raising the quality of recruitment and choice of assignment. The average age of employees is 36 years. Over 60% of staff have a college degree, 24 employees have a second degree in Economics, seven employees hold academic degrees in technical science, physics and mathematics and teaching, and four employees have degrees in Economics. In 2006 several of the Bank's top managers, including the Chairman of the Management Board, obtained MBAs.

Fast assimilation of newly employed staff enables efficient use of their professional skills and the Bank provides the necessary conditions to make this possible.

Staff stability at the Bank is illustrated by the fact that 5% of staff have worked for the Bank for over ten years, 35% for five to ten years and 60% have up to five years service.

Assistance in professional growth of employees is an important part of the Bank's human resource policy. The Bank conducts ongoing monitoring of educational programs and events in the area of banking.

During 2006, employees attended seminars and courses to study new regulations and methods, technical tools and software, at the training centers of the International Moscow Finance and Banking School, Institute of Banking at the Association of Russian Banks, Association of Regional Banks of Russia (Association "Russia"), Institute of Stock Market and Management, SKRIN (System of complex disclosure of information and news), Training Center of Economics and Law, Net Academy, FCD Consult, "Profit" Training Center, "Marketing, Management, Engineering" Training Center, Institute of Computer Technologies, etc.

All managers of the Bank received training in Health and Safety at Work and in Fire Safety.

The Bank supports an extensive program of social support for staff covering such important aspects of each person's life as health, rest, the opportunity for additional education and professional growth.

The program grants every employee access to public health services under medical insurance plans. Partial compensation of costs for sporting activities at fitness centers and vacations at health resorts, corporate health events, such as football and bowling contests and picnics in the countryside help employees live a healthier life which, in turn, has a positive impact on overall Bank performance.

Our staff supported Orphanage No. 6, located in the vicinity of the Bank's Pyatnitskaya Street offices in Moscow.

Also Bank sponsored Eureka, the educational quiz program produced by Iskra Park of the Virtual Ideas Company.

Since 2002 CentroCredit Bank continued its long-running sponsorship of Moscow Zoo.

Chapter 3...

Open



- Customer Policy ▶
- Credit Policy ▶
- Operations in Financial Markets ▶
- International Activity ▶



# Relations with Clients and Partners

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## 3.1 Customer Policy

The customer policy of a modern, reliable and successful bank is based upon two fundamental principles: one being the promotion of client loyalty through the development of business and a partnership relationship, and the other the gaining of new clients.

CentroCredit Bank's customer policy is not based on "quantity at any price." Rather, customer policy is about development both of clients and of products developed especially for them. Each of these two approaches is the result of many years of professional work by the Bank's employees. It is the culmination of the Bank's experience of customer relations.

### Promotion of loyalty

Today in Russia, where the banking market has now been established, the promotion of customer loyalty is of prime importance to commercial banks. In a mature market, sales of secondary products are of more importance. Banks, promoting loyalty, gain new clients that are similar to the banks' existing customer profile. This is why promoting customer loyalty has become a matter of tough competition between the banks. When circumstances change, when marginal income decreases and interest rates on basic services even out under the pressure of competition, quality of customer service often becomes the only difference between credit organizations.

Understanding the importance of promoting customer loyalty and using it as a governing principle are not enough for achieving actual results. It is also necessary to show the Bank's care and special approach to clients. Every employee focuses on providing this feeling of 'care' and 'special approach.' This requires a high level of employee knowledge and experience.

The process of acquiring these skills starts during recruitment of new staff who must comply with certain requirements toward type and experience of work. Priority is given to candidates with several college degrees or an academic degree. Naturally, recruitment qualifications are high and so the search for such highly qualified specialists takes considerable time and effort. However, it is these specialists who create the right impression with clients of their Bank being a reliable and professional partner.

Employees continue to improve their professional skills by attending seminars and training courses, they are encouraged to study for a second diploma degree or an academic degree. People are the major asset of every contemporary company and every bank. Extremely low staff turnover in all departments of the Bank is proof of the Bank's success in the development and strengthening of this indispensable asset.

This is only part of the Bank's approach to customer loyalty and another key element is information technology. The Bank pays no less attention to this aspect of its business. Over past few years, the Bank has been using and constantly developing and improving its electronic banking customer relationship management system, or CRM system.

The CRM system provides permanent support for a client manager in the process of communicating with a client. In addition to the accumulation and analysis of statistical data, it enables the consideration of all personal and other aspects of a client that a client manager should know and remember. Familiarity of a client manager with a client's personal preferences is a great input into building up the client's feeling of wellbeing. Plans for the development of the CRM system assume its greater use in the Bank's reception areas and call-centers.

A third principle of no small importance, on which customer loyalty is based, is the ability to be flexible. This requires that products offered to a client, which allow the development of tailored plans most appropriate for a client, are themselves flexible. These plans and products must take into account sector specifics, the economic circumstances of a client and market trends. Many issues are considered in the course of developing products, many of which lay in the field of business consulting. A client's other financial relationships often take an active role in the development of products as they are close and sometimes have a better knowledge of a client's actual needs and business circumstances.

