Bank Petrocommerce

OJSC Bank Petrocommerce
U.S.$120,000,000
9.00 per cent.
Loan Participation Notes due 2007

issued by, but without recourse to, Standard Bank London Holdings PLC for the purpose of financing a loan by Standard Bank London Limited to

OJSC Bank Petrocommerce
Issue Price: 100 per cent.

Standard Bank London Holdings PLC (''SBLH PLC'') is issuing an aggregate principal amount of U.S.$120,000,000 Loan Participation Notes due 2007 (the ''Notes''). The proceeds of the issue of the Notes will be used for the sole purpose of financing a loan (the ''SBL Loan'') by SBLH PLC to Standard Bank London Limited (''SBL'') pursuant to a loan agreement dated 5 February 2004 (the ''SBL Loan Agreement'') between SBLH PLC and SBL. The proceeds from the SBL Loan will be used for the sole purpose of financing an on-loan (the ''Petrocommerce Loan'' and, together with the SBL Loan, the ''Loans'') by SBL to OJSC Bank Petrocommerce (the ''Bank'') pursuant to a loan agreement dated 5 February 2004 (the ''Petrocommerce Loan Agreement'' and, together with the SBL Loan Agreement, the ''Loan Agreements'') between SBL and the Bank. SBLH PLC will charge, by way of first fixed charge as security for its payment obligations in respect of the Notes, its rights and interests as lender under the SBL Loan Agreement, and SBL will charge, by way of first fixed charge as security for the payment obligations of SBLH PLC in respect of the Notes, its rights and interests as lender under the Petrocommerce Loan Agreement, to J.P. Morgan Corporate Trustee Services Limited, as trustee (the ''Trustee''), for the benefit of the holders of the Notes (the ''Noteholders'') and SBLH PLC and SBL will assign their respective administrative rights under the Loan Agreements to the Trustee (the ''Loan Administration Assignment'').

In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of SBLH PLC to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received by or for the account of SBLH PLC pursuant to the SBL Loan Agreement. SBLH PLC will have no other financial obligation under the Notes. **Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the credit and financial standing of the Bank in respect of the financial servicing of the Notes.**

Interest on the Notes will be payable semi-annually in arrear on 10 February and 10 August of each year (save for the last payment of interest, which will be made on 9 February 2007) commencing on 10 August 2004. SBLH PLC shall account to Noteholders for an amount equivalent to amounts of interest actually received by or for the account of SBLH PLC pursuant to the SBL Loan Agreement, which interest under the SBL Loan is equal to 9.00 per cent. per annum. See ''Terms and Conditions of the Notes – Interest''.

Except as set forth herein, payments in respect of the Notes will be made without any deduction or withholding for or on account of taxes of the Russian Federation or the United Kingdom. See ''Taxation''. The Petrocommerce Loan may be prepaid at its principal amount, together with accrued interest, at the option of the Bank upon the Bank being required to deduct or withhold any such Russian or United Kingdom taxes from payments to be made by it in respect of the Petrocommerce Loan. The Petrocommerce Loan may also be prepaid if it becomes unlawful for the Loans or the Notes to remain outstanding, as set out in the Petrocommerce Loan Agreement. Upon prepayment of each Loan in accordance with the respective terms of the Loan Agreements (subject to the receipt of the relevant funds from the Bank) the principal amount of all outstanding Notes will be prepaid by SBLH PLC, together with accrued interest.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS".

THE NOTES AND THE LOANS (COLLECTIVELY, THE "SECURITIES") HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") AND, SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED AND SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("REGULATION S")).

Application has been made to list the Notes on the Luxembourg Stock Exchange.

The Notes will be represented by a global Note (the ''Global Note''), without interest coupons, which will be registered in the name of Chase Nominees Limited and deposited with a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System (''Euroclear'') and Clearstream Banking, *société anonyme* (''Clearstream, Luxembourg''), on or about 10 February 2004 (the ''Closing Date''). Ownership interests in the Global Note will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their respective participants. Notes in definitive form will be issued only in limited circumstances.

