
CONTENTS

Statement of the Chairman of the Board of Directors	2
Letter to Stockholders and Clients from the Chairman of the Management Board	3
General Information about CentroCredit Bank	4

Results & Perspectives	
Economic Situation in Russia and the Development of the Banking Sector of the Russian Federation in 2002	7
Results of CentroCredit Bank Performance in 2002	11
Promising Developments for the Bank in 2003	20

Bank Management System	
Management Principles	23
Organizational Structure and Personnel Policy	24

Customer Relations Policy	
Customer Service Policy	29
<i>Corporate Clients Services</i>	32
<i>Servicing the Individuals</i>	33
Credit Policy	34
<i>Leasing</i>	36
<i>Factoring</i>	38
Financial Markets Activities	39
Correspondent Relations and International Settlements	41
Precious Metals Operations	42
Corporate Finance Services	43
International Business	45
Information Technologies	45

Financial Reports	
Consolidated Financial Statements 2002	50
Financial Statements 2002 (Russian accounting principles)	54

Contact Information for CentroCredit Bank	58
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Statement of the Chairman of the Board of Directors

Ladies and Gentlemen,

You have before you the annual report of the CentroCredit Bank for the year 2002. 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 spectrum 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 all of us 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*



Letter to Stockholders and Clients from the Chairman of the Management Board

Ladies and Gentlemen,

Speaking for the Management Board of CentroCredit Bank, please allow me to present you the annual report of the Bank for the year 2002.

The bank succeeded in realizing the plans for 2002 in its main business areas. The results of last year clearly reflect our development trends.

During the reporting period the Bank was present in the list of the most profitable credit institutions.

Growth of shareholder equity by more than 30 percent and of net assets by 70 percent allowed the bank to be counted among the top 40 Russian banks.

It is important to note that we were able to achieve these extraordinary economic results primarily through intensive methods, without significant increases in fixed assets or headcount.

Competition in financial markets, and especially in the banking sector, made the Bank actively seek out new possibilities and paths for development.

Confirmation of the success of this strategy in 2002 is evidenced in the following:

- The Bank's Stockholders General Meeting for the first time since the founding of the Bank approved a dividend payment for the previous year;
- The Bank started on a series of significant import-export projects;

- The Bank's new branch offices were opened and commenced operations;

- The Bank's technological infrastructure is ready to support a deep expansion into the regions outside Moscow on the basis of the electronic payment system "Bank-Client";

- The Bank is conducting successful work on a number of large investment projects in the area of high technology;

- The Bank has occupied a firm position in the precious metals market;

- The Bank has advanced to second place on the market of factoring operations by monthly volume;

- The Bank's recent membership in the VISA payment system allowed for the realization of plans for complete client service and for the introduction of the most convenient form of credit for individual customers.

These achievements became possible thanks to our common efforts.

Allow me to express to you my sincere gratitude for your cooperation, trust, and support.

*Andrey Tarasov,
Chairman of the Management Board
of CentroCredit Bank*

General Information about CentroCredit Bank

Joint Stock Commercial CentroCredit Bank was founded in 1989.

The Bank has conducted its banking operations since 1991 under the General License number 121 issued by the Central Bank of the Russian Federation.

In December of 2000 CentroCredit Bank acquired the right to conduct operations with precious metals. In January of 2001, the State Customs Committee of the Russian Federation included CentroCredit bank in the registry of organizations authorized to act as guarantors to customs offices.

CentroCredit Bank has established correspondent relations with foreign banks, including 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 and many others.

In November of 2001 CentroCredit Bank received the right to conduct futures and options transactions in stock market trading on the territory of the Russian Federation.

CentroCredit Bank is also a professional participant in the securities market, and conducts brokerage, dealership and depository activity, as well as trust management for securities.

According to the data of the Federal Commission for the Securities Market (FCSM) of the Russian Federation, CentroCredit Bank is among the top twenty leading participants of the Russian securities market and in December of 2002 CentroCredit Bank took first place in turnover in the securities market section of the Moscow Interbank Currency Exchange.

CentroCredit Bank is a member of the Association of Russian Banks, the National Securities Market Association, a participant in the Russian Trading System (RTS), the Moscow Stock Exchange (MSE), the Saint-Petersburg Stock Exchange, a stockholder and member of the securities and the derivatives trading sections of the Moscow Interbank Currency Exchange (MICEX).

CentroCredit Bank offers a full range of transactional and investment banking services and is able to act as financial consultants and trading intermediaries for its clients.

In 2002–2001 the Kabardino-Balkarian branch of CentroCredit Bank was opened in the city of Nalchik. In addition, the Bank has a branch in Vologda and a representative office in London.

In 2000–2001 CentroCredit Bank attracted new strategic shareholders. Following an increase in the chartered capital of the company, telecommunication companies, large construction companies and trading companies became shareholders.

The change in the structure of ownership led to changes in the Board of Directors: Pavel Kosolobov (ZAO "Mezhregionalnyi TranzitTelekom") was elected as the new Chairman of the Board of Directors.

CentroCredit Bank is now a commercial bank oriented to customer needs and is actively developing this strategy. The Bank places an emphasis on investment banking and thus great attention is paid to widening the spectrum of services offered, and to the creation of the modern infrastructure necessary for the successful conduct of investment business.

The equity capital of the bank grew almost 40 per cent during the course of 2002 and is now approximately 1.7 billion rubles, which earns CentroCredit Bank a place in the list of the largest Russian banks as measured by equity capital (49th place as of December 31, 2002 according to the rating of the journal "Profile" No. 10 of 10.03.03). By net assets CentroCredit takes 45th place. For 2002 net assets increased almost 1.7 times from 5.269 to 8.753 billion rubles. The retained earnings of CentroCredit Bank at the end of 2002 were 579 million rubles.

CentroCredit Bank prepares its financial reports according to both Russian and International Accounting Standards. The auditor of CentroCredit Bank is KPMG, which is one of the world's leading auditing companies.



- Economic Situation in Russia and the Development of the Banking Sector of the Russian Federation in 2002
- Results of CentroCredit Bank Performance in 2002
- Promising Developments for the Bank in 2003

Economic Situation in Russia and the Development of the Banking Sector of the Russian Federation in 2002

The Economic Situation in Russia

In 2002 the progressive development of the economy of Russia continued. Against the background of the poor performance of the main world economies, characterized by recessions and stagnation, the corresponding macroeconomic indicators for Russia look far more favorable. Financial stability was maintained, secured by achieving a double surplus: both in the budget of the government and in the balance of payments. The inflation rate lowered, though the growth in consumer prices in these years somewhat exceeded initial forecasts. The situation in the foreign currency markets remained stable. Governmental debt, both internal and external, was serviced on schedule with very limited new borrowing from the internal market. The growth of hard currency and precious metals reserves continued, and the outflow of capital from the country decreased.

The trends of the main indicators are presented in Table 1.

THE NET ASSETS OF CENTROCREDIT BANK
INCREASED ALMOST 1.7 TIMES
FROM 5.269 TO
8.753
BILLION RUBLES



**Ilya Yu.
KORBASHOV**

Executive Director,
Chief Treasurer

Table 1 Dynamics of the Basic Key Indicators of the Russian Economy

KEY INDICATORS	1999	2000	2001	2002
Nominal GDP (billions of rubles)	4,766.8	7,302.2	9,040.8	10,929.5
Real GDP (annual growth, per cent)	5.7	9.0	5.0	4.3
Industrial production (annual growth, per cent)	11.6	12.0	4.9	3.7
Fixed Investments (annual growth, per cent)	3.5	17.3	8.3	2.5
Producer's Price Index (annual growth, per cent, at year end)	67.4	31.6	10.7	17.5
Inflation (annual growth, per cent, at year end)	36.5	20.2	18.6	15.1
TRADE				
Total Exports (\$ bln.)	75.6	105.0	101.6	107.2
Total Imports (\$ bln.)	39.5	44.9	53.8	61.0
Trade Balance (\$ bln.)	36.0	60.2	47.9	46.2
FEDERAL BUDGET				
Revenue (RUR bln.)	608.0	1,127.6	1,590.7	2,198.5
Revenue (% GDP)	12.8	15.4	17.6	20.2
Expenditures (RUR bln.)	664.7	954.1	1,325.7	2,042.2
Expenditures (% GDP)	13.9	13.1	14.7	18.8
Primary deficit (-)/surplus (+), (% GDP)	2.2	4.7	5.5	3.5
Overall deficit (-)/surplus (+), (% GDP)	-1.2	2.4	2.9	1.4
MONETARY INDICATORS				
Money Supply (narrow, RUR bln. at year end)	324.3	482.7	708.5	940.3
Precious Metals and Foreign Exchange Reserves (\$ bln., at year end)	12.5	28.0	36.6	47.8
M0 (RUR bln., at year end)	266.6	419.3	584.3	763.3
Growth of M0 (annual growth, per cent)	42.0	57.3	39.4	30.63
M2 (RUR bln., at year end)	704.7	1,144.3	1,602.6	2,119.6
Growth of M2 (annual growth, per cent)	57.2	62.4	40.1	32.26
Official rate of exchange of the ruble to the \$ (at year end)	27.00	28.16	30.14	31.78
Refinancing rate of the Central Bank (per cent, at year end)	24.62	25	25	21

The growth of economic and financial indicators over the past years, the improving ability of the country to meet external debt obligations, the realization of tax, land and pension reform, have all led to raising of Russia's rating for investment attractiveness by the leading international agencies. In December of 2002 Standard and Poor's raised the long-term sovereign rating of Russia by one notch (from the level of "BB-" to "BB"). The long-term sovereign rating for obligations in local currency was raised two notches (from BB-" to "BB+"). The outlook for the ratings remained "stable". On the 17th of December 2002, Moody's raised the foreign currency rating of Russia and the rating of its Eurobonds from "Ba 3" to "Ba 2". The outlook for the ratings remained "stable".

Notwithstanding the maintenance of positive tendencies in the economy in 2002, the rate of economic growth slowed compared with 2001. At the same time, there was a transition from the model of internally-oriented growth to the model of export-

oriented growth with reliance on raw materials export. This depended on exhaustion of the growth factors, which had arisen after the crisis of 1998, and by high global oil prices in the second half of 2002, supported by the threat of the development of military activity in Iraq by the USA. Exports of oil rose by 19% and exports of gas by 3%.

The outstanding characteristic of 2002 was a change in the proportions between sectors of the economy, which was caused by more rapid rates of growth of services in comparison to the production of goods. According to the preliminary data published by Ministry of Economic Development and Trade for 2002, the growth of industries producing services was 5.4% against 3.5% in the previous year. A dominant influence on the trends in the services market was the intense growth of the volume of communications services and the turnover of retail trade. The index of turnover of retail trade in 2002 was 131.6% of the level of 1999, with a growth of GDP of 19%, and the volume of

communications services for this period almost doubled. In industry in 2002 the biggest growth in comparison to the previous year was in the following sectors: fuel (107%), glass and porcelain (6.8%), food (106%), non-ferrous metals (106%). Among the electrical utilities production decreased 0.7%, in light industry – 3.4%, in microbiological industries – 8.8%, in flour and feed-grain – 7.1%, in medicine by 6.4%.

During 2000–2001, a stable trend of growth of investments in fixed assets exceeding the rates of growth of GDP could be observed. This trend was brought about by the expansion of internal demand due to the increase of equity and credit funds for investment purposes, and by a slowing of the rates of growth of prices for producers in industrial construction. In 2002 the situation changed – investment demand yielded the leading position to consumer demand by rates of growth. As a result, the situation was restored wherein the rate of GDP growth exceeded the growth rates of investment and industrial production of the fundamental sectors of the economy. The volume of investment in fixed assets from all of sources of financing exceeds the level of 2001 by 2.6% while the growth of GDP was 4.2%.

Inflation in consumer markets in 2002 decreased in comparison with the preceding year and was 15.1%, exceeding the budget target of 12–14%. Prices of industrial goods in 2000 grew 17.9%, against 17.1% in 2001, and in 2002 the rate of price increases lowered to 11% per year. In the market of non-food goods, prices in 2000 increased by 18.5%, in 2001 the rate of price growth lowered to 12.7%, and in 2002 – to 10.9%. The component of public services price growth gradually increased as a portion of inflation – from 22% in 2000 to 39% in 2002. The contribution of increases of the housing and utilities sector to inflation was 10% in 2000 and 24.5% in 2002. The increase in prices for the production of the natural monopolies in 2001 exceeded 22% of the general growth of consumer prices (4 percentage points of 18,6), in 2002 – 28%–30% of the total growth of consumer prices (4.2–4.5 percentage points of 15.1).

The real disposable income of Russians in 2002, according to the estimates of the State Statistics Committee, increased above the rate of 2001 by 8.8%, and real salaries grew by 16.6%. The nominal

rate of salaries paid (without adjustment for inflation) increased by 35% and was 4,426 rubles.

According to preliminary data, the average annual number of jobless (as calculated by ILO methods) was 5.4 million (6.4 million in 2001, 7.5 million in 2000). The net drop in the number of unemployed occurred due to an increase in employment in the state sector and a decrease in the private sector.

The Banking Sector

In 2002 the development of the banking sector continued. In a majority of areas it managed to exceed pre-crisis levels. The trends of the most important structural indicators of the balance sheet of the sector and its income/expenses are presented in tables 2 and 3.

The tasks for the development of the banking sector and measures for their completion are defined in the “Strategy for the Development of the Banking Sector of the Russian Federation” approved at the end of 2001 by the Government of the Russian Federation and the Bank of Russia. The modernization of the banking sector requires the completion of the following tasks: the creation of a system of deposit insurance (a draft law was prepared at the end of 2002); the completion of preparations for a transition of credit organizations to international accounting and financial reporting standards from 1 January 2004; the preparation and approval of a package of legal changes aimed at creating more attractive conditions for banking activity; optimization of regulatory and oversight procedures of the Bank of Russia. Within the framework of practical items for creating a deposit insurance system, the Bank of Russia plans to realize a series of measures which will allow for minimizing the risks of the insurance system, first and foremost by blocking access of unreliable banks to the system. A package of items for introducing international standards into the accounting and reporting systems of credit organizations must also be completed.

In 2003 the requirements of Central Bank for the founders of credit organizations should be raised, and requirements should be introduced for providing information on the financial condition, activity, and business reputation of founders (sharehold-

The “**VERSIYA**” newspaper, 18 February, 2002

The official partner for the tour of the Ballet Theatre of Spain was **CentroCredit** Bank.

Table 2	Dynamics of Balance Indicators of the Russian Banking Sector			
	31.12.01		31.12.02	
	RUR bln.	% of balance sheet total	RUR bln	% of balance sheet total
Assets — total	3,159.7	100.0	4,015.1	100.0
Assets in rubles	1,963.8	62.2	2,572.7	64.1
Assets in foreign currencies	1,195.9	37.8	1,442.4	35.9
Equity (Capital)	453.9	14.4	570.6	14.2
Credits and other funds invested, provided to non-financial institutions and organizations, including non-resident legal entities, total	1,229.0	38.9	1,605.8	40.0
Credits and other funds invested provided to non-financial institutions and organizations including non-resident legal entities, in rubles	814.1	25.8	1,024.1	25.5
Credits and other invested funds, provided to non-financial organizations, including non-resident legal entities, in foreign currency	414.9	13.1	581.7	14.5
Deposits and other funds from individuals, total	677.9	21.5	984.9	24.5
Deposits and other funds from individuals, in rubles	434.7	13.8	608.3	15.2
Deposits and other funds from individuals, in foreign currency	243.2	7.7	376.6	9.4
Deposits of enterprises and organizations, total	902.6	28.6	1,013.1	25.2
Deposits of enterprises and organizations, in rubles	579.7	18.3	647.0	16.1
Deposits of enterprises and organizations, in foreign currency	322.9	10.2	366.1	9.1

ers) they obtain 10% or more of the share capital of a credit organization.

The creation of conditions for the lowering of costs, simplifying and shortening the duration of procedures connected with entrance into the market for banking services, the receipt of permissions

for realizing various banking operations, the opening of branches, and internal structural departments of credit organizations in 2003 should give an additional impulse for the development of the banking sector. The Bank of Russia is preparing proposals for changing regulatory laws related to simplifying the procedures for mergers, acquisitions, and reorganizations of credit organizations.