## CORPORATE CLIENTS

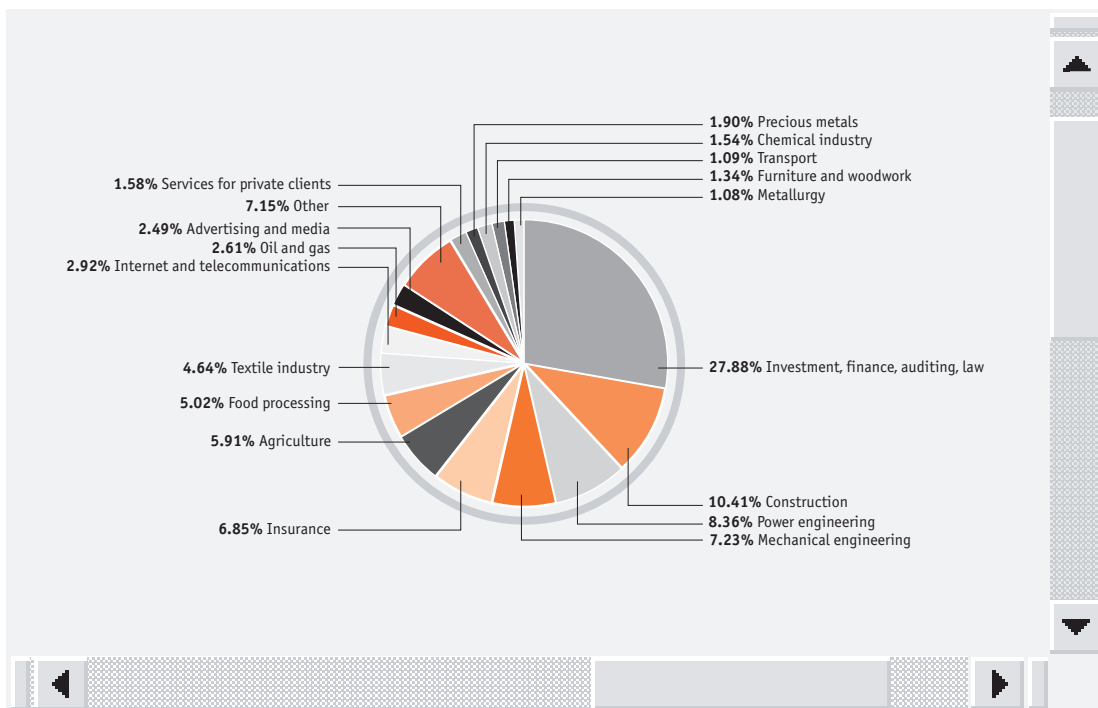
### Getting new clients

The Bank does not conduct a policy of aggressive advertising. Most clients are those who have made a conscious choice in favor of the Bank on the basis of open and available public information about the Bank, its services and products, as well as on the basis of recommendations of partners who are already clients and who enjoy the Bank's way of working and trust its reliability.

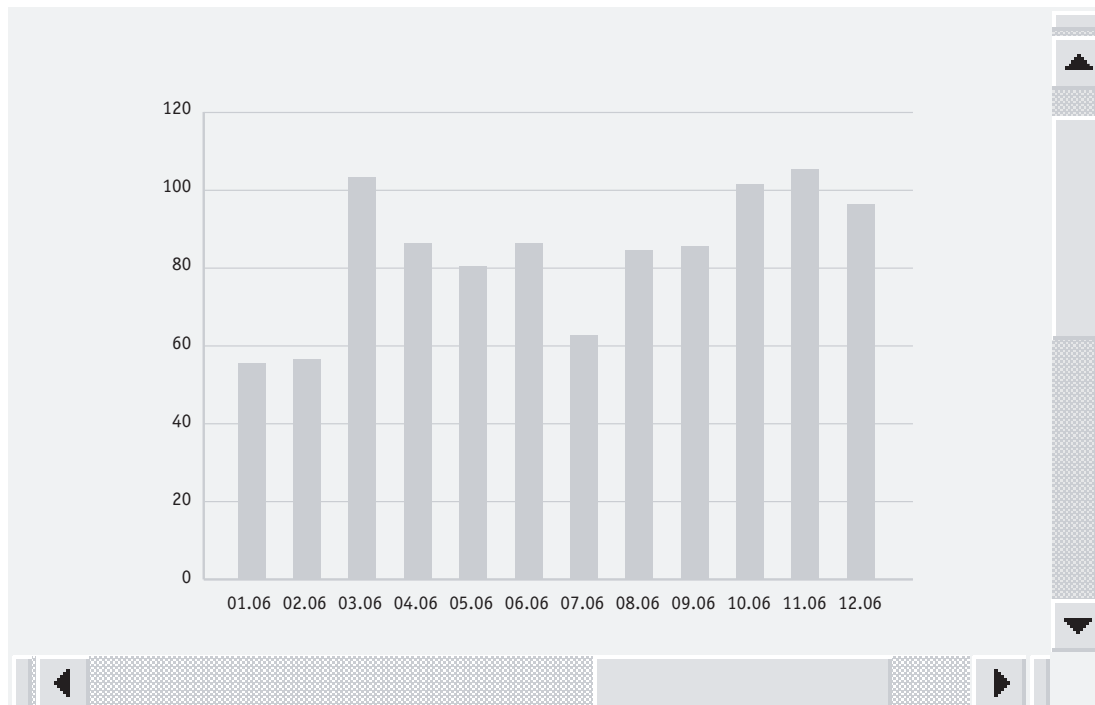
All this finally adds up to that meaningful word 'reputation.' The importance of reputation in the banking sector cannot be overstated. Undoubtedly, this is the invisible substance earned over the years that gets tested in crisis situations. The Bank successfully overcame the severe economic ups and downs of recent years without any damage to its reputation and, what is even more important, it managed to save its clients from the negative consequences of those upsets.

Positive 2006 figures for the signing of new corporate clients with good financial profiles were as expected. The value of corporate client accounts also grew, which is evidence of the quality of our clients.

CentroCredit Bank clients by industry (%)



### Number of new clients



### Classic banking products

Such terms as “classic”, or “standard”, banking products steadily become outdated. This is to be expected in a heavily competitive environment where banks constantly monitor competitors' products and respond by offering their own new products. The Russian banking sector has already passed the peak of development of new services and can now offer its clients the whole spectrum of banking products of world standard. CentroCredit Bank also watches for the slightest market changes and offers its clients the widest range of services.

The Bank's client-orientation is a key feature of provision of these services. The set of services offered is personally tailored for each client. Even such seemingly simple services as cash transactions and payments, the work of operation desks or collections of cash are personalized for a client. The list of products and services is very big, however, all of them are compatible one with another. The qualifications of Bank employees allow them to design the most suitable schemes that work for both client and the Bank.

### Internet Banking

In offering hi-tech services to clients, the Bank has grouped a number of products under the name Internet Banking. These include the IBank-2 System for corporate clients and CCB-Online introduced in 2004 for private clients.

While IBank-2 is the result of evolution and gradual improvement, CCB-Online is a real breakthrough giving clients access to many banking products at the same time. Now clients can remotely manage all of their accounts, cards, deposits, foreign currency transactions and funds transfers.