Joint Lead Managers

ABN AMRO **Standard Bank London Limited**

Co-Managers

Reserve Invest (Cyprus) Limited **Banco Privado Português**
Alpha Bank **MDM BANK**

Piraeus Bank, London Branch

The date of this Offering Circular is 5 February 2004

The Bank, having made all reasonable enquiries, confirms that: (i) this Offering Circular contains all information with respect to the Bank, to the Bank and its subsidiaries and affiliates taken as a whole, the Loan Agreements and the Notes that is material in the context of the issue and offering of the Notes; (ii) the statements contained in the Offering Circular relating to the Bank are in every material particular true and accurate and not misleading; (iii) the opinions, expectations and intentions expressed in this Offering Circular with regard to the Bank are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Bank, the Loan Agreements or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Offering Circular misleading in any material respect; and (v) all reasonable enquiries have been made by the Bank to ascertain such facts and to verify the accuracy of all such information and statements. The Bank accepts responsibility accordingly. SBL accepts responsibility for all information contained herein with respect to SBL, and SBLH PLC accepts responsibility for all information contained herein with respect to SBLH PLC.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of, the Bank, SBLH PLC, SBL or the Managers (as defined in "Subscription and Sale" herein) to subscribe or purchase, any Notes. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Bank, SBLH PLC, SBL and the Managers to inform themselves about and to observe any such restrictions. None of the Bank, SBLH PLC, SBL or the Managers has authorised any offer of Notes to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (the "Regulations"). Notes may not lawfully be offered or sold to persons in the United Kingdom except in circumstances which do not result in an offer to the public in the United Kingdom within the meaning of the Regulations or otherwise in compliance with all applicable provisions of the Regulations. For a description of certain further restrictions on offers and sales of Notes and distribution of this Offering Circular, see "Subscription and Sale".

No person is authorised to provide any information or to make any representation not contained in this Offering Circular and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Bank, SBLH PLC, SBL, the Trustee or the Managers. The delivery of this document at any time does not imply that the information contained in it is correct as at any time subsequent to its date.

No representation or warranty, express or implied, is made by the Managers as to the accuracy or completeness of the information set forth in this document, and nothing contained in this document is, or shall be relied upon as, a promise or representation, whether as to the past or the future. None of the Managers assumes any responsibility for the accuracy or completeness of the information set forth in this document. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Bank, SBL and SBLH PLC and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investment.

None of the Bank, SBL, SBLH PLC, the Managers or any of their respective representatives is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser under appropriate legal investment or similar laws. Each investor should consult with his own advisers as to the legal, tax, business, financial and related aspects of a purchase of the Notes.

IN CONNECTION WITH THIS ISSUE, STANDARD BANK LONDON LIMITED (OR ANY PERSON ACTING ON ITS BEHALF) MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD. HOWEVER, THERE MAY BE NO OBLIGATION ON STANDARD BANK LONDON LIMITED (OR ANY PERSON ACTING ON ITS BEHALF) TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME, AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

ENFORCEABILITY OF CIVIL LIABILITIES IN RUSSIA

The Bank is an open joint-stock company organised under the laws of the Russian Federation ("Russia"). All of the directors and senior executive officers of the Bank reside in Russia. As a result, it may not be possible for investors to effect service of process outside Russia upon the Bank or such persons. Moreover, substantially all the assets of the Bank and of such persons are located in Russia, and it may not be possible for investors to enforce in Russia judgments rendered against them, including judgments obtained in an English court. Judgments rendered by a court in any jurisdiction outside Russia will be recognised by courts in Russia only if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between Russia and the country where the judgment is rendered. If there is such a treaty, Russian courts may nonetheless refuse to recognise and enforce a foreign court judgment on the grounds provided in such treaty and in Russian legislation in effect on the date on which such recognition and enforcement are sought. No such treaty exists between Russia and the United Kingdom.