The general direction for improving regulation and oversight procedures in 2003 remains the development of substantive approaches to the evaluation of conditions in the banking sphere and in specific credit organizations. Proposals should be prepared for introducing changes into the federal laws “Concerning the Central Bank of the Russian Federation (Bank of Russia)” and “Concerning Banks and Banking Activity”, aimed at furthering the process of bringing the legal foundation for banking regulation and banking oversight into accordance with international practices. The Central

Diagram 1. Trends of the average weighted interest rates for deposits and balances for all terms

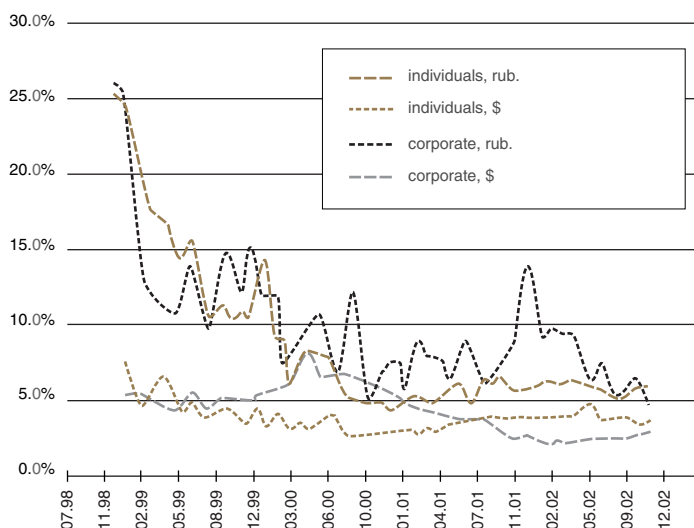


Table 3	The Structure of Income and Expenses of the Banking Sector	
	31.12.01	31.12.02
Income, total	100%	100%
Including:		
– interest received from credits provided, deposits, and other invested sums	13.05	17.72
Deposits and other sums invested		
– income received from operations with securities	6.52	9.74
– income received from operations with foreign currency and other currency instruments	32.71	30.56
– penalties and late fees	0.55	0,58
Other income	47.17	41.40
Including:		
Amounts released from reserves and/or provisions	41.15	33.51
Commissions received	3.00	3.61
Expenses, total	100%	100%
Including:		
– interest paid on credits taken	0.98	1.15
– interest paid to legal entities on funds deposited	2.44	2.45
– interest paid to individuals on funds deposited	3.46	4.93
Expenses for operations with securities	3.15	4.84
Expenses for operations with foreign currency and other currency instruments	32.73	31.05
Expenses for management staff	4.35	6.23
– penalties and late fees	0.31	0.06
Other expenses	52.57	49.28
Including:		
Formation of reserve funds	45.30	39.97
Commissions paid	0.32	0.46

Bank of Russian Federation will continue to conduct work aimed at optimizing the system of mandatory norms. It is expected that proposals for a certain reduction of the list of obligatory norms which the Central Bank may establish for credit organizations will be introduced, and likewise that methods for calculating specific norms will be refined. Measures must be realized for developing the protective functions of banking oversight, including further improvement of the system of early warning based on data from documentary analysis, and the development of oversight on a consolidated basis. The Bank of Russia will pay special attention to the qualitative parameters of banking capital, which presupposes an all-encompassing evaluation of the financial position of founders and those having acquired substantial shares in the charter capital of credit organizations, preventing the use of schemes for fictitious capitalization of credit organizations.

Results of CentroCredit Bank Performance in 2002

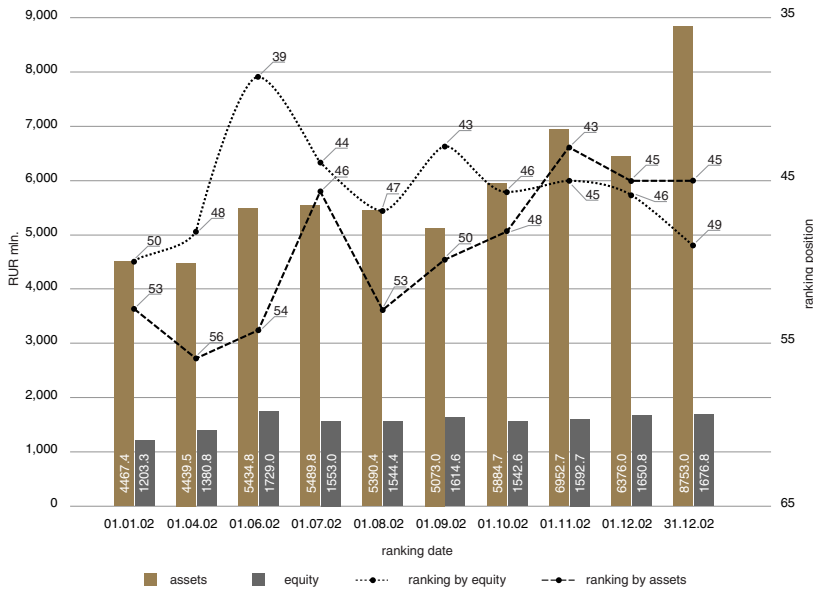
Bank performance results

Fundamental factors influencing Bank's performance results

For the purpose of defining and perfecting our market strategy CentroCredit Bank carefully analyzes the macroeconomic situation in Russia. On the basis of such analysis, the Bank builds its medium-term prognoses, highlighting the main fundamental factors which could exert significant influence on the development of the Russian and international banking sector. In our view, the most significant of these factors will be a number of the following:

- While overall economic growth will continue, competition in all areas and segments of the market will intensify, this will result in increased instances of corporate bankruptcies. Such a process will involve mostly small and medium-sized enterprises

Diagram 2. Dynamics of CentroCredit Bank Ratings («Profile» magazine)



unable to withstand competition due to a number of factors specific to these enterprises, such as a greater weighted average of non-operational (i.e. administrative) costs, and a correspondingly lower profit margin, a higher cost of resource acquisition, substantially more difficult conditions for attracting additional shareholder capital, and so forth. At the same time, large enterprises operating in those sectors of the economy where the period of the production cycle significantly exceeds the period for acquiring resources will also experience certain difficulties in supporting a necessary level of liquidity, and consequently, they will be required to attract more long-term funding from Russian banks.

However, since at the current time even the highest-profile representatives of the Russian banking sector, including the Savings Bank of the Russian Federation, – to a large extent possess short term liabilities, banks do not have the ability to engage in long-term financing of enterprises while at the same time supporting an adequate level of liquidity.

Considering the above, in our opinion, in the near future many Russian banks will encounter problems with a deterioration of the quality of their credit portfolios, and this can already be observed.

• There will be a lowering of interest rates and margin levels among all types of traditional bank operations and in all

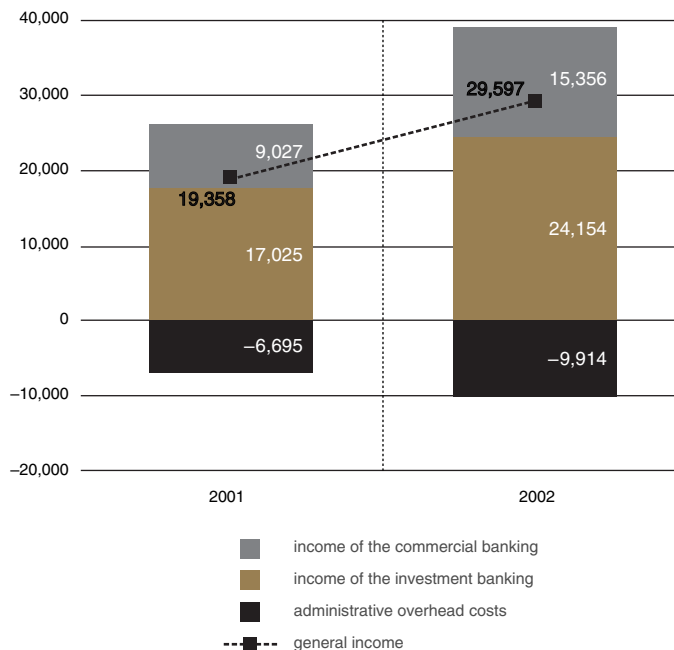
areas of the financial market. In this process, the Savings Bank of the Russian Federation will play the leading role, and no Russian bank can compete with it in the area of interest rate pricing policy. Besides that, it is clear that the most reliable Russian enterprises will obtain loans from the leading Russian banks, those which are among the top ten in bank ratings.

Thus, the reduction of margins on interest rates, the growth of non-operational (administrative) costs, and the deteriorating quality of credit portfolio

lios in the coming years – all these factors will inevitably bring forth a wave of mergers and acquisitions in the near future (in the worst case – bankruptcies) in the middle-sized and small Russian banking sector (banks with assets less than 100 million US dollars), and in the following two to three years – for larger banks (with assets up to 1 billion US dollars).

• There will be an intensification of competition in the market for banking and brokerage services,

Diagram 3. Structure of the Financial Results of the Bank in 2001–2002 (in Thousands of US Dollars)



*Leaders
by Return on Assets*

№	The name	City	Profit / Assets
1	Credit Swiss		
	First Boston	Moscow	4.30
2	Capital	Moscow	0.46
3	Mesed	Makhachkala	0.37
...			
18	CentroCredit	Moscow	0.10
19	Vneshtorgbank	Moscow	0.09
20	Russskiy Standart	Moscow	0.09

According to the "Compania" magazine

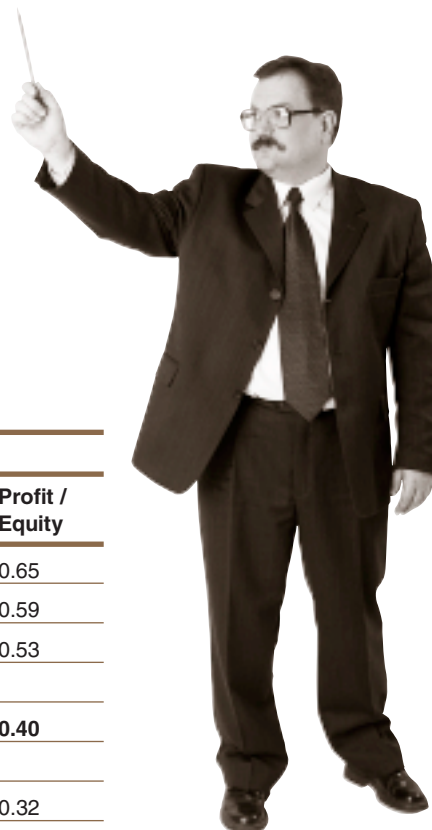
Leaders by Return on Equity

№	The name	City	Profit / Equity
1	Citibank	Moscow	0.65
2	Credituralbank	Magnitogorsk	0.59
3	Raiffeisenbank Austria	Moscow	0.53
...			
9	CentroCredit	Moscow	0.40
...			
19	Bank Societe General Vostok	Moscow	0.32
20	MENATEP St.P	St.P	0.31

According to the "Compania" magazine

**Vitaly M.
KOVALENKO**

Head of the Research
Department



which will require significant investments in the development of electronic and information systems, and in the selection of highly qualified personnel. Such factors will significantly influence the ability to maintain a competitive position in the Russian banking sector.

The Medium-term Development Strategy of the Bank

Considering the entire range of above-mentioned factors, the Bank has defined its strategy in the following way:

1. A modest increase of the commercial banking operations as well as increase of the credit portfolio at which time the key condition for the formation of the credit portfolio will be the attainment of effective pay-back; in other words – attainment of a level of effective income from credits which will exceed the total sum of the size of credit risks (that

is the percent of the reserve created for them) and the sum of the minimal guaranteed risk-free level of income.

2. The formation of a portfolio of securities consisting of the corporate stocks and bonds of Russian issuers and government bonds of the Russian Federation which would secure an optimal relationship of maximum income and minimum risk.

3. Broadening the range of services offered. Here the executive management of the Bank has taken into consideration that given the conditions of the developing Russian financial market and the intensification of competition within the banking community, it is already insufficient to simply offer a broad range of banking services or to perform them on the same level of efficiency (with the same level of correspondence between income and expenses) that is average for the group of credit

“INTERFAX” agency 27 June 2002

In May **CentroCredit** Bank became a member of the VISA international payment system.

organizations with analogous asset volumes and capital. For this reason, for completing the above-mentioned tasks, the executive management of the Bank maintains a sharp focus on the necessity of creating and developing those competitive advantages which may truly distinguish CentroCredit Bank from other Russian banks.

Principal Results of the Performance of CentroCredit Bank in 2001–2002

The principal results of the performance of the Bank in 2001–2002 can be generalized as follows in diagram 3.

Performance of the Bank as evaluated by independent experts

The performance of the Bank was evaluated highly by international and domestic independent experts.

During the course of 2002, the Bank worked actively with one of the leading international ratings agencies, the Fitch Ratings company. We consider it necessary to cite several statements from the report, which was prepared by the agency.

“The ratings of the CentroCredit Bank reflect its good profitability, adequate capitalization, and thus, its ability to effectively manage risks. [...] We emphasize that among banks which have been awarded a rating by Fitch and in the market in general, there are no banks which can be directly compared with CentroCredit Bank, thanks to its relatively unique combination of business direction. The success which the bank has obtained in managing its activity in the securities market, and also the small, clearly defined volume of operations explain the consistent profitability of CentroCredit Bank in comparison with the average performance indicators for a range of Russian banks. [...] It is unusual for a Russian bank that the net commission income comprises a reliable and significant portion of the profits of the Bank. [...] The increase of personnel costs, as is to be expected, is growing, since the bank invests in new people and is developing as a real bank. [...] The CentroCredit bank is not an ordinary bank and it has shown its ability to be successful in those areas of business which it knows best. Given further successful management, we expect such good results from the Bank.”

In the ranking of the journal “Compania” “Leaders by asset profitability” of 31.12.02, the Bank took 18th place. (“Compania”, 2003, No. 8). According to the rating, the Bank’s ratio of asset

profitability, i.e. Gross Profit/Working assets, is equal to 0.1. This ratio shows the ability of the bank to use the minimal amount of assets for realizing a maximal cash flow. We will allow ourselves to cite several lines from the article in the journal which analyzes the profitability of banks. “We would also note that among the leaders by this indicator are the so-called reliable middle-players – [...] “CentroCredit” [...] Interesting that it is just these banks that the majority of analysts consider to be the main engines behind the oncoming bank reforms. In contrast to the oligarchic banks, the “middle-players” are forced to get their clients not by their loud names, but by daily work [...] The “middle-players” successfully survived the crisis not only thanks to the lack of investments in Government bonds (GKO), but also not lastly thanks to the constant profitability of their working assets.”

Diagram 4. Securities Portfolio 31.12.2001

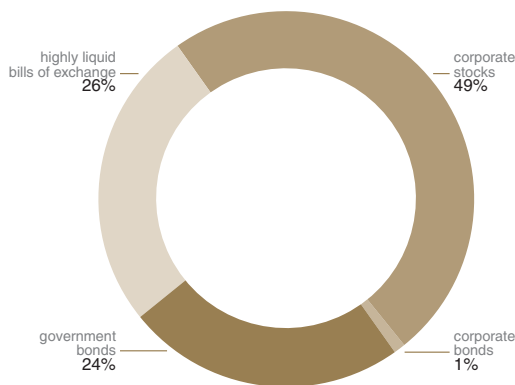
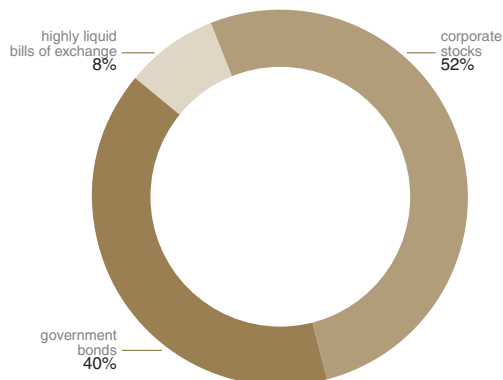


Diagram 5. Securities portfolio 31.12.2002



Investment Banking Activity

CentroCredit Bank is an active operator in the Russian financial markets, undertaking operations both on the main trading markets (the Moscow International Currency Exchange (MICEX), the Russian Trading System (RTS), and the Moscow Stock Exchange (MSE), as well as in Over-The-Counter trading, acting both as a manager of its own portfolio, and as a broker.

Amongst market operations of the Bank one can highlight several categories.

Operations with stocks

The bank conducts purchase and sale operations, arbitrage operations and derivative transactions with the stocks of Russian issuers both for its own account and on behalf of third parties. As of 31.12.2002, the portfolio of the Bank's stocks, not taking into account stocks under contract for repurchase, consisted primarily of common and privileged shares of enterprises in the leading branches of industry (oil, gas, metallurgical, automotive), and also of electrical utilities and others. At the end of 2002, the value of the stock portfolio, not taking into account those securities which were the objects of derivative contracts, was 31,515 thousand US dollars (13,404 thousand US dollars at the end of 2001).

The stocks that were the underlying asset for the derivative transactions included common and privileged stocks of Russian "blue chips". The primary counterparties of the Bank for repurchase agreements of the stock Russian issuers are the Bank of Moscow, the International Moscow Bank (IMB), and the Investment Group "Aton".

The effective profitability of the Bank's equity invested into the stocks of Russian issuers sold by

repurchase contracts significantly exceeded the market average rate during the course of 2002.

On 31.12.2002, the value of the stocks which were the underlying asset for repurchase derivative transactions was 21,098 thousand US dollars (17,016 thousand US dollars as of 31.12.2001).

The value of the Bank's entire portfolio of corporate stocks as of 31.12.2002 was 52,612 thousand US dollars (30,417 thousand US dollars at the end of 2001).