In 2006 both systems were further developed and autonomous modules incorporated. An autonomous module is where most of the system software is not downloaded from the internet but is saved on the client's computer. This system is convenient for regional clients whose internet access is unreliable and for clients and their representatives traveling to such regions. A persistent problem in the regions with underdeveloped internet access is low connection quality and speed. Introduction of these so-called 'fat clients' is yet another example of building client loyalty.

Dealings with the Bank cease to be associated with frequent visits to its offices, preparation of paper payment orders and the loss of time. The time when a client had to choose their bank based on convenient location has long gone. Internet banking has resolved this problem.

CentroCredit Bank keeps pace with progress by marrying new technological advances with financial processes, offering its clients a number of services to which other banks are only just starting to pay attention.

### **The Expert magazine, 25.03.2007**

**As of the end of 2006, CentroCredit Bank belongs in the top group of financial sustainability in the rating of large banks of Moscow and Moscow Oblast (with assets of RUR 8 to 30 billion).**

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## PRIVATE CLIENTS

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The brightest event of 2006 for individual clients was the introduction of premium products of the VISA Platinum international payment system. The extra services with this card include exclusive offers such as purchase protection, extended guarantee, "Platinum Club" special offers, medical and legal advice and support in Russia and abroad.

A special website, [www.visacemea.com/platinumcard](http://www.visacemea.com/platinumcard) supported by the VISA company, contains detailed information on global and special services including local offers from trade and service companies and special offers for VISA card holders. Services such as purchase protection includes compensation for theft and loss of goods that have been paid for by VISA Platinum card. Maximum coverage for any one item is US\$ 1,500. Maximum coverage for one claim (for example, if a suitcase containing several items is lost) is US\$ 3,000. Maximum compensation for VISA platinum cardholders in any one year is US\$ 20,000. Unconditional franchise is US\$ 100. In addition to the services offered by VISA, the Bank offers its own clients extra options unavailable to anyone else in Russia. The service package for CentroCredit Bank VISA Platinum cardholders includes:

- Personal manager and trustee
- Fixed-term deposit for five years that functions as a checking account with an elevated annual interest rate of 6%
- VISA Platinum and MasterCard Gold credit cards with a five year life
- Rental of a bank safety deposit box for five years
- A precious metals account
- Purchase of investment coins
- A personal Priority Pass card that gives access to VIP-lounges and first class lounges in international airports world-wide
- Additional VISA or MasterCard payment cards for family members with an option of setting daily, weekly, monthly, quarterly and annual limits of expenditure
- Special VISA Internet card for internet payments
- Emergency transfer of money in case of card loss to most cities in the world, up to US\$ 5,000 within 20 minutes, service available on weekdays from 9 am through to 6 pm
- Assistance in concluding contracts with lawyers
- Notary services
- Assistance in concluding property insurance contracts
- Travelers' medical insurance with coverage up to US\$ 100,000
- United Kingdom visa support when necessary
- Airport transfer in London

And, of course, the elite VISA Platinum card provides its owners with an automatic credit limit of RUR 300,000 and higher.

To provide additional service for its priority clients, the Bank installed multifunctional ATMs in business class apartment blocks. These ATMs are in fact banking mini-offices and allow the payment of communal services and mobile phones, exchange US\$ to RUR and Euros, transfer money to client card accounts with the Bank. Residents of the "Olympia", "The Artists Village", "Silver Boulevard", "Trianon", "Timiriazovsky" and "Constellation Capital-1" housing complexes in Moscow already appreciate the convenient service they enjoy using their own bank's multi-functional ATM right in their neighborhood.

Although in its work with individuals the Bank mainly aims at wealthier clients, it also offers some services that are popular among all types of clients. One of them is urgent money transfers without the need to open an account. Sales of this service grow regularly year after year. Money transfers in 2006 were equivalent to US\$ 23.66 million, a 61% increase

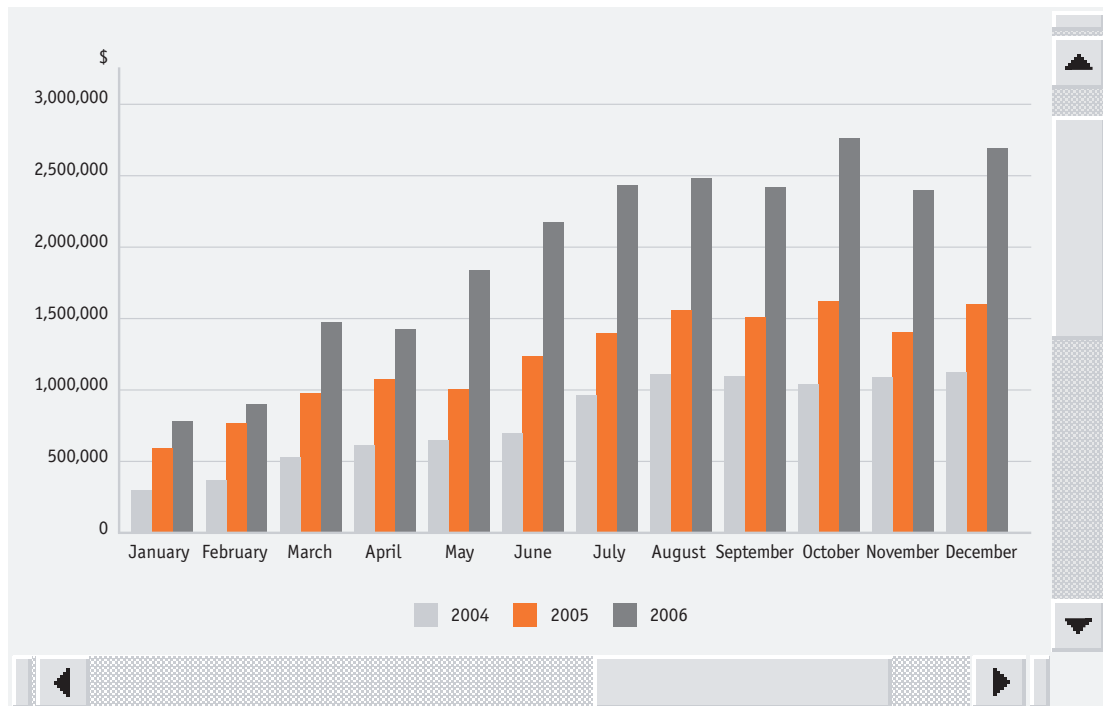


over 2005. The number of clients using this service in 2006 was 59,738 people (up 56% over 2005), or 167 people every day. These figures lead the Bank to believe there is further potential for this service.