FORWARD-LOOKING STATEMENTS

This Offering Circular contains "forward-looking statements" which relate to, without limitation, the Bank's plans, objectives, goals, strategies, future operations and performance. These forward-looking statements are characterised by words such as "anticipates", "estimates", "expects", "believes", "intends", "plans", "may", "will", "should" and similar expressions. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause circumstances or the Bank's actual results, performance or achievements to be materially different from any future circumstances, results, performance or achievements expressed or implied by such statements. Such forward-looking statements are inherently based on numerous assumptions regarding, among other things:

- the performance of the Russian economy;
- the Bank's expansion and acquisition plans;
- the impact of the Bank's expansion on its revenue potential, cost basis and margins;
- the Bank's ability to remain competitive in the banking industry;
- the effects of regulatory and fiscal developments and legal proceedings;
- the Bank's debt and the impact of exchange rate fluctuations; and
- the Bank's ability to meet its obligations and develop and maintain additional sources of financing.

Accordingly, prospective purchasers of the Notes should not place undue reliance on these forward-looking statements. The important factors that could cause the Bank's actual results, performance or achievements to differ materially from those in these forward-looking statements include, but are not limited to, those discussed in "Risk Factors" and "The Bank". These forward-looking statements speak only as at the date of this Offering Circular. The Bank expressly disclaims any obligation or undertaking to disseminate after the date of this Offering Circular any updates or revisions to any forward-looking statements contained herein to reflect any change in its expectation with regard thereto or any change in events, conditions or circumstance on which any such forward-looking statement is based, unless required to do so by applicable law.

TABLE OF CONTENTS

Summary 7
Description of the Transaction 11
Risk Factors 13
Use of Proceeds 26
Standard Bank London Holdings PLC 27
Standard Bank London Limited 28
Capitalisation of the Group 29
Selected Financial and Operating Information 30
The Bank 33
The Russian Banking System and Regulation 75
The Petrocommerce Loan Agreement 80
Terms and Conditions of the Notes 107
Summary of the Provisions relating to the Notes in Global Form 116
Taxation 117
Subscription and Sale 120
General Information 122
Appendix A – Auditors' Report and Consolidated Financial Statements of the Bank F-1

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

The financial information of the Group set forth herein, has, unless otherwise indicated, been derived from (i) its audited consolidated balance sheets, audited consolidated statements of income, cash flows and changes in stockholders' equity as at and for the three years ended 31 December 2002, 2001 and 2000 (the "2002 U.S. GAAP Financial Statements", the "2001 U.S. GAAP Financial Statements" and the "2000 U.S. GAAP Financial Statements" and, collectively, the "U.S. GAAP Financial Statements"), in each case prepared in accordance with U.S. Generally Accepted Accounting Principles, issued by the Financial Accounting Standards Board; and (ii) its unaudited consolidated balance sheets, unaudited consolidated statements of income, cash flows and changes in stockholders' equity as at and for the six month periods ended 30 June 2003 and 2002, in each case prepared in accordance with U.S. Generally Accepted Accounting Principles issued by the Financial Accounting Standards Board.

As at 31 December 2002, the Bank's four operating subsidiaries were JSC Komi Regional Bank Ukhtabank, OJSC Stavropolpromstroybank, JSC BC Unibank S.A. and JSC Bank Petrocommerce-Ukraine, all of which were included in the 2002 U.S. GAAP Financial Statements. As at 31 December 2001, the Bank's only operating subsidiary was JSC Komi Regional Bank Ukhtabank which has been included in the Bank's scope of consolidation since the financial statements for the year ended 31 December 2001 and the Bank's interest in JSC Bank Petrocommerce-Ukraine was accounted for using the equity accounting method, pursuant to U.S. GAAP. For further information concerning the Bank's interests in each of these subsidiaries, see "The Bank – Subsidiaries" and "Appendix A – Auditors' Report and Consolidated Financial Statements of the Bank – Notes to, and forming part of, the Financial Statements for the years ended 31 December 2002, 2001 and 2000 – 1. Background".