Operations with debt instruments

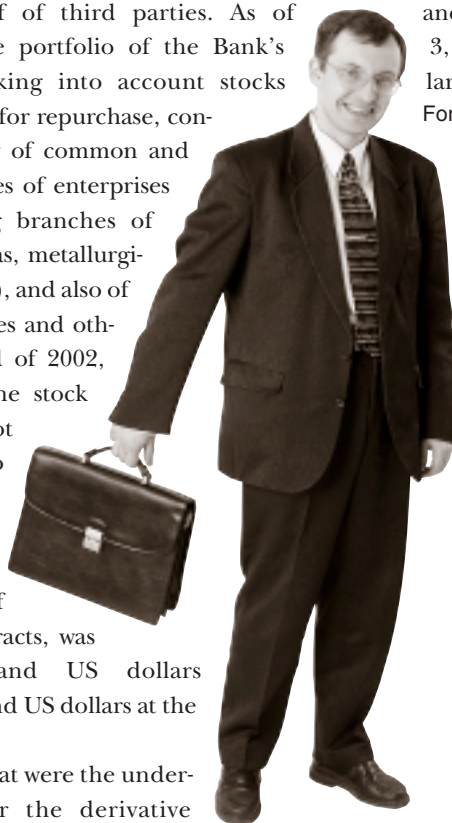
Government bonds of the Russian Federation

Ruble-denominated bonds

In 2002, the primary investments of the Bank in ruble-denominated bonds were the OFZ 45001 and 46001. Their value at the end of 2002 was 3,150 thousand US dollars (7,614 thousand US dollars at the end of 2001).

Foreign-currency bonds

During the course of 2002, the Bank worked actively with such instruments as the Eurobonds



IN THE RANKING OF THE
"COMPANIA" MAGAZINE
OF "LEADERS BY RETURN ON ASSETS"
THE BANK TOOK
18TH PLACE
AS OF 31.12.2002.
ACCORDING TO THE RANKING,
THE BANK'S RETURN ON ASSETS RATIO,
THAT IS GROSS PROFIT/WORKING
ASSETS, WAS EQUAL TO 0.1.

Alexander V. ALEKSEEV

Executive Director
Asset Management

of the Russian Federation and OVGYZ. As of 31.12.2002, two thirds of the total volume of securities, sold on repurchase contracts, consisted of Eurobonds of the Russian Federation, with redemption dates in 2028 and 2030. The primary counterparties of the Bank for derivative operations with Eurobonds of the Russian Federation for redemption in 2028 and 2030 were the IMB, Alfa Bank, the

"FINMARKET" agency 27 June 2002

CentroCredit Bank works with GAZ, KAMAZ, and MK "Shatura" and DSK-I are also among the clients of the bank.

Bank of Moscow, Vneshtorgbank, DIB, and Renaissance Capital.

The effective profitability on the Bank's equity for sums invested in Eurobonds sold on repurchase contracts, taking account of the yield of the securities themselves, the transaction discount and the interest on funds raised, was much higher than the market average in 2002.

The value of the Eurobonds which were the underlying assets for the REPO transactions was 37,113 thousand US dollars at the end of 2002 (6,758 thousand US dollars as of 31.12.2001).

The value of OVGVP of the 4th and 5th series as of 31.12.2002 was 3 thousand US dollars (12 thousand US dollars at the end of 2001).

Thus, the value of the entire portfolio of government bonds of the Bank was 40,267 thousand US dollars at the end of 2002 (14,383 thousand US dollars as of 31.12.2001).

Corporate bonds

The volume of operations with corporate bonds in 2002 was insignificant. The major component of the Bank's portfolio as of 31.12.2002 was bonds of aviation industry enterprises and other large factories. Their value was 185 thousand US dollars (on 31.12.2001 the value of the portfolio of corporate bonds was 450 thousand US dollars).

Highly liquid corporate bills of exchange

The trading operations of the bank with bills of exchange took place principally for speculative purposes. 98% of Bank's portfolio of highly liquid bills of exchange was composed of Gazprom bills of exchange. Their value as of 31.12.2002 was 8,161 thousand US dollars (11,020 thousand US dollars as of 31.12.2001). An insignificant portion of the portfolio was taken by the bills of exchange of banks, the value of which at the end of the year was 130 thousand US dollars (538 thousand US dollars at the end of 2001).

The comparative structure of the portfolio of the Bank's securities appears as follows (see diagrams 4 and 5).

The value of the entire portfolio of securities increased to 43,583 thousand US dollars and as of 31.12.2002 was 101,356 thousand US dollars.

The increase of the Bank's securities portfolio took place using the Bank's equity capital, and using funds raised on the inter-bank market. The total of funds raised using securities as collateral was 151 875 thousand US Dollars at the end of 2002 (35 656 thousand US dollars at the end of 2001).

Income from securities operations increased by 8,340 US dollars in comparison with the previous year, and as of 31.12.2002 totaled 27,324 thousand US dollars.



Eduard Y. KOVALETOV
Executive Director
Credit and Project Finance

Diagram 6. Credit Portfolio by Industries, %

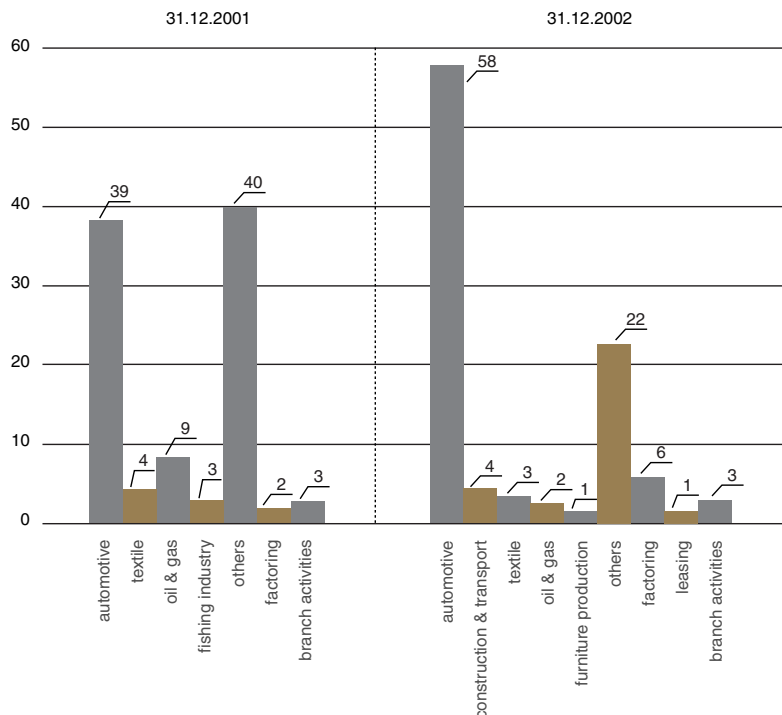


Diagram 7. Structure of Client Deposits (Corporate)
31.12.2002

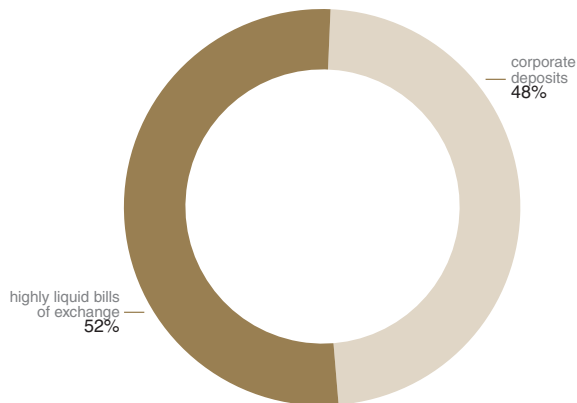
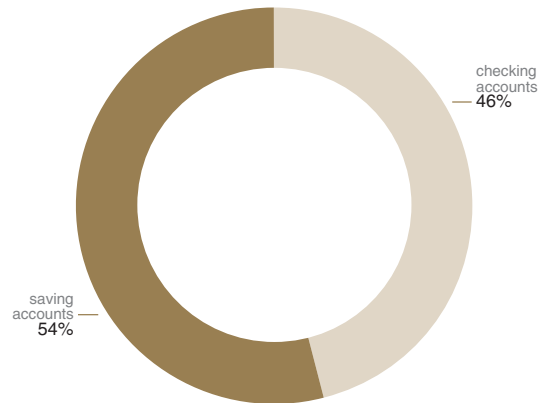


Diagram 8. Structure of Client Deposits (Individuals)
31.12.2002



Income from brokerage and depository services totaled 556 thousand US dollars in 2002 (493 thousand US dollars as of 31.12.2001).

Commercial Banking Activities

The total of loans issued to corporate clients as of 31.12.2002 was 77,361 thousand US dollars. In comparison to 31.12.2001, this total increased by 11,700 thousand US dollars.

The primary component of CentroCredit Bank's credit portfolio in 2002, as in previous years, consisted of short-term loans. Their volume increased by 11,881 thousand US dollars, and as of 31.12.2002 totaled 72,064 thousand US dollars, and their share of the total of the Bank's credit portfolio reached 93% (91% in 2001). The volume of long-term loans remained practically at the previous level: 4,494 thousand US dollars as of 31.12.2002 (4,176 thousand US dollars in 2001). We should note that the Bank worked actively to improve the quality of its credit portfolio. This is evidenced by the fact that the sum of overdue loans decreased almost two times. As of 31.12.2002, 803 thousand US dollars were overdue (1,302 thousand US dollars at the end of 2001).

The comparative structure of CentroCredit Bank's credit portfolio broken down by industry segments appears as follows (see diagram 6).

In 2002 there was a strengthening of credits to the automobile industry, which is a priority for the Bank based on the market reason, i.e. the bank has reason to believe that there is some growth expected in this sector. The volume of loans given to enterprises of

this sector of the economy grew in absolute terms by 19%, or by 13,531 thousand US dollars, and as of 31.12.2002 totaled 25,299 thousand US dollars. The biggest portion of the loans of this group – 21,743 thousand US dollars – were composed of credits to the suppliers and dealers of GAZ. In 2002, the Bank launched two new credit programs with KAMAZ and VAZ. The portion of loans given to enterprises in the oil industry decreased by 7%. At the same time new directions arose and showed good results: crediting of furniture production and construction and transport. The share of loans for construction and transport totaled 4% or 1,762 thousand US dollars as of 31.12.2002.

The volume of credits in the form of factoring and leasing operations grew significantly – by 4 and 5 times, correspondingly. Here it must be said that according to the independent expert evaluations, the Bank took second place in Russia in 2002 by the volume of its factoring operations.

The interest income of the credit portfolio as of 31.12.2002 totaled 13,772 thousand US dollars (7,669 thousand US dollars in 2001). Interest on loans made to corporate clients totaled 12,385 thousand US dollars (5,016 thousand US dollars in 2001); income from factoring operations – 451 thousand US dollars (138 thousand US dollars in 2001).

The increase in the volumes of loans took place both using the resources of the Bank, and by using customer deposits.

In comparison to 31.12.2001, the funds from clients increased two times and totaled 95,522 thousand US dollars at the end of 2002 (46,641 thou-

“ROSBUSINESSCONSULTING” agency 27 June 2002

It is planned that **CentroCredit** Bank's share of the banking services market will be 1.5% by 2005.

sand US dollars as of 31.12.2001). The increase took place thanks to an increase of funds from corporate clients. As of 31.12.2002 their total was 85,312 thousand US dollars (44,046 thousand US dollars at the end of 2001).

As can be seen in the diagram 7, more than a half of all funds from corporate clients consisted of funds attracted as a result of the Bank issuing its own bills of exchange. As of 31.12.2002 they totaled 44,604 thousand US dollars (19,451 thousand US dollars at the end of 2001). During the course of the year, the volume of bills of exchange remained steady at the level of 20,000 thousand US dollars. The growth of around 25,000 thousand US dollars in December 2002 occurred as a result of the sale of bills of exchange in the amount of 12,500 thousand US dollars by a special scheme, according to which the bills of exchange were redeemed at the beginning of January, 2003.

The sum of balances on organizations' accounts almost doubled and totaled 40,667 thousand US dollars at the end of 2002 (23,406 thousand US dollars as of 31.12.2001).

Funds from individual clients almost tripled. They totaled 7,210 thousand US dollars as of 31.12.2002 (2,595 thousand US dollars as of 31.12.2001).

The sum of balances on the accounts of individuals totaled 3,337 thousand US dollars at the end of 2002 (1,308 thousand US dollars as of 31.12.2001). The sum of term deposits increased by 2,587 thousand US dollars and as of 31.12.2002 was 3,874 thousand US dollars (see diagram 8).

The sum of other external funds was composed primarily of the brokerage accounts of clients, both corporate clients and individuals. The sum of other external funds deposited totaled 15,411 thousand US dollars at the end of 2002 or 16% of the total external funds (4,614 thousand US dollars as of 31.12.2001).



Tatiana A. TRIFONOVA
Head of Planning and Budgeting Department

Administrative and Overhead Costs

The administrative and overhead costs of the Bank grew during the course of 2002 1.5 times. On 31.12.2002 their sum total was 9,795 thousand US dollars. (6,303 thousand US dollars at the end of 2001). The growth trends of administrative and overhead costs are presented in the diagram 9.

The most significant increase was in salary expenses, fringe benefits, and advertising.

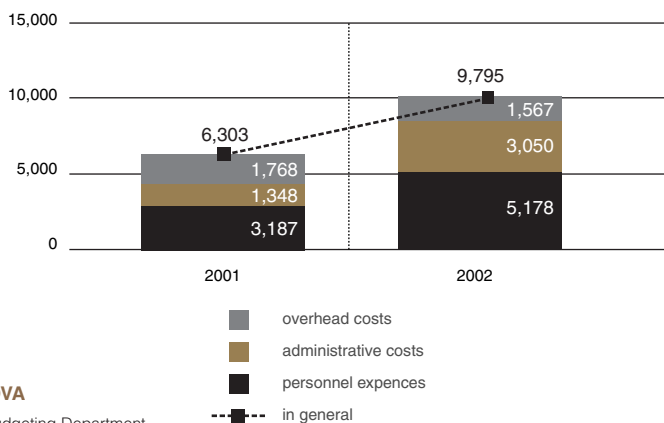
The total of salaries paid in 2002 was 3,434 thousand US dollars, which exceeded the previous level almost 2 times (1,753 thousand US dollars in 2001). Such significant growth was caused by a natural increase in the number of personnel and in an increase in the average salary level per worker. The total of expenses on fringe benefits, including medical insurance and similar items totaled 245 thousand US dollars at the end of 2002 (33 thousand US dollars on 31.12.2001).

Advertising costs more than doubled in 2002. Their total on 31.12.2002 was 495 thousand US dollars (221 thousand US dollars in 2001). The increase is connected with the fact that during the course of the year, the Bank conducted a significant number of sponsorship events, including financial assistance to the Moscow Zoo (CentroCredit Bank is the general sponsor of the Zoo), sponsorship contributions to the tour of La Scala, the ballet theater of Spain, and others.

The Bank's Equity Capital

CentroCredit Bank is required by law to maintain a sufficient level of capitalization and to observe a number of other mandatory regulatory standards. The Bank has traditionally secured a high level of

Diagram 9. Dynamics of the Administrative and Overhead Costs in 2001–2002 (Thousand US Dollars)



return on equity, while at the same time adhering to these standards. The ratio of gross profit to capital (this ratio shows how many rubles of profit margin were received by banks' owners on their equity capital) was 0,4 at the Bank and according to the ranking of the journal "Compania" "Leaders by Return on Equity on 31.12.2002" (No. 8, 2003), the bank was ranked 9th.

The size of the Bank's equity capital on 31.12.2002 was 1 609 million RUR, including:

- Charter capital – 820 million RUR (did not change in comparison to the previous year).
- Subordinated loan – 222 million RUR (value unchanged in comparison to the previous year).
- Accumulated profits – 579 million RUR (72 million RUR as of 31.12.2001).

Thus it is possible to say that the growth of the Bank's equity capital in 2002 depended exclusively upon the growth in accumulated profits.

In accordance with requirements of the Bank of Russia, the norm for capital adequacy for Russian banks, calculated corresponding to the Russian Accounting Standards, should be not less than 10% of the total of assets, weighted by risk. As of 31.12.2002, the norm of capital adequacy of the Bank was 15.4%, which significantly exceeds the required minimum.

According to the CAMEL method (Capital, Assets, Management, Earnings, Liquidity), the relationship of the charter capital to equity capital should not be less than 15% nor greater than 50%. As of 31.12.2002 this indicator was equal to 48%. The minimal value of the relation of equity capital to the sum of all liabilities was 15%, and the Bank's score on 31.12.2002 was 21%, i.e. customer funds are 21% covered by the capital of the Bank, which is a high score from the point of view of securing obligations to clients. The minimum for the ratio of Capital to Income Bearing Assets equals 25%, the score of the Bank for 2002 was 32%; this means that 32% of investments in income-bearing assets are protected by equity capital.