Taking into account the small number of service counters providing urgent money transfers (it varied slightly through the year but averaged 15) and the fact that almost all of them are located in Moscow, the results were very successful.

The Bank forecasts a similar success for its first affinity project with VISA cards. The idea behind the project is that the Bank will issue its clients VISA Classic cards with two logos, one of the Bank itself and another one of Moscow Zoo. A certain percentage of each purchase made with the card will be transferred to the account of the Moscow Zoo. The Bank has for many years been the Zoo's main sponsor and this project aims to increase the provision of financial assistance to the Zoo.

Monthly statistics on fast transfers



## 3.2 Credit Policy

CentroCredit Bank's policy for managing its loan portfolio is based on the need to respond to market changes and, at the same time, comply with the Russian Central Bank's regulation and target ratios on profitability to risk based on the Bank's equity capital and borrowing limits.

In the area of lending, the Bank concentrated on improvement of the quality of credit security and control of the balance of income received from clients to the risks taken by the Bank. During the course of the year, the structure of the bank loan portfolio and other credit products was the subject of major change as insufficiently guaranteed transactions were eliminated in favor of better guaranteed ones as well as working closely with clients to increase profitability for the Bank. Key results of this revised credit policy were:

a) Increased share of:

- loans against the security of property and land;
- factoring transactions with regress and guarantee by the third party;
- leasing of rolling-stock and heavy construction equipment.

b) Refusal to continue lending to certain clients due to risks higher than those acceptable to the Bank in accordance with its rules.

The average maturity of a loan is about one year, so lending does not result in immediate financial returns. However, in most cases the Bank will consider lending as a basis for further cooperation with clients and increased commission income. Therefore, the stability of financial results of credit operations and especially of their risky component is fundamental for building up the returns from client servicing in general.

In 2006, the Bank concentrated on the development and improvement of products and services offered to corporate and individual clients.

The size of the loan portfolio increased by 27.8% or by RUR 1.3 billion reaching RUR 6.1 billion by the end of 2006. Corporate borrowers' loan debts increased by 23.7%, leasing operations doubled, debts on factoring operations grew by 13%. The share of loan debts in the structure of the Bank's liabilities was 36% at the end of the year.

Gross interest income from the Bank's loan portfolio in 2006 amounted to RUR 601 million.

Commission charged for the provision of services to corporate and individual clients in 2006 was RUR 203 million, about 10% of the Bank's total income.

**Kommersant, 05.04.2007**

**In the rating of 100 CIS banks, with maximum capitalization (assets exceeding \$100 million) according to 2006 financial results, CentroCredit Bank ranks 20th.**

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## LEASING

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CentroCredit Bank offers companies help with leasing operations. Leasing has become an increasingly popular method of large-scale investment in industry modernization and the acquisition of necessary equipment.

Leasing, as a form of investment financing, serves the lessee's strategic goals by making vital equipment available very quickly and with minimum costs.

Leasing has a number of advantages:

- leasing allows an enterprise to undertake, without diverting its own funds, modernization of its fixed assets and purchase of new hi-tech equipment along with tax advantages;
- leasing payments, like rental payments, can be included as cost for the purposes of taxation and deducted from profit, which reduces tax liability considerably;
- accelerated amortization of leased equipment helps reduce property tax by faster inclusion of payments into costs;
- market value of equipment on lease is much higher than its book value which is the transfer price of equipment into the lessee's ownership after expiration of the leasing term.

At the end of 2006, the Bank's leasing portfolio exceeded RUR 800 million.

Leasing contracts for railway rolling-stock, a fleet of carriages, and on automobile transport and construction equipment, forms the core of the Bank's leasing portfolio. Among the Bank's clients there are RZhD-Leasing, Gaszapchast, and Zheldorprommash and other specialized transport and construction companies.

Leasing of technology and production facilities are another important segment of the Bank's leasing services.

The Bank also offers leasing for project financing.

By the end of 2006, the Bank had put in place a large leasing project for delivery of a crusher station manufactured by Drobmash for a sand and aggregate plant. The value of this project exceeded RUR 90 million.

The Bank has introduced reimbursable leasing where an enterprise can receive finance at a discount (10%) with preferential terms as opposed to credit with traditional security provisions.

In the course of working out a schedule of leasing payments the Bank, in cooperation with a client, takes into account such factors as projected cash-flow and seasonal fluctuations of demand for a project's products or services.

The term of most leasing contracts is usually three years or longer, depending on what is being leased, its cost and amortization period, and the value of leasing contracts are normally RUR 5 million and higher. Leasing contracts are secured by an advance payment by the lessee of 10% or more of the price of the equipment and leasing payments are made monthly or quarterly.

Today, the Bank can provide leasing services acting directly as a lessor on its own behalf, performing the function of a financial agent. In the near future, the Bank plans to broaden the spectrum of leasing products by moving into the leasing of commercial property.

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## FACTORING

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Following the leasing boom, factoring is coming into its own.

Both services may well replace traditional bank credits, leasing while purchasing fixed assets and factoring while financing liquid capital. In addition, they are more accessible for an enterprise because they require neither credit history nor security.

Lack of assets to serve as security for a bank loan makes companies seek other forms of financing. In some cases, leasing and factoring may become an extra option in obtaining financial resources not requiring additional security: in leasing, the equipment itself serves as a security, while in factoring no security is required at all, because factoring is the transfer of debt. Here, solvency of a third party is more important than solvency of a company receiving finance.

While considering the provision of a factoring service, the Bank concentrates on the quality of a company's customers. Instead of evaluating client-related risks, as would be done for traditional lending, the Bank considers the risk of a failure to fulfill contract obligations by the client and its customers. This allows the client to receive much more financing in comparison with a traditional loan. If there are large and reliable companies on the list of customers, sales are stable and have good growth potential, then the Bank welcomes factoring clients.

At the same time factoring allows the Bank to expand its presence in the marketplace relying on the Bank's experience in the evaluation of financial risk. In case of a potential buyer asking for postponed payments, The Bank can conduct professional financial evaluation of the future debtor and make recommendations regarding forms of cooperation with a customer, assist in the preparation of legal delivery contracts and, in the case of factoring without regress, would cover all payment risks.