As at 30 June 2002, the Bank's two operating subsidiaries were JSC Komi Regional Bank Ukhtabank and OJSC Stavropolpromstroybank (majority control of which was acquired in May 2002). As at 30 June 2002 the Bank did not own a majority interest in JSC Bank Petrocommerce-Ukraine and the Bank's interest in it was accounted for using the equity accounting method. In addition, as at 30 June 2002, the Bank did not own an interest in JSC BC Unibank S.A. The unaudited consolidated financial statements of the Group as at and for the six months ended 30 June 2003 include the Bank's four principal operating subsidiaries.

The U.S. GAAP Financial Statements have been audited by the Group's independent auditors, KPMG Limited, Moscow ("KPMG"), located at 11 Gogolevsky Boulevard, 119019 Moscow, Russian Federation, in accordance with auditing standards generally accepted in the United States of America. The U.S. GAAP Financial Statements are set forth elsewhere in this Offering Circular.

KPMG have reviewed the interim unaudited consolidated financial statements of the Group as at, and for the six month periods ended, 30 June 2003 and 2002 presented elsewhere in this Offering Circular.

Prior to 2003 the Russian economy was considered to be hyperinflationary under Statement of Financial Accounting Standard 52 *Foreign Currency Translation*, the Group elected to use the U.S. Dollar as the functional and reporting currency for financial statement purposes.

During this period the translation of the rouble financial statements into U.S. dollars was performed in accordance with the provisions of SFAS 52 *Foreign Currency Translation*. Monetary assets and liabilities denominated in roubles at the balance sheet date were translated to U.S. dollars at the exchange rate ruling at that date. Foreign exchange differences arising on translation were recognised in the income statement. Non-monetary assets and liabilities deonominated in roubles, which are stated at historical cost, were translated to U.S. dollars at the foreign exchange rate ruling at the date of the transaction. Income statement transactions in foreign currencies were translated to U.S. dollars at the foreign exchange rate ruling at the date of the transaction.

As of 1 January 2003 the Russian economy was no longer considered to be hyperinflationary under Statement of Financial Accounting Standard 52 *Foreign Currency Translation*. Accordingly the Group has conducted an assessment of its operations and determined the Rouble to be its functional currency. Management of the Group have elected to use U.S. dollar as the reporting currency for these financial statements.

As a result of the change in the functional currency to the rouble, the carrying values of all non-monetary assets and equity items were translated and fixed in Rouble at the rates effective at the date of transition to the Rouble as the functional currency, 1 January 2003 and all subsequent additions to non-monetary assets and equity, accounted for using Rouble as the functional currency.

Further translation from functional to reporting currency for the 2003 financial statements was conducted as follows:

- all assets and liabilities are translated from the functional to the reporting currency at the exchange rate effective at the reporting date;
- equity items are translated from functional to reporting currency at the historical exchange rates. Translation adjustments arising from translation of equity are included in Accumulated Other Comprehensive Income in accordance with SFAS 52;
- income statement transactions are translated from functional to reporting currency at the approximate rates, ruling at the dates of the transactions. Translation adjustments arising from translation of equity are included in Accumulated Other Comprehensive Income in accordance with SFAS 52.

The closing rate of exchange effective at 30 June 2003 and 2002 was 1 U.S.$ to 30.3483 Roubles and 1 U.S.$ to 31.4471 Roubles, respectively.

With the exception of certain non-monetary line-items, which have been reflected at historical cost, the U.S. GAAP Financial Statements have been presented in U.S. dollars by translating assets and liabilities for all balance sheets presented and income and expense items for all periods presented at the official rates of the Central Bank of the Russian Federation (the "CBR") at 31 December 2002 of RUR 31.78 to U.S.$1.00 for the year ended 31 December 2002, at 31 December 2001 of RUR 30.14 to U.S.$1.00 for the year ended 31 December 2001 and at 31 December 2000 of RUR 28.16 to U.S.$1.00 for the year ended 31 December 2000. The relevant exchange rates for translation of assets, liabilities, income and expense items for the 30 June 2003 and 2002 unaudited interim financial statements are RUR 30.35 to U.S.$1.00 and RUR 31.45 to U.S.$1.00 respectively. As at 22 January 2004, the official rate of the CBR was RUR 28.62 to U.S.$1.00.