Risk Management

Based on its own analysis of the development of the Russian economy and the banking sector, and also

on forecasts prepared by leading Russian and foreign analytical groups, CentroCredit Bank has determined the principal medium-term risks which Russian mid-level banks may be subjected to include:

- The risk of decreasing interest rates, and, consequently, decreasing profit margins of loan-deposit activity;
- The risk of aggressive market behavior by the Savings Bank of the Russian Federation, which could lead to an expulsion of mid-level banks from the most profitable segments of the market;
- The risk of a crisis of liquidity in the mid-level bank segment.
- The risk of a sharp increase in the real rate of the ruble as a result of the reduction in the outflow of capital from Russia while maintaining a positive trade balance;
- The risk of insolvency of the Bank's loan recipients.

For proper management of the risks indicated above, the Bank has developed a number of measures including:

1. For controlling the risk of interest rates in the Russian financial market, the Bank has made investments in the medium-term and long-term government bonds of the Russian Federation. In this way, in the event of a sharp decrease in interest rates, the Bank will receive a significant profit from the growth in the market value of these bonds, which will allow it to remain competitive and attract new clients under conditions of a decrease in profit margins on credit operations. The basic investment of the Bank is the Ministry of Finance of the Russian Federation Eurobond with redemption in 2028, which foresees the possibility of early redemption in 2008. Thus, these securities supply a high growth in the market value under conditions of a significant decrease in the yield of Russian securities, but at the same time the potential for their decrease is limited in connection with the above-mentioned right of the investor for early redemption.

2. The risk of market expulsion of mid-level banks by the Savings Bank of the Russian Federation can be partially compensated by significant investments in its stock. Thus, in case of aggressive market behavior by the Savings Bank of the Russian Federation,

REUTERS agency 27 June 2002

At the annual general assembly of shareholders of **CentroCredit** bank, for the first time since its foundation, it was decided to pay a dividend of 37 million rubles for 2001, which comprises about 30% of the bank's profit for the past year.

IN 2002 EQUITY ROSE
31.9%
 FROM 1.221 BILLION TO
 1.609 BILLION RUBLES

the Bank will receive substantial profit from growth in the market value of its stock.

3. The risk of a local (1–3 day) crisis of liquidity on the inter-bank credit market is controlled by attracting significantly “longer” (15–60 day) resources through transactions with securities. This allows the Bank to leave a large portion of its pure credit lines unused and to activate them only in case of a sharp liquidity crisis.

4. The risk of strengthening of the ruble rate is controlled by a constant balancing of the foreign currency position of the Bank.

Promising Developments for the Bank in 2003

The situation in the financial markets and the internal condition of the Bank allows for planning the following performance indicators for 2003:

- Growth in equity capital and net assets should assist the Bank in maintaining a place among the 35–45 leading Russian banks;
- The Bank expects to maintain the turnover of operations on the Russian securities market at levels

which would be sufficient for a constant presence among the 20 largest operators;

- A series of large projects in investment consulting and attracting investors into the field of trade finance and equipment manufacturing should be completed in the course of the year;

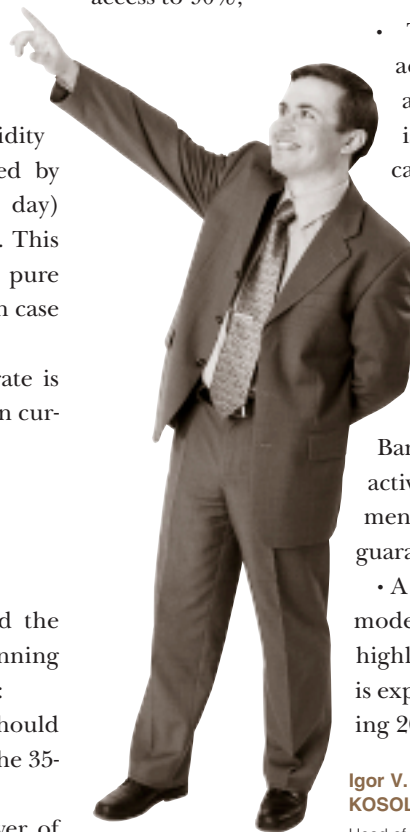
- Client investments in the area of the department of corporate finance are expected to be not less than 20 million US dollars;

- The bank aims to increase the portion of clients using the “Bank-Client” system of remote account access to 90%;

- The Bank aims to achieve its position among the 20 leading issuers of bank credit cards in terms of cards issued;

- A project for attracting deposits from individual clients should be enacted in 2003. At the same time, the Bank is ready to take an active part in the government program of deposit guarantees;

- A new client center with modern infrastructure and highly qualified personnel is expected to be ready during 2003.



**Igor V.
KOSOLOBOV**

Head of Business Development Department
 Member of the Board of the Directors

openness and coordination



- Management Principles
- Organizational Structure and Personnel Policy

Management Principles

The management system principles used successfully during the course of the last years will remain unchanged. The main goal of improvements of management systems of the Bank in 2002 continued to be the attainment of competitive advantages due to the quality, speed, and efficiency of management decisions.

Strategic management is undertaken by the Board of Directors and defines 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 improvement of banking technologies, the realization of long-term planning systems, and further growth of the Bank's capital.

Operational management is the area of responsibility of the Managing Board of the Bank, and it is conducted through the permanent collegial working bodies – the Financial and Credit Committees of the Managing 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 task of the Credit Committee is the achievement of the optimal combination of a strictly centralized policy for risk management, using limits and interest rates mechanisms, while giving the functional bodies of the bank maximum independence.

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

Information and analytical materials, projects and operational decisions taken by the Finance and Credit committees are important elements for maintaining the activity of the Managing Board and Board of Directors of the Bank.

Personnel management is built upon an understanding of the fact that staff potential is the main condition for the achievement of the strategic tasks which have been determined by the Board. The Bank regularly reviews the level of staff performance and qualifications, and the mechanisms for rewarding excellent performance are constantly being improved.

Corporate management is based on understanding the importance of observing a balance between the interest of stockholders, executives, and staff.

PR management relies upon the maximum possible transparency of information and goodwill in relation to clients, partners, employees and the public.

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

THE BANK'S RATIO OF GROSS PROFIT TO EQUITY WAS 0.4, PLACING IT ON THE NINTH PLACE IN THE RANKING OF THE "COMPANIA" MAGAZINE IN THE CATEGORY OF "LEADERS BY RETURN ON EQUITY" AS OF 31.12.2002.



Andrey N. SURMILO

Executive Director
Legal and Information
Services
Member of the Board
of the Directors

Andrey I. Tarasov
Chairman of the Management Board

Kirill E. Shershun
*First Deputy Chairman of the
Management Board*



Organizational Structure

Organizational Structure of the Bank

Governing Bodies

- General Shareholders' Meeting
- Board of Directors

Executive Bodies

- Chairman of the Management Board
(individual executive body)
- The Management Board
(collegial executive body)

Functional Divisions

Banking Services, Products and Technologies

- Analytical Group
- Corporate Services Department
- Non-trade Operations Department

Credit & Project Finance

- Documentary Operations Department
- Crediting Department
- Project Financing Department

Asset Management

- Securities Department
- Money Market and Correspondent Banking Department
- Precious Metals Department
- Asset Management Support Department
- Depositary

Corporate Finance

- Corporate Consulting Department
- Investment Projects Department

Treasury

- Analytical Sector
- Planning Sector

International Business

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

Accounting, Analysis, Planning and Control

- The Consolidated Accounting and Planning Department
- Financial Analysis Department
- Accounting Department
- Internal Control and Compliance Service

Legal and Information Services

- Legal Services Department
- Administrative Department
- Press Service

Security

- Economic Monitoring Department
- Guard and Control Department

Department of the Bank Development

IT Department

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

Maintenance Services Department

Representative Offices and Branches

- The CentroCredit Bank Representative Office in the
United Kingdom (London)
- The CentroCredit Bank Branch in the City of Vologda
- The CentroCredit Bank Branch in the City of Nalchik
(Kabardino-Balkarian Republic)

Executive Management

Board of Directors

- **Pavel N. Kosolobov** —
Chairman of the Board of Directors
- **Arsen B. Kanokov** —
Member of the Board of Directors
- **Igor V. Kosolobov** —
Member of the Board of Directors



Sergey A. Eremin
*Deputy Chairman of the
Management Board*

Vitaly S. Larichev
*Deputy Chairman of the
Management Board*

- **Andrey A. Pankovsky** —
Member of the Board of Directors
- **Andrey N. Surmilo** —
Member of the Board of Directors
- **Andrey I. Tarasov** —
Member of the Board of Directors
- **Valery M. Telegin** —
Member of the Board of Directors

Auditing Commission

- **Akhmed B. Zhamanov** —
Chairman of the Auditing Commission
- **Gleb E. Kiselev** —
Member of the Auditing Commission
- **Eugeny I. Maksimov** —
Member of the Auditing Commission

Chairman of the Management Board of the Bank

Andrey I. Tarasov

Members of the Management Board of the Bank

- *Chairman of the Management Board*
Andrey I. Tarasov
- *First Deputy Chairman of the Management Board*
Kirill E. Shershun
- *Deputy Chairman of the Management Board – Executive
Director for Accounting, Analysis, Planning and Control*
Sergey A. Eremin
- *Deputy Chairman of the Management Board*
Vitaly S. Larichev

Executive Directors

Banking Services, Products and Technologies

Dmitry V. Peshkov

Credit and Project Finance

Eduard Y. Kovaletov

Asset Management

Alexander V. Alekseev

Corporate Finance

Sergey A. Berezovoy
Treasury

Ilya Yu. Korbashov

International Business

Maxim S. Safonov

Accounting, Analysis, Planning and Control

Sergey A. Eremin

Legal and Information Services

Andrey N. Surmilo

Security

Pavel I. Pavlov

Bank Development Department

Igor V. Kosolobov

IT Department

Igor A. Avilkin

Administrative Department

Mikhail N. Smirdan

Structural Divisions

(Branches & Representative Offices)

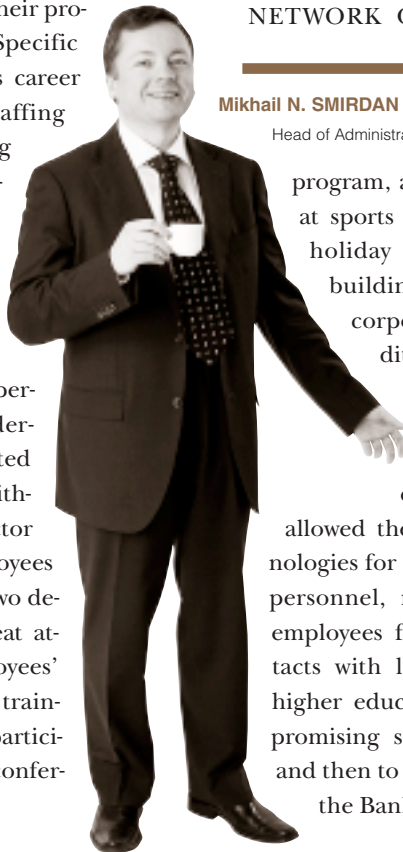
- **Representative office in the United Kingdom**
Chief Representative –
Valery M. Telegin
- **CentroCredit Bank Branch in the city of Vologda**
Director –
Sergey M. Moskvina
- **Kabardino-Balkarian Branch of CentroCredit Bank
in the city of Nalchik**
Director –
Sergey D. Sobolev

Personnel Policy

As the year end of 2002, 298 employees worked at the Bank, of whom 54% were women. There were 79 managers of various levels, 24% of whom were women. The average age of employees was 35. During the year, the number of bank employees increased by 25% in connection with 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 2002, were greatly assisted 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 selecting and evaluating employees allowed 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 leading roles in newly created and dynamically developing structural divisions.

CentroCredit Bank demands excellence the qualifications and personal qualities of employees, understanding that only a well-coordinated team of professionals is able to withstand competition in the banking sector of the economy. 75% of our employees have a higher education, 11% have two degrees, 8 have doctoral degrees. Great attention is paid to improving employees' qualifications through continuing training. Specialists are regularly sent to participate in consultancy seminars and conferences on banking subjects.



Mikhail N. SMIRDAN

Head of Administrative Department

The executive management of the Bank strives to create favorable conditions for development of talents, for increasing the pro-activity of employees and to attract and retain the best employees available. For this purpose, such forms of compensation 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

THE NUMBER OF EMPLOYEES
OF THE BANK INCREASED
BY 25%,

WHICH WAS CONNECTED WITH
A GROWTH IN WORK VOLUMES,
THE OPENING OF NEW AREAS OF ACTIVITY,
AND THE DEVELOPMENT OF A
NETWORK OF ADDITIONAL OFFICES.

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, overall evaluation 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.

“MAYAK” radio station, 28 June 2002

The stockholders of CentroCredit Bank are mostly companies from the telecommunications industry, the construction industry, trading companies and management.



every day attention

- Customer Service Policy
 - Corporate Clients Services
 - Servicing the Individuals
- Credit Policy
 - Leasing
 - Factoring
- Financial Markets Activities
- Correspondent Relations and International Settlements
- Precious Metals Operations
- Corporate Finance Services
- International Business
- Information Technologies

Customer Service Policy

Corporate Clients

CentroCredit Bank is a full service commercial bank providing a full range of high-technology financial products. The Bank strives to improve its infrastructure in accordance with the needs of clients 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, rapid and transparent decision making and informational openness have become the principles of the Bank's work with clients. Clients are informed concerning all events that are important for the activity of the Bank, financial reports are provided, as well as auditors' reports 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 details of their operations. The Bank's personal managers deal directly with the introduction of banking products with the goal of providing 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.

IN 2002 THE NUMBER OF CLIENTS
**INCREASED FROM
 2,360 TO 3,073
 (30.21%),**
 AND THE NUMBER OF THEIR ACCOUNTS
**FROM 4,368 TO 5,574
 (27.61%)**



Dmitry V. PESHKOV

Executive Director
 Banking Services,
 Products and
 Technologies

In 2002 the Bank continued to develop its policy of selecting personal managers for clients. 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 questions. Studying the specific character and the particularities of clients' business operations, taking into account their wishes and needs, the per-

CENTROCREDIT'S RATINGS REFLECT ITS GOOD PROFITABILITY, ADEQUATE CAPITALIZATION AND ITS ABILITY, THUS FAR, TO MANAGE RISKS EFFECTIVELY.

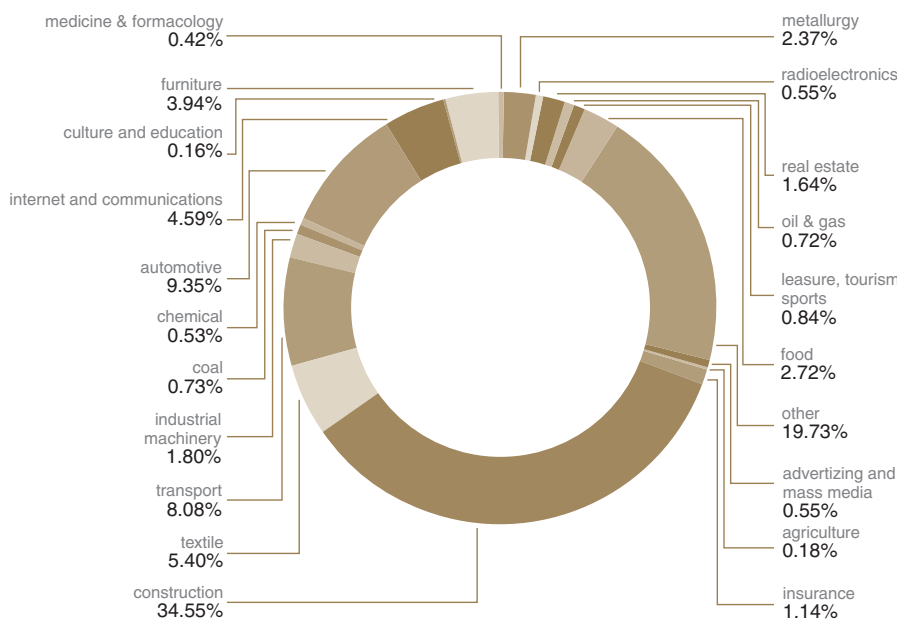
FitchRatings

sonal managers develop individual schemes for optimizing their financial flows and operations. Thus, clients can always receive 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 deposit 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 Bank Services, are provided to clients for free.

The clients of CentroCredit Bank represent a wide range of industries. Among the clients of the Bank 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. This 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 clients.