Factoring has other advantages. It does not rely on a client becoming the bank's client for cash transactions and payment services. This is not a fixed-term type of financing, the amount of actual financing is unlimited and can increase infinitely along with growth of the client's sales; application for this type of financing can be approved much more quickly than for a traditional bank loan.

Another advantage of factoring over traditional lending is that it is a complex product that includes financing, debt management and risk insurance. Using factoring, a company can turn its accounts receivable into liquidity in its current account, solving lack of liquidity problems for companies that give their customers longer payment terms, or use these resources for the company's development.

According to the Ministry of Economic Development and Trade factoring services now make up 3% of GDP.

CentroCredit Bank, an active participant in this segment of the financial market since 2001, intends to increase factoring finance with its clients.

## 3.3 Operations in Financial Markets

### **BROKERAGE SERVICES**

Brokerage services is one of the bank's priorities. In 2006, CentroCredit Bank focused its efforts in further raising the quality of brokerage service and broadening the spectrum of products offered to clients in this area.

The Bank continues to offer the full range of brokerage operations with different financial instruments on leading trading spots.

During 2006, the number of clients receiving brokerage services from the Bank increased by almost 28%, while the value of client transactions amounted to RUR 215.2 billion. The speed of growth in numbers of clients is proof of increased trust in the Bank and of the high professionalism of the Bank's employees whose unique knowledge and experience contribute to clients' successes on the stock market.

The Bank conducts annual studies of the tariffs charged by Russian brokers. In 2006, this study focused on banks who are the leading Russian participants in the stock market, the very banks that are CentroCredit Bank's main competitors in this market.

The study resulted in the development and approval of a new tariff plan, "United". Its main feature is that for the purposes of tariff calculation, the daily turnover of share and bond operations (except in governmental bonds) at all trading spots is calculated. Also, the "United" tariff plan means a reduction in the commission fee charged by the Bank.

In mid-2006, the Bank initiated marginal lending. Marginal lending allows clients to use borrowed assets (liquidity and securities) for trading on the stock market. The interest rate is constantly adjusted to the current market rate for marginal lending and at the end of 2006 it was 16% for the year. Credit to be used within the limit of one trading session is free. This service meets an increasing demand. The number of Bank clients using marginal lending grew almost 250% in 2006 while the value of marginal lending transactions exceeded RUR 5.6 billion.

CentroCredit Bank offers its clients use of the TRANSAQ internet-trading service. It is a modern software system for providing clients with efficient stock market services using progressive methods of credit in support of trading operations with liquid assets and securities. High speed and reliability, simplicity and convenience of the system for both broker and client are the great advantages of the system. In 2006, almost 30% of the Bank's brokerage clients used the TRANSAQ system.

In its continuous efforts to provide the most comfortable environment for its clients, CentroCredit Bank offers clients use of its dealing hall located near Novokuznetskaya metro station. In the dealing hall, fully equipped with individual workstations, clients have access to the full range of services necessary for the analysis of investment situations and trading on the stock market.

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## CUSTOMER ASSET MANAGEMENT

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In 2006, CentroCredit Bank continued to develop its Customer Asset Management services. Last year, the overall value of assets managed by the Bank almost doubled. The number of clients using related products and services grew by over 150%.

In 2006, the Bank registered with the Russian Central Bank and launched a new **Bank-Managed Mutual Fund (BMMF)**, “Index”. By the end of 2006 the Bank was managing five registered BMMF funds. Three of them, “Absolute”, “Conservative” and “Maximum” are actively managed funds, while BMMF “Index” and “Golden” are passively managed funds.

The portfolios of actively managed BMMF funds rely on three basic strategies:

- aggressive, aiming for maximum profit through investment in more risky stocks, such as shares of Russian issuers;
- moderate, aiming for the best balance of reliable fixed income bonds with more risky securities within the structure of portfolio;
- conservative, aiming for capital growth using fixed income securities, such as bonds.

The portfolios of the passively managed BMMF funds rely on the principle “buy and hold”. The BMMF “Index” portfolio consists of the shares of Russian issuers included in the MICEX index in such a way that the proportion of shares of each type correspond with their proportion within stock exchange index. Assets of BMMF “Golden” consist of precious metals (gold or silver) and derivative financial products based on assets in precious metals. Management of this fund aims to achieve a balanced portfolio where the profitability of investments directly into precious metals does not exceed profitability of investments in this fund.

The BMMF funds offered by the Bank allow clients to balance their investment by combining maximum liquidity with good profitability.

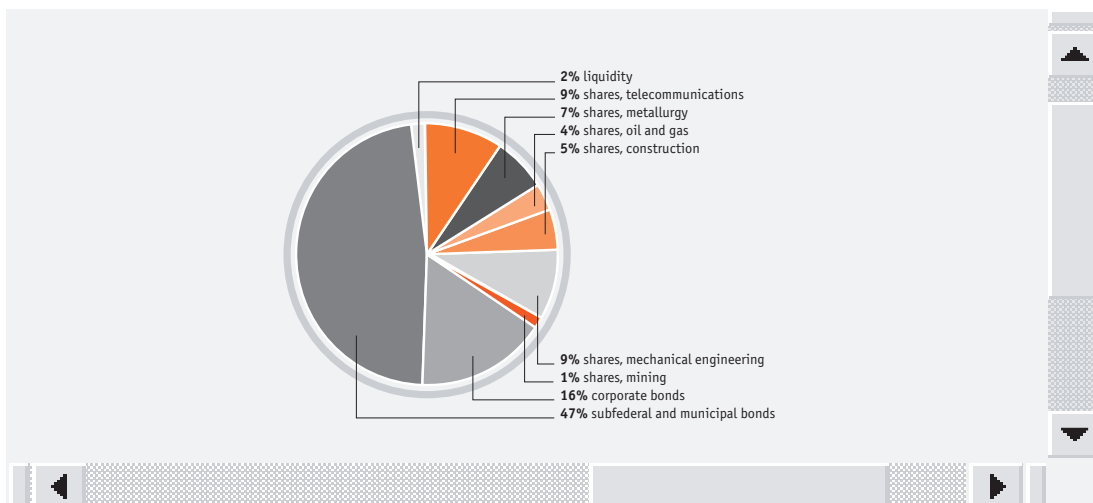
**The Profile, 26.02.2007**

**In Moscow, one can trade in foreign currencies with only in a few banks. Deposits in British Pounds and/or Swiss Francs are at present available from PRB, International Bank of Trading Cooperation and CentroCredit Bank.**

### BMMF "ABSOLUTE"

This portfolio consists of shares and bonds in Russian companies. Its main priority is to earn income while taking moderate market risks.