The U.S. dollar amounts should not be construed as a representation that the rouble amounts have been or could have been converted to U.S. dollars at this rate or any other rate.

Currency

In this Offering Circular, the following currency terms are used:

- "U.S. dollar", "dollar", or "U.S.$" means the lawful currency of the United States;
- "RUR", "Rouble" or "rouble" means the lawful currency of the Russian Federation; and
- "EUR", "euro" or "€" means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended by the Treaty on the European Union, signed at Maastricht on 7 February 1992.

Rounding

Some numerical figures included in this Offering Circular have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them.

SUMMARY

This summary may not contain all the information that may be important to prospective purchasers of the Notes. This entire Offering Circular, including the more detailed information regarding the Bank's and the Group's business and operations and the U.S. GAAP Financial Statements included elsewhere in this Offering Circular, should be read. Investing in the Notes involves risks. The information set forth under "Risk Factors" should be carefully considered. Certain statements in this Offering Circular include forward-looking statements that also involve risks and uncertainties, as described under "Forward-Looking Statements".

The Bank

Overview

The Bank was founded on 22 April 1992 and has developed into a leading bank operating in Russia and (through subsidiaries) certain states of the former Soviet Union. As at 1 November 2003, the Bank was the eleventh largest bank in Russia in terms of capital[1] and the twelfth largest in terms of total assets[1]. The Bank is a versatile financial institution providing a comprehensive range of banking services. The principal objectives of the Bank and its consolidated subsidiaries, taken as a whole (the "Group") include the provision of banking and settlement services to OJSC LUKOIL ("LUKOIL") and its subsidiaries (together with LUKOIL, the "LUKOIL Group"), one of Russia's leading energy conglomerates, which, as at 30 June 2003, owned an 82.29 per cent. interest in the Bank.

The Group provides a range of corporate and retail banking services (including the provision of loans, deposit-taking and debit card services), as well as undertaking securities and foreign exchange trading, fund management, trade and export credit agency finance, and leasing. The Group has recently expanded its investment banking activities to include arranging the placement of domestic debt issues by corporates.

As at 31 December 2003, the Bank's network in Russia comprised its Head Office and six additional offices in Moscow, 17 regional branches, 15 additional offices in the Russian Federation, 10 foreign exchange offices (which principally handle currency transactions) and 21 cash offices (which accept payment orders for customers and execute cash transactions). In addition to the Bank, the Group comprises four operating companies: JSC Komi Regional Bank Ukhtabank, OJSC Stavropolpromstroybank, JSC BC Unibank S.A. and JSC Bank Petrocommerce-Ukraine.

Strategy

In 2001, the Group adopted a five-year development strategy for the period from 2001 to 2006. This development strategy envisages that the Group will continue to develop its network across more regions of the Russian Federation, the CIS and Central and Eastern Europe and will continue to develop as a versatile financial institution providing a broad range of products and services. The Group intends further to increase its established corporate banking business by offering an increased range of products tailored for its corporate customers and to attract increased retail banking business from individuals and small to medium-sized enterprises ("SMEs"), as well as to expand the Group's activities in both the domestic and the international capital markets.

Servicing the banking, financial and settlement needs of LUKOIL and members of the LUKOIL Group remains one of the Group's principal business objectives. The Group also aims to continue to use its experience from its business with LUKOIL to provide the same wide range of services to other corporate customers and to individual customers. A related strategic goal is to provide the employees of members of the LUKOIL Group with a full range of banking services using the Group's close relationship with various of the respective employers in the LUKOIL Group in order to gain access to the needs of the employee base.

In the medium-term, the Group is planning to continue its relationship with the LUKOIL Group and also to develop its various banking businesses in areas and for customers which are not related to the LUKOIL Group. In particular, it intends to focus its efforts on expanding its corporate and retail

1 Source: Profile, a Russian economic magazine (based on Russian Accounting Standards)

banking operations and its capital markets activities. The Group intends to take advantage of opportunities afforded by its subsidiaries and its branch network, which gives it a presence in twelve subjects of the Russian Federation (including the Perm region, the Republic of Komi, the Stavropol territory, the Tyumen region and the Yamalo-Nents autonomous district), as well as Moldova and the Ukraine, in order to target international, national and regional enterprises outside the LUKOIL Group.