Diagram 10. Industrial Structure



Traditionally the Bank invests significant amounts in the development and implementation of new technologies. This allows our clients to utilize the most technologicaly advanced services. From the very beginning the Bank was focused on development of centralized customer service. The policy of rejection of developing a broad branch network and associated costs was fully justi-

Diagram 11. The New Clients Amount Increase during 2002

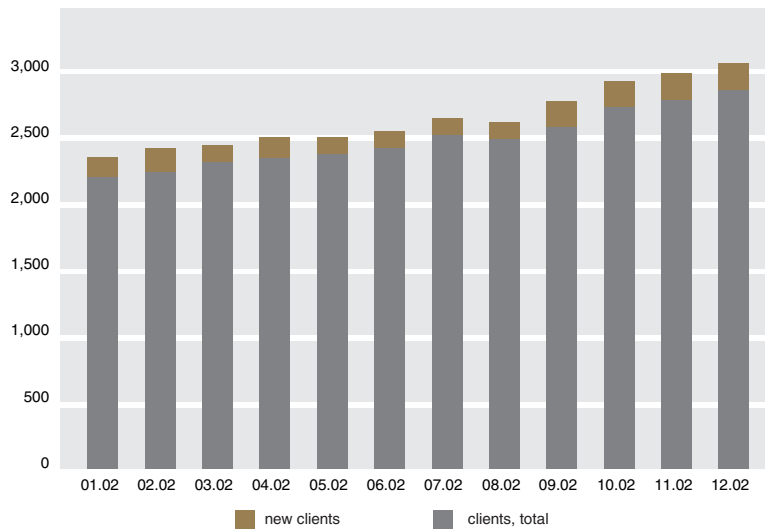
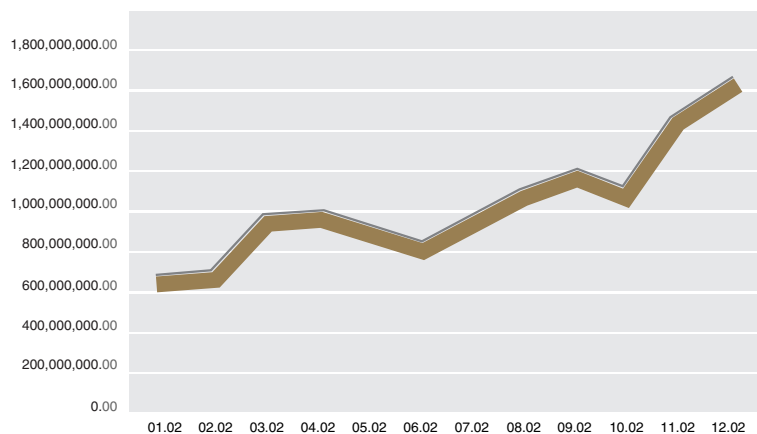


Diagram 12. General Amount of Clients' Deposits during 2002 (RUR)



fied by the maximum concentration of professionals in the head office of the Bank, as well as by direct client access to banking services through remote access systems. This meant 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.

Transparency and reliability of the Bank are based on quite a conservative strategy of development, the professionalism of the staff, on constant monitoring of the Bank’s activities. 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 private banking service conducted by CentroCredit Bank means above all providing our clients and their family members a range of high-quality financial services based on the following principles:

- Personal contact with highly-qualified client managers;
- Strict confidentiality;
- Adaptation of services to the individual needs of clients;
- Orientation towards long-term partner relationships.

Servicing individual clients at CentroCredit Bank means to offer a broad choice of basic banking services and auxiliary 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 service 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;
- Complete analytical reporting on all operations;
- In accordance with the preferences of the client, reports on various operations.

In servicing individual clients there is a flexible approach to payment for the Bank’s services. The rates and commissions for operations depend not only on the size of the operations with various instruments, but also on the overall volume of client’s operations.

Corporate Clients Services

In 2002 the total balances on customers' current and currency accounts increased almost 2,5 times due to the inflow of new clients on the one hand, and likewise as a consequence of increased business with the "old" clients of the Bank on the other.

For many new clients CentroCredit Bank became their primary bank because of the recommendation of their business partners who were already our clients. Having become acquainted with the high quality of service, speed and attentiveness of our specialists, these clients transferred nearly all of their financial flows to

THE SUM OF BALANCES
ON THE ACCOUNTS OF
ORGANIZATIONS ALMOST DOUBLED
AND AT THE END OF 2002 WAS

40,667
THOUSAND US DOLLARS

CentroCredit Bank. The primary factor of the attractiveness of CentroCredit Bank for corporate clients is the growth of turnover on their accounts. CentroCredit Bank has taken a central place in financial flows for entire manufacturing and trading chains in the petrochemical, light, machine-building and other branches of industry and trade.

Interaction with our clients has shown that competent, moderately conservative financial policy and quality management have reflected positively on the reputation of CentroCredit Bank. The Bank never followed the principle "the end justifies the means", and therefore attracting any clients at any price has never been an aim of the Bank's management. Primary attention is devoted to increasing service quality and broadening the range of services offered for current clients, building partnership relationships with them and the development,

when necessary, of individual schemes for cooperation. Thus transaction services in our Bank include the following operations:

RUR-denominated settlement services

CentroCredit Bank carries out all client payments on a same-day basis, priority processing of payments after the end of the operating day of the Bank is possible and mutual settlements may be conducted during the course of a single operational day. Clients are offered the electronic remote access systems "Bank-Client" and "Internet-Bank", which allow for the management of current accounts from their offices.

Foreign currency-denominated settlement services

As a shareholder and member of the Moscow Interbank Currency Exchange from its inception, CentroCredit Bank offers clients services for conducting conversion operations without intermediaries and with a minimum banking fee. The development of a network of foreign correspondent banks, the usage of letters of credit as a payment form for import-export operations, the ability for accelerated processing of international payments make work with the Bank especially convenient for enterprises engaged in foreign trade activity.

Cash services

CentroCredit Bank accepts cash deposits, credits client accounts on a same-day basis and executes client instructions for dispensing cash sums from its current account both within the limits of the company's cash plan and with or without an advance application. For trading organizations remote operational cash desks of the Bank at their offices are offered.

Collection of proceeds in cash and transportation of valuables

The Bank provides services for collection of client cash, and conducts its secure transportation and deposit. It is possible for cash collected to be credited to a client's account on the day of cash collection. Besides this, we offer services for transporting valuables.

Internet Banking

Working with banks has long ceased to be associated with constant visits to the office, preparation of paper payment orders and time lost on the road.

"MFD" agency 26 June 2002

In the first six months of 2002 the net assets of **CentroCredit** Bank increased more than 1.3 times from 5.269 to 7.103 billion rubles, equity rose 28% from 1.221 billion to 1.557 billion rubles.

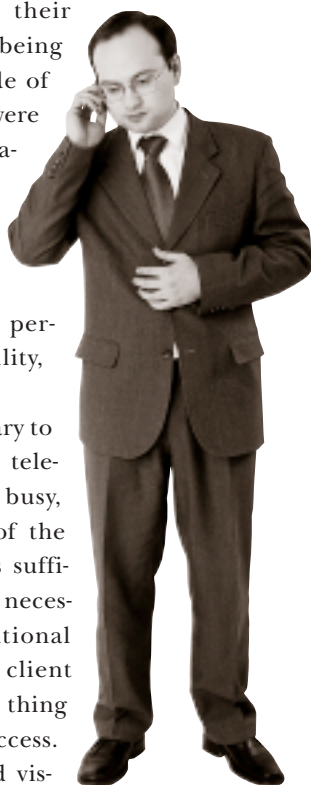
The time has passed when a client chooses a bank by the principle of location. The first appearance of the "Bank-Client" system has put an end to all of this. However, even the best system built on telephone communication between the client and the bank's server cannot supply absolute speed and communications simplicity.

The solution was found when CentroCredit Bank was among the first banks to offer its clients the "Internet-Bank" system for remote access to their accounts. As it was being developed, a multitude of client requirements were taken into consideration: the requirements for hardware and software, simplicity of use, speed, reliability, security, performance, accessibility, and much more.

Now it is not necessary to worry about whether telephone lines are busy, whether the quality of the modem connection is sufficient, or whether it is necessary to install additional equipment on the client computers. The only thing necessary is Internet access. Having registered and visited the Bank's special site, customers can manage their accounts with the same ease that was given by the familiar "Bank-Client" system.

The client has the ability to make payments from his office, from any place in the world where there is Internet access, from any computer – from his office, from a hotel, or from an Internet-cafe. Our system provides quick performance with the necessary security; additionally, if the client uses the Internet for his professional or any other reason, this system is much less expensive for him than any other system of remote account administration.

CentroCredit Bank is always keeping an eye on technical progress, connecting new achievements in the area of science and technology with financial processes and technologies, offering its clients many services upon which other banks are only beginning to focus.



Servicing the Individuals

The bank successfully develops such traditional banking services for individuals as:

- term deposits in rubles, US dollars, and euros;
- operations with American Express, VISA, Thomas Cook, and Citicorp travellers' checks,
- acceptance of checks of banks and companies in various currencies for deposit,
- conducting payments in rubles and foreign currencies,
- providing individual safe deposit boxes for lease.

CENTROCREDIT IS NOT A TYPICAL BANK AND HAS PROVED TO BE VERY
SUCCESSFUL
 AT WHAT IT KNOWS BEST. PROVIDING THAT IT CONTINUES TO BE WELL MANAGED, WE EXPECT THE BANK TO SUSTAIN
GOOD PERFORMANCE,
 AT LEAST FOR THE FORESEEABLE FUTURE.

FitchRatings

Sergey M. KAZAK

Head of Non-trade Operations Department

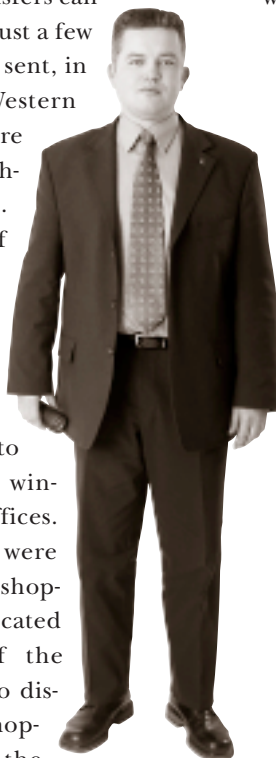
In 2002 the Bank offered a new service to its individual clients – VISA CentroCredit Bank Gold and Classic credit cards upon opening accounts in dollars, euros, or rubles. With these cards, clients are offered the opportunity to use not only their own funds, placed on a special card account, but also the financial resources of the Bank in real time. Likewise the client can place his funds on deposit, and interest is deposited monthly on his bank card account. The new card product successfully combines the functions of a deposit, which aims for the conservation and multiplication of funds, and round the clock access to a bank card account. Credit cards are provided on recommendation of other clients of the Bank, while the credit limits are established individually. The high quality personal banking service established by the Bank as the fundamental principle is fully present in servicing the Visa CentroCredit Bank Gold and Classic credit cards. Clients of the Bank quickly solve issues such as increasing the credit limit, the limit on operations conducted, increasing the daily expense

limits. All credit card owners can order additional cards for their relatives and friends, with individual daily and monthly expense limits. Successful cooperation with the leading insurance company AIG Russia has allowed for providing insurance to our clients not only for foreign travel, but within the territory of Russia and the countries of the C.I.S.

Using the possibilities of the worldwide money transfer system Western Union, the clients of the Bank can send urgent money transfers to practically all countries. These transfers can be received by the recipient just a few minutes after they have been sent, in any service point of "Western Union". Transfers abroad are conducted in US dollars; within Russia – in Russian rubles.

In 2002 the formation of the infrastructure of the Bank for serving individuals in Moscow has continued. Two more operational banking counters and two additional offices were added to the four existing banking windows and two additional offices. The additional offices were opened in the construction-shopping center "Sindika-O", located at the 65th kilometer of the Moscow Ring Road (Strogino district) and in the Tushino shopping center next to the "Tushino" metro station. The convenient location of the additional offices and the wide range of banking services offered attracted new clients immediately. The most popular and demanded services in the new offices are money transfers within the countries of the C.I.S. and term deposits. The cash-desks outside of its offices were traditionally opened in automotive dealerships and furniture shopping centers. In this way, as of December 31, 2002, in Moscow the Bank has 4 additional offices and 6 banking counters outside of its offices.

In 2003 the Bank plans to open several banking windows and additional offices in the Moscow region. Likewise it is planned to introduce a program for round the clock service operations for dispensing cash and accepting the deposits of individual clients at the Bank's automated teller machines.



Credit Policy

A certain slowing of growth rates in the economy in Russia in 2002 instills a justified concern in connection with the possible growth of risks in the area of commercial credit.

The policy of restraining inflation while strengthening the real rate of the ruble did not have the best effect on the growth trends of Russian companies, in the manufacturing as well as the agricultural and financial sectors. It is based on an assumption that restraining inflation will support cheapening of credit resources,

WE STRESS THAT NO BANKS RATED BY FITCH, OR IN THE MARKET IN GENERAL, ARE DIRECTLY COMPARABLE WITH CENTROCREDIT, DUE TO ITS RELATIVELY UNIQUE BUSINESS MIX.

FitchRatings

Sergey V. Zhuravlev
Head of Crediting Department

which in its turn will stimulate economic growth. However, we encountered a similar situation before the economic crisis in 1998 and we are familiar with the possible results of such a policy.

The financial crisis of 1998 secured certain advantages for Russian companies in comparison to foreign producers. During the course of 2–3 years many companies were able to secure working capital for themselves and started modernizing their fixed assets, which in the majority of Russian producers are seriously depreciated both physically and technologically. For securing such a modernization of fixed assets both internal and foreign investments are necessary.

For an entire range of companies it is already noticeable that the strengthening of the ruble lowers their competitive position in comparison to foreign producers, and that a growth of imports will lead to a reduction of turnover,

which in the end will lead not to the modernization of fixed assets, but to the reduction of working capital.

It is well known that the growth of Russian economy is based primarily on the raw materials industries, not the production of highly processed goods. In particular in the automotive market one can observe the growth of the market share of both new and used imported cars.

At the same time during the past year, the Bank strove to provide wider diversification among promising branches of industry and prepared a series of projects which will be realized in the near future, in particular in the area of leasing and financing of gold mining.

The basic goal of the credit policy conducted by the Bank was to provide the necessary yield while maintaining acceptable risk for investments and the fullest satisfaction of the needs of the Bank's clients for additional financing of their operational activity.

The Bank provides loans within the limits of its equity capital and external funds, making sure that lending and funding is properly matched in terms of both maturity and volumes, observing the economic normatives established by the Bank of Russia. The main task of the credit work was the formation of a quality loan portfolio, diversification of borrowers by the industrial branch affiliation, term lengths of loans and the types of collateral security provided to the Bank.

As a result of balanced loan policy conducted by the Bank during 2002, losses from realized loan risks were 37.68 million rubles, which was 0.85% of the credit portfolio of the Bank.

This was due to the establishment of aggregate and individual credit limits, careful analysis and selection of loan applications, the system of loan approval by the Credit Committee operative at the Bank, continuous monitoring of changes in the financial condition of borrowers during the entire period of the loan, early exposure of problem loans and work aimed at their eventual repayment, as well as the Bank's elaborate risk control system at each stage of the loan process.

In considering loan applications, the Bank conducts a full analysis of the credit rating of the borrower. It evaluates their financial reliability in order to define the degree of risk of default of the loan provided, and determines the quality of the collateral security offered to the Bank. The analysis conducted considers an entire range of factors, specifically:

- The borrower's intention to meet financial obligations in regard to 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 history, and the borrower's trustworthiness. When considering a loan, the Bank gives a preference only to companies and organizations which have been successfully working for a significant period and have a positive credit history;

- The ability of the borrower to fulfill financial obligations for the loan provided, based on the financial potential of the firm. The Bank places exacting demands upon the borrower when evaluating its financial position, based on domestic and Western credit practices;

- Sufficiency of equity capital to provide for the liquidity of the borrower (the possibility of loan coverage). Loans of overdraft were provided with the establishment of a credit limit for a sum not more than 1/5th of the minimal monthly credit turnover of the client account (deposits to the account) during the course of the four previous months (while excluding the three maximum deposits in each month);

- The acceptability and adequacy of the collateral offered by the borrower. To provide additional mitigation of the default risk the Bank considered the following as additional security: bank bills of exchange; inventories, automobiles, real estate and other assets; stocks, bonds, bills of exchange and other securities of privatized companies and commercial organizations; guarantees of companies and organizations that have a stable financial condition. As a rule, the size of collateral was not less than the sum of the debt principal and the interest accrued. An estimate of the value of the collateral property and the title to it was conducted based on their market value while taking into account possible recourse-related expenses, market situation changes 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 development of the industry. Considering the changes in the economic situation, preference was given to domestic producers and trading companies, and also to companies operating in the service sector.

The classification of risk groups was undertaken by the Bank in accordance with the methodology of the Central Bank of the Russian Fede-

ration. Loans were supplied to borrowers who were categorized in the minimal risk group. In accordance with the requirements of the Central 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 749.86 million rubles. Each month the Bank conducts a reevaluation of the size of the credit risk for each loan.

Thanks to the clear and well formulated credit policy of the Bank in approving loan applications, and constant monitoring of the financial condition of borrowers, the past due sums at the end of the year were 25.44 million rubles, or 0.57% of the total sums due.

THE TOTAL OF CREDITS
ISSUED TO CORPORATE CLIENTS
AS OF 31.12.2002 WAS

77,361
THOUSAND US DOLLARS.

IT ROSE IN COMPARISON TO 31.12.2001
BY 11,700
THOUSAND US DOLLARS.