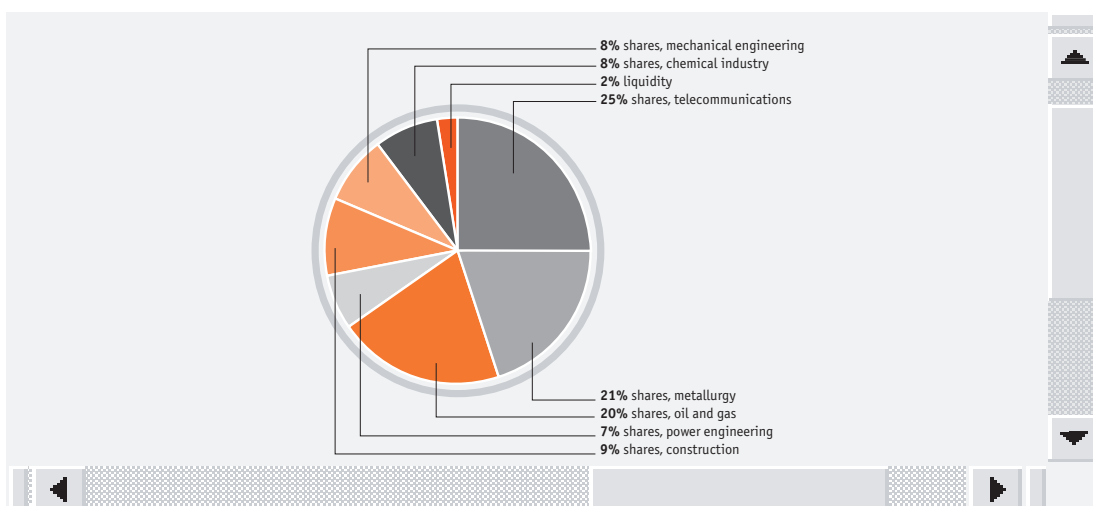
At the end of 2006, the assets of this BMMF fund were allocated as follows:



### BMMF "MAXIMUM"

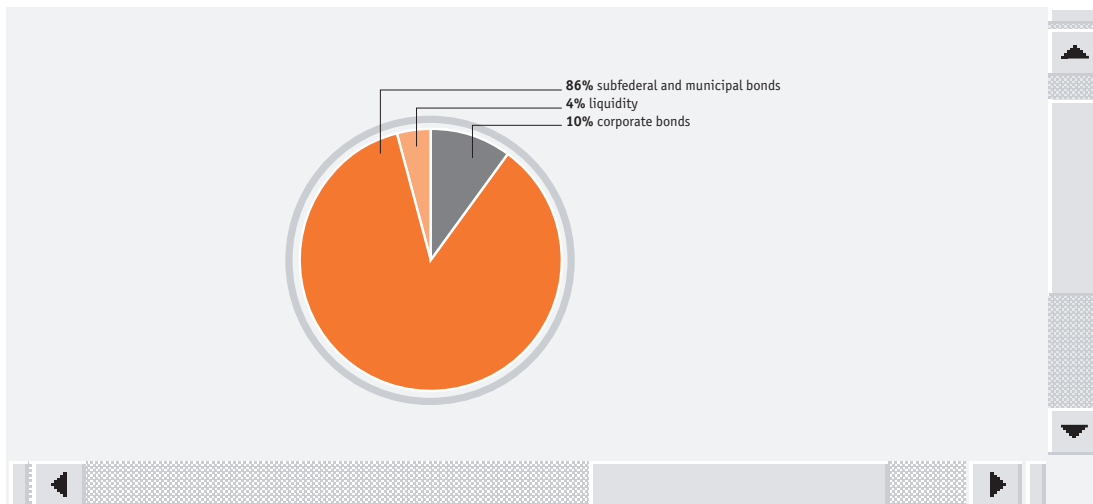
This portfolio consists of shares of Russian companies, mainly of the second and third tier, having a good potential for growth. Its main priority is achieving maximum profit.

At the end of 2006, assets of this BMMF were allocated as follows:



### BMMF "CONSERVATIVE"

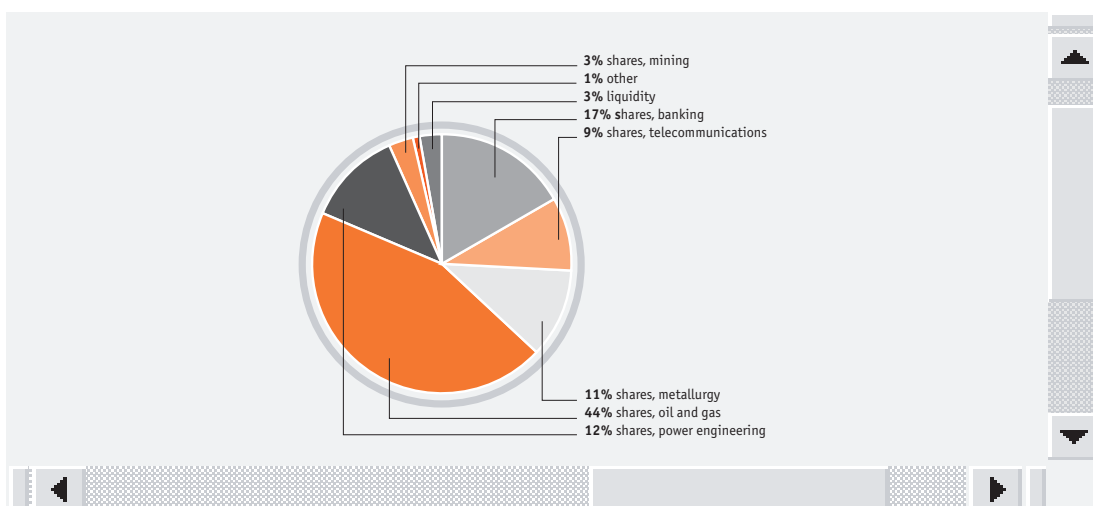
This portfolio consists of bonds of Russian issuers. Main priority is earning income while minimizing market risks. As of the end 2006, assets of this BMMF were allocated as follows:



### BMMF "INDEX"

This portfolio consists of the shares of Russian issuers that are included in the MICEX index. The main priority is to follow the dynamics of the Russian stock market as closely as possible.