Recent Developments

Financial information presented in this section as at and for the six month period ended 30 June 2003 and for the corresponding date and period in 2002 are extracted from the unaudited interim financial statements of the Group presented elsewhere in this Offering Circular.

Consolidated net income of the Group for the six months ended 30 June 2003 was U.S.$22.5 million which comprised an increase of 17.3 per cent. as compared to consolidated net income for the corresponding period in 2002 (U.S.$19.2 million). This was principally due to non-interest income for the six months ended 30 June 2003 (U.S.$49.4 million) increasing by 101.2 per cent. as compared to the corresponding period in 2002 (U.S.$24.5 million). The increase in non-interest income was offset by net interest income (after provisions) for the six months ended 30 June 2003 (U.S.$5.9 million) decreasing by 61.4 per cent. as compared to the corresponding period in 2002 (U.S.$15.3 million) and by general and administrative expenses for the six months ended 30 June 2003 (U.S.$27.0 million) increasing by 62.2 per cent. as compared to the corresponding period in 2002 (U.S.$16.7 million).

Total assets of the Group as at 30 June 2003 were U.S.$1,412 million, an increase of approximately 26.7 per cent. over total assets as at 31 December 2002 (U.S.$1,115 million). Cash due from the Central Bank as at 30 June 2003 had risen by 26.8 per cent. as compared to 31 December 2002, Loans to customers had risen by 33.0 per cent., Trading securities had risen by 10.3 per cent. and Investments in available for sale and other securities had risen by 92.1 per cent.

Total liabilities of the Group as at 30 June 2003 amounted to U.S.$1,171 million, an increase of 29.7 per cent. as compared to 31 December 2002. This increase is principally attributable to the growth in current accounts and deposits from customers of 34.3 per cent. as compared to 31 December 2002 and the growth in promissory note and certificates of deposit issuance of 51.1 per cent., which was partially offset by a decrease in deposits/balances from banks of 56.9 per cent.

As at 30 June 2003, the total stockholders' equity of the Group had increased to U.S.$239.7 million, an increase of 14.0 per cent. as compared to 31 December 2002. This increase was due to the addition in retained earnings and a rise in accumulated other comprehensive income due to unrealised holding gains which are required to be reflected in equity for U.S. GAAP purposes.

In March 2003, the Bank undertook its first placement of rouble bonds into the Russian domestic market in an aggregate amount of RUR 1 billion, for the purpose of diversifying the Bank's sources of funding.