Leasing

The decline of the Russian financial sector that followed the August 1998 crisis exerted significant influence on the development of leasing in Russia. First of all, it led to a sharp decrease in long-term bank loans. As a result, many leasing companies ceased their activity. Besides this, according to the estimates of the Group for the Development of Leasing of the International Finance Corporation (IFC), the volume of leasing deals fell from approximately 1.4 billion US dol-

lars to a little more than 400 million US dollars. As a result of the crisis those companies who had received foreign currency loans for financing of leasing deals, but who had signed the deals in rubles, taking on the currency risk, suffered greatly. The policy of leasing companies after the crisis once again confirmed that leasing is a flexible and effective finance mechanism, which takes into consideration the interest of the lessee.

In the post-crisis period, new leasing companies continued to be created. Within one year from the crisis, 317 companies received leasing licenses, growth of the industry of 51%. The growth of the Russian economy undoubtedly influenced the sector of leasing services. The leasing companies with experienced and professional management, who were independent from banks which had suffered from the crisis and who were willing to take on the risks associated with leasing activity, developed successfully. As in the past, banks were unwilling to provide medium- and long-term loans, so leasing companies were forced to find other sources of financing. In addition to broadening their credit base, leasing companies also broadened their client base and the range of equipment with which they work. The starting point for the activity of leasing companies is traditionally automobiles; however, as they obtain experience in risk evaluation, they frequently transition to leasing more complex production equipment. A significant portion of lease financing provided by independent leasing companies is provided for small and medium enterprises.

At the beginning of 2002 further development in the leasing services sector occurred. Several macroeconomic level causes assisted this development. Economic growth continued, although its rate decreased in comparison with previous years. At the beginning of 2002, chapter 25 of the Tax Code of the Russian Federation came into force. This law regulates the application of profit tax to organizations, and all the essential advantages of leasing were preserved. In addition, with the approval of amendments to the Law on Leasing, which brought it into accordance with the Constitution of the Russian Federation and the Civil Code of the Russian Federation, the legal

“FINMARKET” agency 9 September 2002

The turnover of **CentroCredit** Bank in the factoring market amounted to more than 70 million rubles a month.

risk of leasing transactions was significantly decreased. At the beginning of 2002, a gradual growth in the volumes of bank loans could be observed, in connection with which leasing companies received somewhat increased access to financing. Besides this, in the years after the crisis leasing companies worked on broadening the possibilities for financing their deals and established stable relationships with their suppliers.

The decreased growth rates of the Russian economy are a cause for concern. According to the forecasts of some analysts, these rates were 3.6% in 2002, and from 3.4 to 4.4% in 2003. In order to increase the growth rates, structural changes in the economy are necessary as well as the modernization of fixed assets (their average age in industry at the beginning of 2001 was 18.7 years). Leasing, as an alternative financing mechanism, can play an extraordinarily important role in fulfilling these strategic goals: both in re-equipping the fixed assets of industrial enterprises, and in the development of small business.

During the entire course of its activity, CentroCredit Bank has constantly broadened the list of services provided to clients. The primary criterion for introducing new banking products is the maximum development and optimization of the business of our clients, satisfying their vital needs. This is why the Bank began to develop leasing services.

Leasing allows the client to create a universal and flexible system for realizing his long-term investment projects. The primary advantage of lease financing over traditional credits, or the purchase of equipment with a company's own funds are the following:

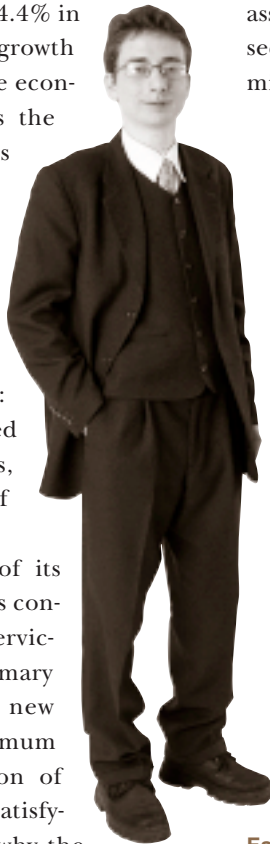
1. The client who uses leasing expands production and provides for the servicing of equipment without large one-time expenses and the necessity of attracting loans — as a result, an optimal relationship between equity and debt liabilities are maintained in the balance sheet of the enterprise;
2. Non-working assets are not increased, and funds are released for increasing the working capital of the enterprise;

3. The client optimizes its taxation base on account of:

- charge of the total amount of leasing payments as expenses;
- application of accelerated depreciation with an acceleration factor of up to 3.

It is worth noting that the Bank provides this service itself, without turning to leasing companies, which allows our clients to realize significant savings on commissions for leasing operations.

Thus, by offering potential customers of goods to acquire them through a leasing scheme, we not only assist them with modernizing their fixed assets, securing competitive advantages, but also optimize the financial condition of their companies.



INCOME FROM OPERATIONS
WITH SECURITIES INCREASED

BY 8,340

THOUSAND US DOLLARS
IN COMPARISON WITH THE PREVIOUS
YEAR, AND ON 31.12.2002 TOTALED

27,324

THOUSAND US DOLLARS.

Aleksey A. Sergienko

Head of Leasing and Factoring Department

Factoring

Factoring was introduced to Russia in 1988 as an experiment of the PromStroyBank and the ZhilSotsBank of the USSR. At that time, there was a complete absence of any sort of know-how in the country and no possibility of receiving access to international experience on the subject. The factoring departments took over only past due receivables, the agreement was signed between both the supplier and the customer, and the supplier was guaranteed payment by means of credits to the customer. Factoring services had the features of one-time deals without the provision of the range of insurance, information, accounting, and consulting services that are usually associated with factoring.

Some time later commercial banks began to implement factoring operations. It should be

noted that at the beginning they encountered the complete absence of modern factoring technologies and unsatisfactory payment discipline of debtors, which lead to significant losses. By 1994, having gained experience and intending to enter the international factoring market, TverUniversalBank became the first Russian bank accepted into the FCI followed by MosBusinessBank. For many years Bank Menatep, International Moscow Bank and others tried to work with factoring but due to a variety of objective and subjective factors, none of these attempts met with success.

After the crisis events of August 1998, trade in consumer goods, and first and foremost in food items returned to normal. Suppliers were able to refill the assortment of goods sold and expand the number of their customers. Customers found it more interesting to work with delayed payments. When retailers secure payment deferral, they do not need to repay their suppliers using their own money, diverting already small working capital, but instead can make payments with cash generated from sales. However one can understand suppliers who are reluctant to agree to delayed payments for goods, after all, in supplying the goods on credit, they further the depletion of their own working capital.

Thus the market demands a broad sale of goods on credit, which the financial and organizational abilities of suppliers do not allow them to supply. Where is the solution? Having encountered similar problems 20–30 years ago, retail companies of Western European countries used “factoring”, that is a package of services that are vitally necessary for the supply of goods with delayed payment. After the crisis a growth in the volume of factoring operations was noted.

Factoring is one of the directions of development for CentroCredit Bank. The reason for choosing this service as an alternative to traditional credit is our intention to provide more complete and flexible service to clients.

According to the independent experts, CentroCredit Bank took second place in the Russian Federation in 2002 by the volume of its factoring operations with a volume of more than 90 million rubles a month.

Factoring allows the client, on the one hand:

- To sharply increase the volume of its sales
- To attract new buyers
- To offer buyers more attractive purchase terms
- To qualitatively improve its competitive position in the market
- To buy goods from its suppliers at lower prices due to not requiring a payment delay from the supplier; and

On the other hand:

- To receive more flexible and optimal financing of increasing sales than is possible with traditional bank credits in case of a deficit of operational capital;
- To convert sales with delayed payments into sales with immediate payment: the client no longer has to await payment for the goods by the customer — he receives the greater part of the total of the payment as soon as the delivery is made;
- No bank credit is necessary — and no collateral security is needed, consequently the client ceases to bear all the expenses connected with securing a loan, and he will not need to overpay for using the resources of the bank, since in case of a loan he is forced to include the time required to purchase raw materials and produce the goods into the period of the loan.

In addition, CentroCredit Bank processes all the necessary documentation regarding the receivables due from the client and controls the payment due dates of his deliveries, — the Bank completely frees the client from working with debtors, and also protects from losses in case of a violation of the terms of payment.

Thus, factoring is a highly effective financial instrument, allowing clients not only to increase their working capital, but also to more rapidly and flexibly manage their financial flows to provide minimization of expenses and maximization of sales growth.

Financial Markets Activities

As one of the top twenty leading participants of the financial market (according the Federal Securities Markets Commission (FCSM)), CentroCredit Bank provides investors with full services in all segments of the financial markets.

“DENGI DLYA VAS” newspaper No. 1–2, September 2002

In the dealing rooms of **CentroCredit** Bank any person may test his or her skills and begin mastering the art of stock market trading.

The Bank offers brokerage services in all the significant segments of the Russian securities market – both on the main exchange floors (the MICEX, RTS, MSE), as well as on the over-the-counter market. CentroCredit Bank is a dealer on the GKO–OFZ state bond market. Customers are offered investments in the stocks of Russian issuers, government securities (GKO–OFZ), corporate and municipal bonds. The volume of transactions on the MICEX for the second half of 2002 increased more than 4.5 times in comparison with the first half of 2002 (from 9 to 41 billion rubles).

For large investors the Bank offers a range of services, providing quality execution of large or specific orders. In satisfying the demand for private brokerage services, in 2002 the Bank continued to develop its retail service in the financial markets within the framework of its “retail investment” concept. In order to simplify the procedures for client access to operations on the open market, products were developed for trading with securities on the Internet and for serving investors in a special dealing room equipped with a projector and individual work stations which permit exchange trading and technical analysis. This allowed for the continuation of a positive growth trend in the number of brokerage contracts signed (see diagram 13).

While actively working in the financial market implementing new banking products, the Bank applied schemes for crediting and financing banks and corporate clients, securing the obligations of borrowers with securities.

Depending on the specific situation, various financing technologies are used, including standard pledge and REPO transactions and targeted financing of the clients’ position for securities purchases.



Diagram 13. Increase of Clients Base (Brokerage Contracts)

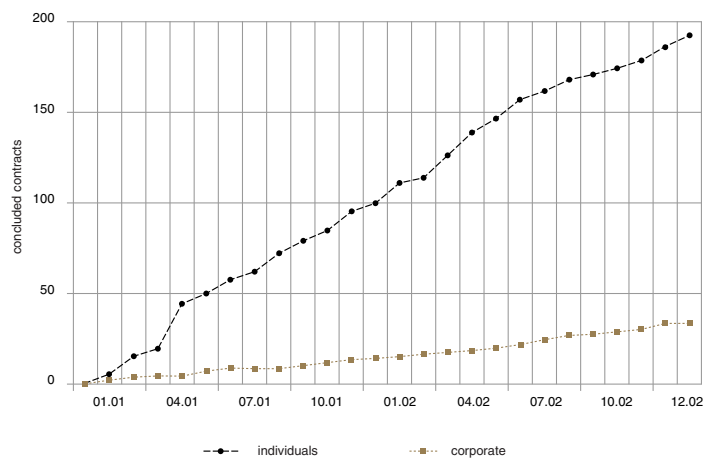
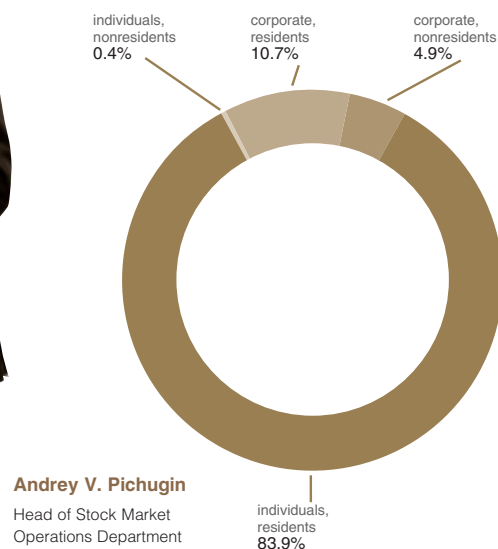


Diagram 14. Structure of Client Base (Concluded Brokerage Contracts)



Andrey V. Pichugin
Head of Stock Market Operations Department

Trust Management Services

CentroCredit Bank offers its services for trust management of clients’ assets in the financial market.

The services are provided to domestic and foreign investors who do not have the opportunity to constantly follow market trends to complete operations in a timely fashion, and who wish to use the professional experience of the team of CentroCredit Bank.

Trust management foresees work with investors in two areas:

- Individual portfolio investment;
- Investment of funds into the General Banking Management Fund “Absolute”.

Management of client funds through trust management contracts has a whole range of advantages, among which are:

- An individual approach to solving the tasks of a specific investor which takes into account such factors as the volume and period of investment, the area and instruments, periods of withdrawal and additional investment of funds;
- A broad range of areas for investment and instruments;

THE TOTAL VALUE OF THE SECURITIES PORTFOLIO INCREASED
BY 43,583
 THOUSAND US DOLLARS,
 AND ON 31.12.2002 STOOD AT
101,356
 THOUSAND US DOLLARS

- The possibility for transferring and returning property both in cash and as securities (for individual portfolio investment);
- The beneficiary in trust management contracts can be both the founder of the trust, as well as a third party;
- Information and consultation support of the client;
- A high quality of management and lowering of general risk during investment in securities;
- Calculation of the compensation for the trustee depends upon the results of his management.

Trust management can help clients take more effective decisions in the following areas:

- Defining goals for the investor and the degree of acceptable risk while investing in securities.
- While engaged in trust management services, the fund manager uses an individual approach to solving the tasks of each specific investor, taking into account details of the rules that govern work in the securities market for different groups of investors.
- The choice of specific trust management products.
- The range of instruments that will be offered for placing the funds of the investor is defined based on the investment preferences of the investor. The optimal management strategy and

periods for investing funds are determined by the investment time horizon.

- Negotiating the essential conditions and signing of a trust management contract
- During the negotiation of essential conditions of the trust management contract, special attention is paid to the detailed definition of the investment aims of the client, which becomes the foundation for the activity of the trustee in the process of trust management of the investor's property. The periods for investing funds are defined, while both additional investment and early withdrawal of funds from the portfolio are possible. The principles for compensating the fund manager that are written into the contract of trust management detail the specific work with various financial instruments and maximize the incentive for the fund manager to achieve the goals of the investor when investing in the securities market.

- Opening of trust management accounts and transfer of assets
- Separate trust management accounts at the Bank of Russia and separate accounts in authorized depositaries are opened to account for and conduct operations with clients' assets that have been transferred into trust management. The moment of transfer of assets into trust management is considered to be the moment that funds to be invested in securities are deposited into the trust bank accounts, or the moment that securities are deposited into the trust depo-account.

Depositary

The depositary of CentroCredit Bank is licensed as a professional participant of the securities market under license number 000-0274-111400.

CentroCredit Bank is a member of several self-regulating organizations: the National Association of Securities Market Participants (NAUFOR) and the National Funds Association (NFA). The depositary activity of CentroCredit Bank is insured by OOO SK "Soglasie".

The Depositary offers its clients a wide range of custodial services:

- Storage of securities and accounting for ownership rights of securities;
- The proper storage of securities certificates;
- The re-registration of ownership rights of securities;
- Conducting corporate actions with securities on behalf of the issuer;
- The registration of any liens or other obligations against the securities.

The Depository offers the possibility to conduct settlements with bills of exchange of CentroCredit Bank with custody accounts while using the “Bank-Client” remote access system.

The Depository has a broad network of correspondent relations, which allows our clients to conduct operations with securities on the leading Russian trading systems and with various financial instruments, including those circulating in international markets. In addition, for accelerating the transfer of securities, the Depository has electronic documentation systems with the depositories of the NP “National Depository Center” and ZAO “Depository-Clearing Company”, and also with the registrar OAO “Central Moscow Depository”.

Low commissions, qualified personnel, the ability to consult specialists, and the presence of a certified storage safe at the Bank make it extremely convenient for clients. The employees of the Depository have qualifications from the Federal Commission for the Securities Market (FCSM) of Russia for conducting depository activity.

The Depository takes an active part in conducting marketing research on the securities market and in the formation of an information database for the purpose of attracting clients.

Correspondent Relations and International Settlements

One of the primary areas of activity for CentroCredit Bank in the past year was the further broadening and strengthening of cooperation with correspondent banks. With the aim of completely satisfying clients’ requirement for settlement performance, the Bank continued to improve its relationships with partner banks, and to optimize its system of correspondent accounts.