At the end of 2006, assets of this BMMF were allocated as follows:

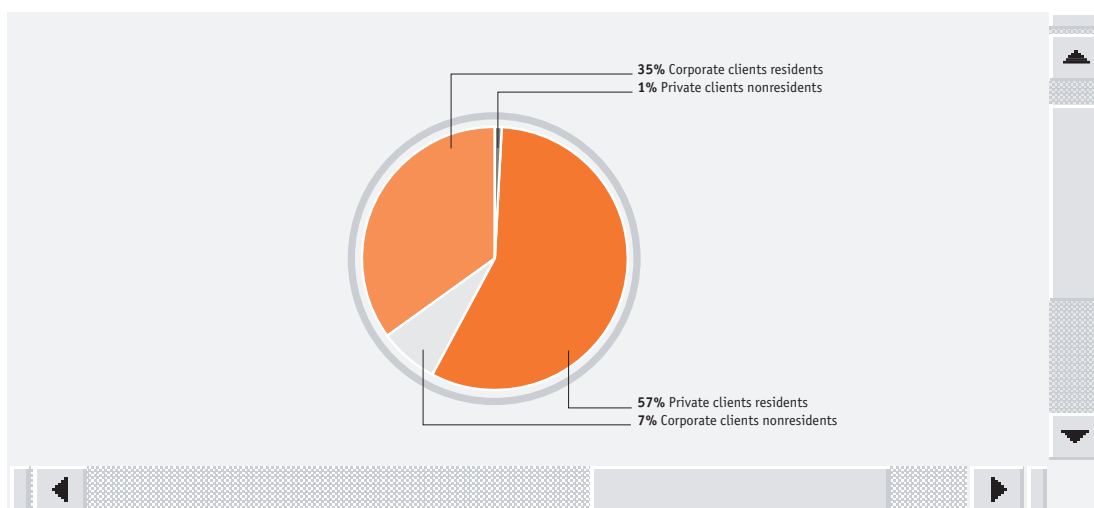




## DEPOSITARY SERVICES

CentroCredit Bank's Depositary offers a whole range of custodian services under license 177-06412-000100 issued on September 26, 2003. During 2006, the number of opened DEPO accounts increased by 27%.

### Structure of the Depositary clients' base



Twelve new nominal holding accounts with higher-level depositaries and registers were opened. By the end of 2006, the Depositary held in its DEPO accounts 21,750,791,112 securities by 571 issuers.

CentroCredit Bank Depositary activities are insured by the Soglasie LLC Insurance Company.

## PROMISSORY NOTES TRANSACTIONS

Working in the promissory notes market, CentroCredit Bank offers the following services:

- for promissory note makers — allocation and underwriting of promissory notes, market-making in the stock market, services in obtaining finance through issuing promissory notes;

### Finance, 21.01.2007

**In the meantime, CentroCredit Bank holds 19th position in the rating of number of internet-banking systems for individual clients.**

- for investors — transactions in buying and selling promissory notes in off-exchange markets and REPO transactions.

Both issuers (promissory note makers) and investors are provided with a full range of depository services that ensure the safety of documentary securities (depository services, domiciliation).

In 2006, the Bank's turnover in promissory notes transactions exceeded RUR 1 billion. Number of issuers (promissory note makers) and correspondents of the Bank increased substantially.

## PRECIOUS METAL OPERATIONS

CentroCredit Bank has had a license to trade in precious metals since 2001. The Bank actively participates in this market. The Bank trades a whole range of deals in precious metals in the Russian and international markets, including:

- opening and maintenance of impersonal metal accounts;
- purchase and sale of precious metals through unallocated metal accounts;
- purchase of precious metals from mining and processing enterprises;
- advances to mining enterprises;
- sale of precious metals to individuals;
- loans in precious metals;
- export of precious metals;
- purchase and sale of precious and memorable coins.

At the present time, in the domestic market, the Bank is actively developing lending to individual clients for the purchase of precious metals against the security of the purchase, introducing brokerage services and taking part in government-owned enterprises' tenders for the allocation of contracts containing precious metals.

### CentroCredit Bank turnover on the precious metals market in 2006

Denomination	Au (kg)	Ag (kg)	Pt (kg)	Pd (kg)	Coins (Pcs.)
Purchase and sale of precious metals through unallocated metal accounts	37,000	90,000			
Purchase and sale on interbank market	39,500	121,000	480	260	
Purchase from mining enterprises	700				
Purchase from processing enterprises	24	4,800	15	25	
Sales to the individuals	6		0.5		
Loan agreements	570				
Export of precious metals	700				
Purchase and sale of precious and memorable coins					2,500

## Year-Book “Individual Investor's Guide”, 2007

**CentroCredit Bank plans to provide its BMMF (bank-managed mutual fund) clients the opportunity to use a VISA credit card, which will allow investors to make current expenditures without withdrawals from the fund.**

## 3.4 International Activity

The broad network of correspondent banks, membership of MICEX, as well as the use of SWIFT and telex communication technology, allowed CentroCredit Bank to provide its clients with foreign exchange services with minimum bank charges and in the quickest possible time.

Implementation of a wide range of export-import operations, and the ability to accelerate international payments, has made the Bank especially convenient for exporting client companies.

Over the past year, the Bank has been increasing the value of its non-trading financing. In particular, the Bank provided support for its corporate clients' international economic activities.

Long-run successful co-operation with large Western financial institutions contributed to the high reputation of the Bank. The principal international banks granted CentroCredit Bank credit lines on letters of credit resulting in more profitable international transactions for its clients.

CentroCredit Bank achieved good results in trading finance transactions on the Russian market. The Bank uses internationally accepted instruments that are safe and convenient for clients and run low commercial and financial risks when used for international export-import transactions.