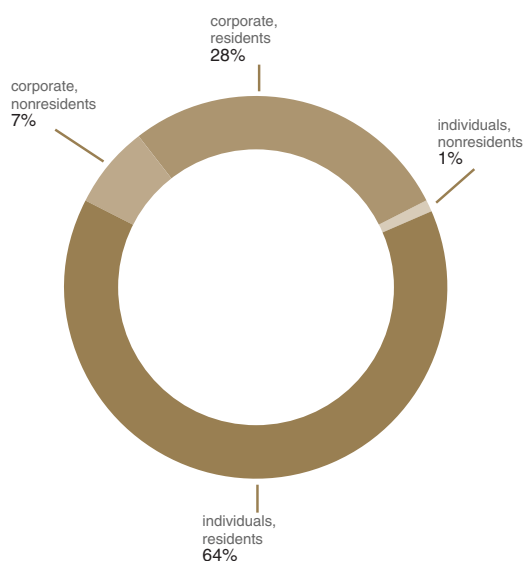
Both in the domestic and in the international market, CentroCredit Bank develops its business relationships with reliable and experienced partners. As a result, the Bank succeeded in creating the most favorable environment for client settlements, as well as for its own operations. A high level of speed and reliability in international settlements is provided by the S.W.I.F.T. system.

In the past year the principle correspondent banks of CentroCredit Bank abroad were: 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. The correspondent network of 11 foreign banks created by the end of the year assists in providing clients a wide range of services in the area

of international settlements, in choosing the optimal routing for payments in order to accelerate operations. Thanks to precise interaction with correspondent banks, the clients of the Bank encounter minimal issues with settlements, whatever the currency.

In the past year 13 “LORO” correspondent accounts were opened (of these one was held by a non-resident). At the current time 68 “LORO” correspondent accounts and 61 “NOSTRO” accounts are operative. Among the basic services offered to banks: opening and keeping correspondent accounts in all types of currencies, accrual of interest on balances of correspondent accounts; settlement of

Diagram 15. Structure of Client Base (Depository)



Larisa V. Zimina

Deputy Executive Director
Accounting, Analysis, Planning and Control,
Head of Tax Policy and Expertise Department



accelerated payments; earmarking funds in correspondent accounts; performance of operations on the internal currency exchange market; documentary operations, cash operations, collection of valuables by armored car service, operations in the securities markets.

CentroCredit Bank constantly improves its technological infrastructure, guided by the main strategic policy – the broadening of the range of services offered, increasing the service quality and introduction of new banking products. Electronic communications allow CentroCredit Bank to work efficiently with its correspondents. Its services have assisted regional banks to achieve more efficient management of assets placed in their correspondent accounts.

The basis of our long-term cooperation with foreign and Russian banks is the accuracy and highly efficient execution of each operation. Its partners are attracted by the mutually beneficial forms of cooperation offered by CentroCredit Bank, and by the variety of the Bank's services.

During the course of the year, the Bank worked actively to broaden the number of partners in the inter-bank market. In 2002, 31 agreements were signed concerning general conditions for cooperation in the area of conduct of operations in the Russian currency and money markets.

During the course of 2002, there was also continuous work in updating the contractual base for conducting operations and in optimizing the Bank's internal procedures.

As part of the program to develop the Bank as a universal credit-financial institution, offering a wide range of high quality services, it is planned to further study and use the positive experience of Russian and foreign banks in the sphere of conducting settlements in rubles and foreign currency, and work is also being undertaken to strengthen existing business relationships, to look for new partners and to broaden the number of correspondent banks both in Russia and abroad.



Precious Metals Operations

In 2002 the precious metals market suffered serious shocks. Sharp fluctuations of prices and trade volumes on the precious metals exchanges globally were explained exclusively by the instability of global politics. In 2002 the precious metals market once again demonstrated that the value of the metals themselves, gold, silver, platinum and palladium have a rather large share of political component in their price.

In these conditions CentroCredit Bank was able not only to maintain its positions, but also to increase its turnover, and thanks to its balanced policy also won an increase in clients and in the profitability of operations with precious metals.

In 2002 the Bank began to offer the full range of services present in the precious metals market, and also developed and implemented a new product in the gold-mining sector.

THE BANK IS AN ACTIVE PARTICIPANT OF THE INTERBANK MARKET, AND TURNOVER ON THIS MARKET APPROACHED

500 KG

OF GOLD PER MONTH.

Mikhail V. Brylev

Head of Precious Metals Department

The Bank is an active participant of the inter-bank market, and turnover on this market approaches 500 kilograms of gold a month. Master agreements have been signed with all of the large market participants, and metal accounts have also been opened and are being opened with leading international banks.

The system built for working with companies that use precious metals in their operational activity allows for meeting the wishes of clients flexibly, partially fixing prices and periods of settlement, which becomes important for producers when there are strong price variations in the gold market.

CentroCredit Bank conducts operations with metals accounts and its entrance into the international marketplace provided experience in the

entire range of metals operations. The Bank offers the opportunity to open and maintain both non-allocated and custody metals accounts, which offers the possibility to conduct precious metals transfer operations and a range of other operations, giving clients the opportunity to work with their precious metals assets as simply as with their monetary resources.

In 2001–2002 a program for making advances to gold mining companies was started and successfully completed, which was not only profitable for the Bank, but allowed it to strengthen its position on the precious metals market. In 2002–2003 CentroCredit Bank increased the volumes of its advances to more than a ton of gold, offering mining companies a series of exclusive services, allowing gold mining companies to lower the degree of risk at the stage of preparations for the mining season and to reduce the amount of interest actually paid for using resources. The Bank was able to decrease the period in which its resources were used and to increase the yield on projects for making advances to gold mining companies. The Bank conducts a series of projects for mining precious metals in various regions of the Russian Federation, such as Chukotka, Yakutia, and Buryatia. A system of controls has been built, which allows for maximum effectiveness in tracking observance of the schedules and realization stages of projects. This allows risks to be minimized and provides gold mining companies timely assistance where necessary. A well balanced and professional approach to the industry provides enormous potential for development and the implementation of modern banking technologies allows for risks to be minimized and effectiveness to be increased both for the Bank and for the companies themselves. And by expanding the geographical distribution of the client base it is possible to increase the total number of banking products offered.

In 2002 CentroCredit Bank won a firm position in the precious metal coin market and conducts an active policy of increasing turnover and market share. The Bank not only offers opportunities for the immediate purchase of coins, but also services clients by ordering both newly emitted and previously emitted precious metal coins of the Central Bank of Russia.

The Bank also offers a full range of services to individuals, including the sale of ingots from 5 grams to 1 kilogram, the sale of precious metal coins, and the maintenance of metals accounts.

Having substantial experience in the full range of operations in 2002, in the future it is planned to increase the level of business in this sector. It is also planned to introduce a new product for gold mining companies and for the servicing of clients with metals accounts.

Corporate Finance Services

Our principle in working with clients is maximum attention to the individual needs of clients and to the special features of projects that we are executing on their behalf.

Selection and structuring of direct investment projects

In the interests of the clients of the Bank, in 2002 the Corporate Finances Department initiated and at the current time manages a small number of projects for direct investments in the following sectors: electrical power, telecommunications, and outdoor advertising. The shareholders of the Bank and private investors provided the funds for these projects. In selecting these direct investment projects we were guided by the following criteria:

- that attractive business idea is part of the project, with an element of novelty which secures a long-term competitive advantage in the market, that there is a quality business plan;
- that business model of the project is confirmed by successful activity of the company in the primary stage;
- that project is oriented towards a growing mass market, providing the opportunity for rapid growth of income and the value of the company;
- that there exists a competent team of managers for the project, able to scale success.

Consulting services on mergers and acquisitions and on transactions with large blocks of shares

- Analytical support at the start and completion of transactions (industry and financial analysis of the object of the transaction comparative analysis of the value of the company);

“POLIT.RU” information portal, 1 October 2002
 CentroCredit Bank is opening a branch in Nalchik.

- Structuring and legal assistance for the transactions;
- Provision of the necessary investment banking infrastructure for completion of the transactions and conduct of settlements;

Organization of financing for corporate transactions.

- Credits for corporate transactions on a short-term basis;
- Organization of syndicated credits for financing corporate transactions, for example for LBO/MBO transactions.

Services for raising direct investments and investments from the capital markets

Raising funds (direct investments):

- Preparation of an investment memorandum and general “packaging” of the project,
- Presentation of the project to potential investors;
- Structuring and closing of the deal with investors, conduct of settlements for the transaction.
- Private and public placement of securities in the Russian market:
- Preparation for and realization of issues of stocks and corporate bonds,
- Preliminary marketing of supply and demand for securities in the Russian market as a whole or among a predetermined group of investors;
- Underwriting and market-maker services at the time of the realization of market operations with the securities of the client.

The strength of CentroCredit Bank that distinguishes us from investment companies is our readiness not only to consult but also to finance the client at the stage of preparations for raising



investments. In taking on financial risks, both the investment seeker and the potential investor are shown that the Bank believes in the success of the projects that it has decided to work on.

Financial Consulting

- Investment consulting – all questions related to the compilation of business plans, planning of investment, and attracting of credit resources;
- Management consulting – budgeting, management accounting, business restructuring, optimization of management structures, strategic planning;
- Consulting on the entire range of questions of corporate management, including asset consolidation, management of capital structure, relations with shareholders, defense against hostile takeovers, etc.

IN COMPARISON TO 31.12.2001,
**THE TOTAL OF FUNDS
 DEPOSITED BY CLIENTS
 DOUBLED AND TOTALED**
95,522
 THOUSAND US DOLLARS
 AT THE END OF 2002.

Sergey A. Berezovoy

Executive Director
 Corporate Finance

International Business

The primary goal of the newly created International Business Division is assisting in the realization of the strategy of the Bank by means of development of relationships with foreign partners, creditors, and potential investors, as well as international financial organizations and regulatory and oversight bodies of the financial markets of foreign states.

REUTERS agency, 11 October 2002

The information product Veksel represents the quotations of bills of exchange from the biggest Russian market makers such as Region, Vneshekonombank, **CentroCredit**, Promsvyazbank, Olma, and others.

The medium-term goals of the Bank include increasing income as a result of strengthened trust of the Bank on the part of Western creditors and investors, as well as the expansion of operations with non-residents of the Russian Federation and attracting relatively inexpensive funding from foreign partners in the debt capital market. One of the main goals of the Division is creating the conditions for increasing shareholder value through the sale of a portion of shares to a foreign investor. In connection with this, the Division uses all possible means to assist in reaching an important goal – building the reputation of CentroCredit Bank in international markets as a bank that strives to become more open and transparent for its international partners and at the same time the most reliable of private Russian banks.

A concentration of international operations in a separate Division favorably differentiates the Bank from many Russian financial institutions, where these operations are carried out by various divisions, the functions of which are frequently duplicated, which leads to an unjustified competition between divisions. In addition this allows for the provision of an integrated approach to building relationships with partners, oriented on forming profit centers, increasing the value of business and a positive development trend for the Bank as a whole.

Under these circumstances, the quality of management and the construction of a system of strategic management becomes the basic competitive advantage of the Bank. Since the orientation towards the external market continues to predominate in the Bank, international operations have been separated into a specialized division responsible for the implementation and improvement of systems of strategic management that foresee, above all, the ability to immediately react to changes in the external environment. The International Business Division is becoming a driving force which is leading the Bank to break out ahead of its main competitors.



Information Technologies

CentroCredit Bank is continuously improving its technological infrastructure, and this is determined by the main strategic policy – expanding the range of services offered, increasing the quality of customer service and the implementation of new banking products.

The automated banking systems “Diasoft 5NT”, developed by the company “Diasoft” has been implemented and is successfully operated at the Bank.

THE BANK'S SUCCESS IN MANAGING ITS SECURITIES ACTIVITY AND THE SMALL, FOCUSED SIZE OF ITS OPERATIONS, EXPLAINS **CENTROCREDIT'S STRONG PROFITABILITY**, COMPARED WITH AN AVERAGE ACROSS RUSSIAN BANKS.

FitchRatings

Maxim S. Safonov

Executive Director
International Business

This modern information system is the core of the software-technical complex, necessary for the effective management of the Bank.

In the past year the program “Bofi” was further developed for accounting of operations with securities (a proprietary development). The program is adapted for work with various types of assets: stocks, bonds, futures, bills of exchange, precious metals. The possibility to reflect operations for a multitude of balances of various types is provided for, with rights for reviewing balances distributed between various divisions of the Bank. There is a flexible individualized system for applying commissions. The high degree of customization of the program allows us to plan for its implementation in accounting of factoring operations in the near future.

With the goal of increasing the reliability and productivity of the information and accounting systems, great attention was paid in 2002 towards modernizing and improving the hardware base of computer technology. Conforming with best practice, all of the primary servers and systems of the Bank are duplicated. At the current time an automatic system for fire extinguishing is being installed.



...PERSONNEL COSTS, WHICH ARE EXPECTED TO
CONTINUE GROWING
FOR THE FORESEEABLE
FUTURE, AS THE BANK INVESTS
IN NEW PEOPLE
AND DEVELOPS INTO MORE
OF A “REAL” BANK.

FitchRatings

Igor A. Avilkin

Head of IT Department

A close-up, artistic photograph of a fountain pen nib writing intricate black calligraphy on a light-colored surface. The nib is positioned diagonally from the top right towards the center. The calligraphy consists of fluid, interconnected loops and curves. A thin white vertical line extends from the bottom of a white rectangular box containing the text 'accuracy and transparency' down to the tip of the pen nib. The background is softly blurred, showing hints of other calligraphic strokes and a red circular object in the lower right corner.

accuracy and transparency

- Consolidated Financial Statements 2002
- Financial Statements 2002
(Russian accounting principles)

Independent Auditor's Report

To the Board of Management JSC "AKB 'CentroCredit' "

We have audited the accompanying consolidated balance sheet of JSC "AKB 'CentroCredit'" and its subsidiaries (the "Group") as of 31 December 2002, and the related statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing as issued by the International Federation of Accountants. 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 2002, and the results of its operations, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

*KPMG Limited
Moscow, Russian Federation
2 July 2003*

THE OPERATING INCOME OF
CENTROCREDIT BANK FOR
THE YEAR ENDED 31.12.02

IS 579
MILLION RUBLES



Eugeny M. SPORYSHEV

Deputy Executive Director
Accounting, Analysis, Planning
and Control

CONSOLIDATED FINANCIAL STATEMENTS 2002**Consolidated statement of income for the year ended 31 December 2002**

CentroCredit Bank

	2002 RUR '000	2001 RUR '000
Interest income	684,725	649,798
Interest expense	<u>(274,141)</u>	<u>(222,748)</u>
Net interest income	410,584	427,050
Fee and commission income	72,438	142,558
Fee and commission expense	<u>(13,934)</u>	<u>(8,332)</u>
Net fee and commission income	58,504	134,226
Net securities trading income	–	29,509
Net foreign exchange loss	(6,044)	(10,415)
Net gains from available-for-sale investments	1,051,738	1,054,630
Other income	<u>36,127</u>	<u>32,622</u>
Operating income	1,550,909	1,667,622
Impairment losses	(12,186)	(88,536)
General administrative expenses	<u>(302,503)</u>	<u>(180,850)</u>
Operating expenses	(314,689)	(269,386)
Income before loss on net monetary position and taxes	1,236,220	1,398,236
Loss on net monetary position	<u>(89,864)</u>	<u>(197,468)</u>
Income before taxes	1,146,356	1,200,768
Income tax expense	<u>(118,686)</u>	<u>(118,703)</u>
Net income	<u>1,027,670</u>	<u>1,082,065</u>

The consolidated financial statements were approved by the Board of Management of the Group on 2 July 2003.

Chairman of the Board
Tarasov A. I.

Active Chief Accountant
Maksimov E.I.

The income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

Consolidated balance sheet as of 31 December 2002

CentroCredit Bank

	2002 RUR '000	2001 RUR '000
ASSETS		
Cash	66,095	41,049
Due from the Central Bank of the Russian Federation	400,182	304,059
Placements with banks and other financial institutions	432,242	436,090
Financial instruments held for trading	–	5,974
Amounts receivable under reverse repurchase agreements	73,606	1,690,863
Loans to customers	2,245,355	2,215,248
Investments available-for-sale	10,630,221	3,033,754
Other assets	655,938	74,259
Property and equipment	<u>28,740</u>	<u>24,713</u>
Total Assets	<u>14,532,379</u>	<u>7,826,009</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits and balances from banks and other financial institutions	1,394,704	1,195,619
Amounts payable under repurchase agreements	5,827,661	2,478,510
Current accounts and deposits from customers	1,517,322	1,043,404
Promissory notes	1,429,719	636,739
Borrowings	118,000	585,614
Other liabilities	857,545	46,656
Deferred tax liability	<u>151,178</u>	<u>180,506</u>
Total Liabilities	<u>11,296,129</u>	<u>6,167,048</u>
Shareholders' Equity		
Share capital	820,000	820,000
Unpaid capital	–	(358,942)
Treasury shares	(80,380)	(308,862)
Share capital inflation adjustment	250,235	250,235
Retained earnings	<u>2,246,395</u>	<u>1,256,530</u>
Total Shareholders' Equity	<u>3,236,250</u>	<u>1,658,961</u>
Commitments and Contingent Liabilities		
Total Liabilities and Shareholders' Equity	<u>14,532,379</u>	<u>7,826,009</u>

The balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 December 2002

CentroCredit Bank

	2002 RUR '000	2001 RUR '000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest and fee and commission receipts	749,118	389,376
Interest and fee and commission payments	(257,815)	(178,406)
Net receipts from securities trading	–	25,04
Net payments for foreign exchange	(6,522)	(6,349)
Net receipts from available-for-sale investments	1,126,592	1,353,637
Other income	35,497	31,323
General and administrative expenses	(281,751)	(145,108)
(Increase)/decrease in operating assets		
Due from the Central Bank of the Russian Federation	(166,533)	(31,083)
Placements with banks and other financial institutions	(17,654)	(96,307)
Financial instruments held for trading	5,744	(5,974)
Investments available-for-sale	(7,838,308)	(2,063,926)
Amounts receivable under reverse repurchase agreements	1,552,243	(1,690,863)
Loans to customers	(110,262)	(1,830,088)
Other assets	43,796	(64,872)
Increase/(decrease) in operating liabilities		
Deposits and balances from banks and other financial institutions	244,749	500,465
Amounts payable under repurchase agreements	3,439,077	2,477,070
Current accounts and deposits from customers	753,287	529,038
Promissory notes	811,367	484,406
Borrowings	(681,000)	585,614
Other liabilities	46,362	(26,206)
Net cash from operating activities before taxes paid	(552,013)	236,795
Taxes paid	(11,545)	(23,022)
Cash flows from operations	(563,558)	213,773
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of property and equipment	(18,839)	(15,441)
Cash flows from investing activities	(18,839)	(15,441)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	358,942	251,112
Proceeds from/purchase of treasury shares	228,482	(321,268)
Dividends paid	(37,064)	–
Cash flows from financing activities	550,360	(70,156)
Net increase/(decrease) in cash and cash equivalents	(32,037)	128,176
Effect of changes in exchange rates on cash and cash equivalents	(8,860)	(4,067)
Cash and cash equivalents at the beginning of the year	229,438	105,329
Cash and cash equivalents at the end of the year	188,541	229,438

The statement of cash flows is to be read in conjunction with the notes, to and forming part of, the consolidated financial statements.

Consolidated statement of changes in shareholders' equity for the year ended 31 December 2002

CentroCredit Bank

	Share Capital	Unpaid capital	Treasury shares	Share capital inflation adjustment	Retained earnings	Total
	RUR '000	RUR '000	RUR '000	RUR '000	RUR '000	RUR '000
Balance as of 1 January 2001	219,700	–	–	250,206	174,465	644,371
Treasury shares acquired	–	–	(308,862)	–	–	(308,862)
Net income for the period	–	–	–	–	1,082,065	1,082,065
Shares issued	<u>600,300</u>	<u>(358,942)</u>	<u>–</u>	<u>29</u>	<u>–</u>	<u>241,387</u>
Balance as of 31 December 2001	<u>820,000</u>	<u>(358,942)</u>	<u>(308,862)</u>	<u>250,235</u>	<u>1,256,530</u>	<u>1,658,961</u>
Treasury shares sold	–	–	228,482	–	–	228,482
Shares paid	–	358,942	–	–	–	358,942
Net income for the period	–	–	–	–	1,027,670	1,027,670
Dividends to shareholders	–	–	–	–	(37,805)	(37,805)
Balance at of 31 December 2002	<u>820,000</u>	<u>–</u>	<u>(80,380)</u>	<u>250,235</u>	<u>2,246,395</u>	<u>3,236,250</u>

The statement of changes in shareholders' equity is to be read in conjunction with the notes, to and forming part of, the consolidated financial statements.

Balance sheet on 1 January 2003

Joint-Stock Commercial Bank "CentroCredit" (private joint-stock company)

ZAO AKB "CentroCredit"

Registration number 121, BIK 044583514

Postal address: 119017, Moscow, Pyatnitskaya Ulitsa, 31/2, Building 1

(RUR thousands)

N	Name of Account	At the end of the reporting period
1	2	3
ASSETS		
1.	Currency and accounts at the Central Bank of the Russian Federation	185424
2.	Mandatory reserves at the Central Bank of the Russian Federation	277736
3.	Funds at credit institutions less reserves (line 3.1 – line 3.2)	36046
3.1.	Funds at credit institutions	36103
3.2.	Reserves for possible losses	57
4.	Net investments in trading securities (line 4.1 – line 4.2)	1439231
4.1.	Investments in trading securities	1441347
4.2.	Reserves for devaluation of securities and for possible losses	2116
5.	Loans and equivalent debts	5517595
6.	Reserves for possible loan losses	811750
7.	Net loan liabilities (line 5 – line 6)	4705845
8.	Interest accrued (including past due)	12730
9.	Net investments in investment securities retainable until redemption (line 9.1 – line 9.2)	0
9.1.	Investments in investment securities retainable until redemption	0
9.2.	Reserves for possible losses	0
10.	Fixed Assets, Intangible Assets and Supplies	46188
11.	Net investments in securities held for sale (line 11.1 – line 11.2)	17327
11.1.	Investments in securities held for sale	30889
11.2.	Reserves for devaluation of securities and for possible losses	13562
12.	Accrued Expenses for other operations, corrected for increased interest income	4102
13.	Other assets less reserves (line 13.1 – line 13.2)	1144934
13.1.	Other assets	1160023
13.2.	Reserves for possible losses	15089
14.	Total Assets (lines 1 + 2 + 3 + 4 + 7 + 8 + 9 + 10 + 11 + 12 + 13)	7869563
LIABILITIES		
15.	Credits received by credit organizations from the Central Bank of the Russian Federation	0
16.	Funds of Credit Organizations	1413929
17.	Funds of Clients	2530569
17.1.	Including deposits of individuals	230205
18.	Accrued income for other operations	134
19.	Debt liabilities issued	1437350
20.	Other liabilities	1036039
21.	Reserves for possible losses on derivative transactions and off-balance sheet obligations, and for transactions with debtors for operations with residents of off-shore jurisdictions	55761
22.	Total Liabilities (lines 15 + 16 + 17 + 18 + 19 + 20 + 21)	6473782
EQUITY		
23.	Charter Capital (funds of stockholders (shareholders)) (line 23.1 + 23.2 + 23.3), incl.:	820000
23.1.	Ordinary stock and shares and registered	819999
23.2.	Privileged shares registered	1
23.3.	Unregistered charter capital of non-joint-stock credit organizations	0
24.	Treasury Stock, purchased from stockholders	8200
25.	Additional paid-in capital	0
26.	Reserves and profit retained for use by the credit organization	114130
27.	Reevaluation of fixed assets	1387
28.	Profit (loss) for the reporting period	579098
29.	Dividends accrued from the profits of the current year	0
30.	Profit distributed (excluding dividends)	100737
31.	Retained Earnings for the current year (line 28 – line 29 – line 30)	478361
32.	Expenses and risks influencing equity	9897
33.	Total Equity (line 23 – 23.3 – 24 + 25 + 26 + 27 + 31 – 32 — for profitable credit organizations), (line 23 – 23.3 – 24 + 25 + 26 + 27 + 28 – 32 — for loss-making credit organizations)	1395781
34.	Total Liabilities: (lines 22 + ct. 23.3 + ct. 33)	7869563
OFF BALANCE SHEET LIABILITIES		
35.	Non-recallable obligations of credit organization	5370749
36.	Guarantees given to credit organizations	24674

Trust operations were undertaken during the course of the year, but at the end of the year there were no balances on trust accounts.

Statement of profit and loss for 2002

Joint-Stock Commercial Bank CentroCredit (private joint-stock company)

ZAO AKB "CentroCredit"

Registration number 121, BIK 044583514

Postal address: 119017, Moscow, Pyatnitskaya Ulitsa, 31/2, Building 1

(RUR thousands)

N n/n	Name of Account	For the reporting period
1	2	3
Interest received and similar income from:		
1.	Placing funds in banks in the form of credits, deposits, loans and in accounts at other banks	98033
2.	Loans provided to other clients	592976
3.	Funds transferred into leasing	7714
4.	Securities with fixed income	52048
5.	Other sources	1132
6.	Total Interest received and similar income: (line 1 + line 2 + line 3 + line 4 + line 5)	751903
Interest paid and similar expenses for:		
7.	Funds obtained from banks, including loans and deposits	91854
8.	Funds obtained from other clients, including loans and deposits	29163
9.	Debt securities issued	43834
10.	Lease payments	11027
11.	Total Interest paid and similar expenses: (line 7 + line 8 + line 9 + line 10)	175878
12.	Net Interest and similar income (line 6 – line 11)	576025
13.	Commission income	66797
14.	Commission expense	3368
15.	Net commission income (line 13 – line 14)	63429
Other operational income:		
16.	Income from operations with foreign currency and other currency instruments, including exchange rate differences	290221
17.	Income from trading operations with precious metals, securities, and other property, positive results of reevaluation of precious metals, securities, and other property	2578114
18.	Dividend income	65824
19.	Other current income	20816
20.	Total other operational income: (line 16 + line 17 + line 18 + line 19)	2954975
21.	Current income: (line 12 + line 15 + line 20)	3594429
Other operational expenses:		
22.	Administration Expenses	122997
23.	Operational Expenses	67235
24.	Expenses for operations with foreign currency and other currency instruments, including exchange rate differences	266293
25.	Expenses for trading operations with precious metals, securities, and other property, negative results of reevaluation of precious metals, securities, and other property	2219714
26.	Other current expenses	61766
27.	Total other operational expenses: (line 22 + line 23 + line 24 + line 25 + line 26)	2738005
28.	Net current income before formation of reserves and not taking into account unexpected income/expense (line 21 – line 27)	856424
29.	Change in the size of reserves for possible loan losses	205231
30.	Change in the size of reserves for devaluation of securities and possible losses	5730
31.	Change in the size of other reserves	66365
32.	Net current income not taking into account unexpected income/expense: (line 28 – line 29 – line 30 – line 31)	579098
33.	Unexpected income less unexpected expenses	0
34.	Net current income after accounting for unexpected income/expense: (line 32 + line 33)	579098
35.	Profit Tax	100737
36a.	Unexpected after-tax expenses	0
37.	Net Profit (loss) for the reporting period: (line 34 – line 36a)	579098

Cash Flow Statment for 2002

Joint-Stock Commercial Bank "CentroCredit" (private joint-stock company)

ZAO AKB "CentroCredit"

Registration number 121, BIK 044583514

Postal address: 119017, Moscow, Pyatnitskaya Ulitsa, 31/2, Building 1

(RUR thousands)

N	Name of Account	For the reporting period
1	2	3
I. Cash flow from operating activity		
1.	Interest income	751903
2.	Interest expense	175878
3.	Commission income	66797
4.	Commission expense	3368
5.	Income from operations with foreign currency and other currency instruments	71876
6.	Income from trading operations with precious metals, securities, and other property	1654605
7.	Expenses for operations with foreign currency and other currency instruments	26310
8.	Expenses for trading operations with precious metals, securities, and other property	1895264
9.	Dividend income	65824
10.	Other operating income	20816
11.	Other operating expenses	251998
12.	Unexpected expense after taxation	0
13.	Total income/expenses: (line 13.1 + line 13.2), incl.	215099
13.1.	Income/expenses (line 1 – line 2 + line 3 – line 4 + line 5 + line 6 – line 7 – line 8 + line 9 + line 10 – line 11 – line 12)	279003
13.2.	Change in income/expenses	–63904
14.	Payments to the government, deducted from profits, payments for charitable and other purposes	–77373
15.	Cash flows from operational activity before accounting for changes in current assets/liabilities (line 13 + line 14)	137726
Changes of current assets		
16.	Mandatory reserves in the Central Bank of the Russian Federation	–166532
17.	Funds at credit organizations	–11768
18.	Investments in trading securities	–906874
19.	Loans and equivalent debts	–2136748
20.	Other assets	–271764
Changes in current liabilities		
21.	Credits received by credit organizations from the Central Bank of the Russian Federation	0
22.	Funds of credit organizations	264764
23.	Funds of clients	1372164
24.	Other Obligations	350504
25.	Net change in cash from current operations (line 16 + line 17 + line 18 + line 19 + line 20 + line 21 + line 22 + cline 23 + line 24)	–1506254
26.	Net change from operational activity (line 15 + line 25)	–1368528
II. Cash flow from Investment Activity		
27.	Fixed assets, intangible assets, and supplies	–17649
28.	Investments in investment securities	53219
29.	Investments in securities held for sale	–27131
30.	Net change in cash from investment activity (line 27 + line 28 + line 29)	8439
III. Cash flows from Financing Activity		
31.	Charter capital — (funds of stockholders (shareholders))	13
32.	Treasury stock, purchased from stockholders (shareholders)	–8200
33.	Additional paid-in capital	0
34.	Funds and profits, retained for use by the credit organization	–5659
35.	Dividends accrued from the profit of the current year	0
36.	Debt liabilities issued	819397
37.	Net change in cash from financing activity (line 31 + line 32 + line 33 + line 34 + line. 35 + line 36)	805551
38.	Net result of the reevaluation of foreign currency and other currency instruments, precious metals and securities; reevaluation of fixed assets; accrued and other funds, not affecting the financial result, and other components	525663
39.	Net change in cash and cash equivalents (line 26 + line 30 + line 37 + line 38)	–28875
40.	Total cash and equivalent funds at the beginning of the reporting period	228958
41.	Total cash and equivalent funds at the end of the reporting period (line 39 + line 40)	200083

Information concerning the level of capital adequacy, reserve size for covering doubtful loans and other assets as of 1 January 2003

N	Name of Account	At the end of the reporting period
1	2	3
1.	Actual value of equity adequacy (%)	15.4
2.	Normative value of equity adequacy (%)	10.0
3.	Size (absolute value) of equity of the credit organization (RUR thousands)	1609336
4.	Size of the calculated required reserve for possible loan losses (RUR thousands)	811749
5.	Size of the actually formed reserve for possible loan losses (RUR thousands)	811750
6.	Size of the calculated reserve for possible losses (RUR thousands)	30824
7.	Size of the actually formed reserve for possible losses (RUR thousands)	30824

Chairman of the Management Board

Andrei I. Tarasov

Deputy Controller

Evgeny I. Maksimov

In the opinion of the auditing company ZAO "KPMG", the balance sheet, profit and loss statement, cash flow statement, and information about the level of capital adequacy, and size of reserves for covering doubtful loans and other assets in all essential respects accurately reflects the financial position of ZAO AKB "CentroCredit" as of 1 January 2003, and the results of its financing and operational activity for the period from 1 January 2002 up to and including 31 December 2002.

Detailed information about the results of the audit, including the facts mentioned above, is contained in the auditors report on the accuracy of the reports of the credit organization as of 1 January 2003.

– Name of auditing organization	Closed Joint-Stock Company "KPMG"
– License Number	E 003330
– License issuance date	17.01.2003
– License expiration date	16.01.2008
– Name of issuing body	The Ministry of Finance of Russia
– Last name, First name, Patronymic of the chief of of auditing organization	Lukashova N. V.

Information on the person executing the published reports:

– Last Name, First Name, Patronymic of the person executing the published report:	Maksimova S. A.
– Position	Deputy Director ZAO "KPMG"
– Number of the document confirming authorization of the person executing the published report:	30
– Date of the document, confirming authorization of the person executing the published report:	19.02.2001
– Name of the document, confirming authorization of the person executing the published report:	Power of attorney

Contact Information for CentroCredit Bank

For any questions you might have please contact the client Service Department or the Bank's Reception:

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Rublevskaya p/a, derevnya Myakinino,
GSK "LUKI+"
Tel. +7 (095) 775-60-70

Tushino Additional Office

Volokolamskii Shosse 71
Tel. +7 (095) 491-68-50

Novokuznetsky Dealing Center Additional Office

Novokuznetskaya Ulitsa 4/12, building 2
Tel.: +7 (095) 951-21-01

Cash Desk Number 2

Located on the premises of the
"Furniture Exposition" shopping center
Kronshtadtskiy Bulvar 14, Moscow
Tel.: +7 (095) 459-17-86

Cash Desk Number 3

Located on the premises of the
OOO "Orbita Motors" showroom.
Aviamotornaya Ulitsa 19a, building 2, Moscow
Tel.: +7 (095) 726-59-95

Cash Desk Number 4

Located on the premises of automotive
dealership "Avtogaz-Lyux"
Kotlyakovskaya Ulitsa 6, building 12, Moscow
Tel.: +7 (095) 311-48-48

Cash Desk Number 5

Located on the territory of the automotive
dealership "Mozer Motors"
Simferopolskaya Shosse 4,
Moscow Region, Shcherbinka
Tel.: +7 (095) 940-60-79

Cash Desk Number 6

B. Gnezdikovskiy pereulok 7/28, building 1,
Moscow
Tel.: +7 (095) 935-77-77

Cash Desk Number 7

Stavropolskaya Ulitsa 41, building 1, Moscow
Tel.: +7 (095) 358-43-65

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Located in the Central Office

Pyatnitskaya Ulitsa 31/2, Moscow
Tel.: +7 (095) 951-48-94

Currency Exchange Desk

Located on the premises of "Trio Interior" store

Pyatnitskaya Ulitsa 39, building 1, Moscow
Tel.: +7 (095) 953-09-74