The spectrum of trade finance operations provided by the bank includes:

- issue, advice and confirmation of documentary export and import letters of credit, getting confirmation of letters of credit from large foreign banks;
- issue of banking guarantees and advice including tender guarantees, fulfillment guarantees, payment guarantees, stand-by letters of credit and provision of clients' operations with the guarantees of the largest banks of the world;
- import/export collection of payment.

In 2006, the Bank's trade financing operations amounted to:

- export letters of credit — US\$ 2.5 million and RUR 72 million;
- import letters of credit — US\$ 15 million;
- foreign trade guarantees — EUR 1.9 million.

In the area of documentary trade financing, CentroCredit Bank has established relations with leading international banks all over the world.

At a client's request, the Bank can provide transactions through any foreign bank worldwide using its custom correspondent network as well as direct relations with foreign banks. Contacts established with Russian branch offices of international financial institutions contributed extensively to the development of the Bank's international activities.

Chapter 4...

Open



- ◀ Summarized Consolidated Financial Statements for 2006 (IAS)



# Financial Statements

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## 4.1

## Summarized Consolidated Financial Statements for 2006 (IAS)

Joint Stock Commercial Bank  
"CentroCredit"  
Independent Auditors' Report  
Summarized Consolidated Financial Statements  
For the Year Ended 31 December 2006

# Deloitte.

### INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Joint Stock Commercial Bank "CentroCredit":

#### Report on the Financial Statements

We have audited the consolidated financial statements of Joint Stock Commercial Bank "CentroCredit" and its subsidiaries (the "Group") as at 31 December 2006 and for the year then ended, from which the accompanying summarized consolidated financial statements were derived, in accordance with International Standards on Auditing. In our report dated 9 June 2007 we have expressed an unqualified opinion on the consolidated financial statements from which the summarized consolidated financial statements were derived.

#### Opinion

In our opinion, the accompanying summarized consolidated financial statements are consistent, in all material respects, with the consolidated financial statements from which they were derived.

For a better understanding of the Group's financial position and the results of its operations for the period and of the scope of our audit, the summarized consolidated financial statements should be read in conjunction with the consolidated financial statements from which the summarized consolidated financial statements were derived and our audit opinion thereon.



9 June 2007  
Moscow

**JSCB "CENTROCREDIT"**  
**SUMMARIZED CONSOLIDATED FINANCIAL STATEMENTS**  
**CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**  
**(in Russian Rubles and in thousands)**

	Year ended 31 December 2006 RUR'000	Year ended 31 December 2005 (restated) RUR'000
Interest income	1,509,838	1,314,261
Interest expense	(426,871)	(396,173)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT		
LOSSES ON INTEREST BEARING ASSETS	1,082,967	918,088
Provision for impairment losses on interest bearing assets	(276,995)	(770,467)
NET INTEREST INCOME	805,972	147,621
Net gain on financial assets at fair value through profit or loss	405,977	1,665,484
Net gain on investments available-for-sale	331,965	203,319
Net loss on foreign exchange operations	(237,673)	(8,697)
Net gain on operations with precious metals	250,868	108,731
Fee and commission income	222,782	231,064
Fee and commission expense	(43,444)	(39,129)
Dividends received	38,722	30,374
Other income	65,344	67,097
Gain on disposal of subsidiaries	-	51,944
NET NON-INTEREST INCOME	1,034,541	2,310,187
OPERATING INCOME	1,840,513	2,457,808
OPERATING EXPENSES	(657,498)	(530,971)
OPERATING PROFIT	1,183,015	1,926,837
Provision of investment available-for-sale	(5,029)	-
(Provision)/recovery of other provision for losses on other transactions	(23,303)	62,449
PROFIT BEFORE INCOME TAX	1,154,683	1,989,286
Income tax expense	(250,387)	(428,010)
NET PROFIT	904,096	1,561,276
Attributable to:		
Equity holders of the parent	920,248	1,469,141
Minority interest	(16,152)	92,135

**On behalf of the Board:**

**Chairman**

**A. Tarasov**

9 June 2007 Moscow

**Chief Accountant**

**L. Zimina**

9 June 2007 Moscow

**JSCB "CENTROCREDIT"**  
**SUMMARIZED CONSOLIDATED FINANCIAL STATEMENTS**  
**CONSOLIDATED BALANCE SHEET**  
**AS AT 31 DECEMBER 2006**  
**(in Russian Rubles and in thousands)**

	31 December 2006 RUR'000	31 December 2005 (restated) RUR'000
<b>ASSETS:</b>		
Cash and balances with the Central Bank of the Russian Federation	1,410,748	1,557,989
Precious metals	37,891	18,782
Financial assets at fair value through profit or loss	7,784,800	10,819,314
Due from banks and financial institutions	4,454,123	4,125,480
Loans to customers	4,721,752	3,879,743
Investments available-for-sale	746,820	1,123,842
Property and equipment	162,772	168,345
Current income tax assets	-	45,799
Other assets	64,241	70,656
<b>TOTAL ASSETS</b>	<b>19,383,147</b>	<b>21,809,950</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES:</b>		
Due to banks and financial institutions	3,951,893	6,981,756
Financial liabilities at fair value through profit or loss	466,374	1,480,820
Customer accounts	4,588,309	5,537,793
Debt securities issued	3,354,519	1,352,550
Other provisions	35,626	16,527
Deferred income tax liabilities	238,553	303,186
Current income tax liabilities	13,087	2,764
Other liabilities	53,606	56,182
	12,701,967	15,731,578
Subordinated debt	-	222,000
<b>Total liabilities</b>	<b>12,701,967</b>	<b>15,953,578</b>
<b>CAPITAL:</b>		
Share capital	3,228,241	3,228,241
Additional paid-in capital	255,762	-
Fair value revaluation reserve on investments available-for-sale	202,130	332,536
Retained earnings	2,995,047	2,203,440
	6,681,180	5,764,217
Share of the minority shareholders	-	92,155
<b>Total capital</b>	<b>6,681,180</b>	<b>5,856,372</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>19,383,147</b>	<b>21,809,950</b>

**On behalf of the Board:**

**Chairman**

**A. Tarasov**

9 June 2007 Moscow

**Chief Accountant**

**L. Zimina**

9 June 2007 Moscow



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## CONTACT INFORMATION

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