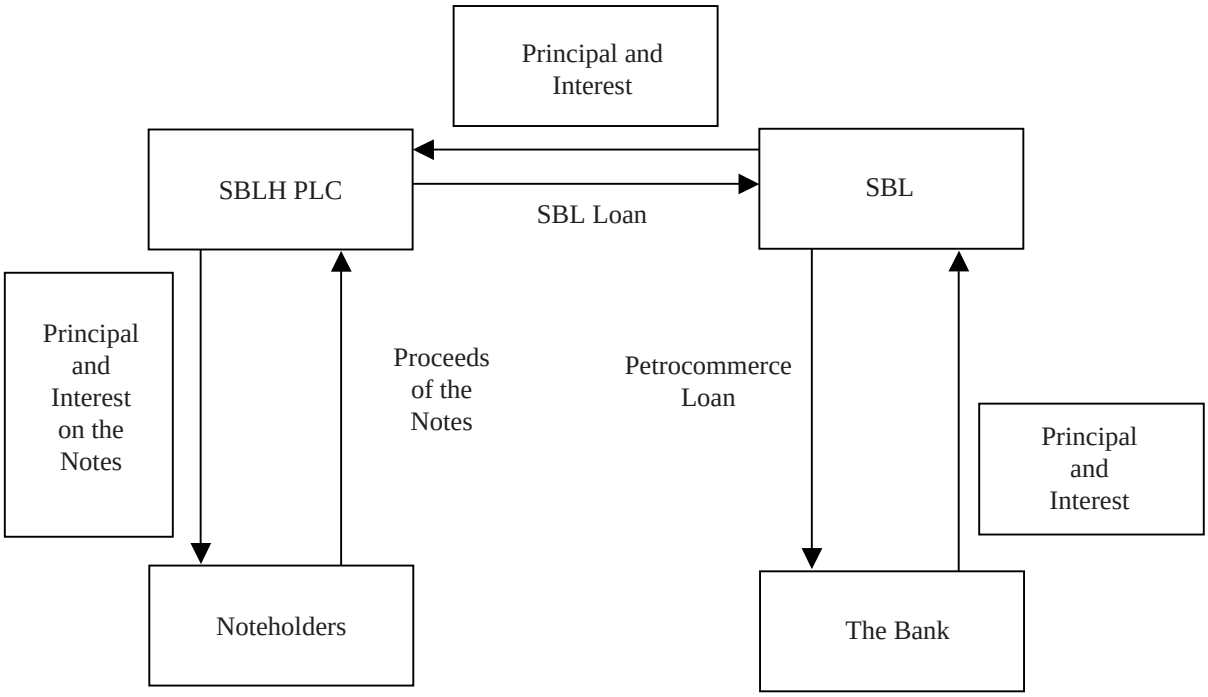
For the nine month period ended 30 September 2003 (on an unaudited, unreviewed and interim basis), the Bank believes that the Group's net income has increased as compared with the corresponding period in 2002. This has been partially due to a minimal increase in net interest income before provisions and a sizeable increase in non-interest income which were partially offset by expected increases in provisions and general and administrative expenses (the increase in which was affected by consolidation of all four principal subsidiaries from the start of 2003).

The Offering	U.S.$120,000,000 9.00 per cent. Loan Participation Notes due 2007 to non-U.S. professional investors and non-U.S. institutional investors, in reliance on Regulation S under the Securities Act.
Issuer of the Notes and Lender under the SBL Loan	Standard Bank London Holdings PLC ("SBLH PLC"). See "Standard Bank London Holdings PLC".
Lender under the Petrocommerce Loan and Borrower under the SBL Loan	Standard Bank London Limited ("SBL"). See "Standard Bank London Limited".
The Bank, as Borrower under the Petrocommerce Loan	OJSC Bank Petrocommerce (the "Bank") with its registered office and business headquarters at 24 ul. Petrovka, Moscow 127051, Russian Federation.
Trustee	J.P. Morgan Corporate Trustee Services Limited
Principal Paying Agent	JPMorgan Chase Bank, London Branch
Registrar and Luxembourg Paying Agent	J.P. Morgan Bank Luxembourg S.A.
Offering Price	100 per cent.
Use of Proceeds	SBLH PLC will use the net proceeds of the issue of the Notes for the sole purpose of financing the SBL Loan made by SBLH PLC to SBL. SBL will use the net proceeds from the SBL Loan for the sole purpose of financing the Petrocommerce Loan made by SBL to the Bank. The net proceeds from the Petrocommerce Loan (net of the costs and expenses of the offering which are estimated to be approximately U.S.$2,000,000) will be used by the Bank for working capital and general corporate purposes. See "Use of Proceeds".
Withholding Tax or Increased Costs; Gross-up	In the event that any payments to be made by the Bank under the Petrocommerce Loan Agreement become subject to any withholding tax imposed by the Russian Federation, the United Kingdom or any taxing authority thereof, or certain other circumstances result in SBL incurring increased cost associated with the Petrocommerce Loan, the Bank will (save in certain circumstances) be required to pay any additional amount necessary to compensate SBL for the tax withheld or the increased cost to SBL. See "The Petrocommerce Loan Agreement".
Tax Redemption	In the event that any payments to be made by SBL under the SBL Loan Agreement become subject to any withholding tax imposed by the Russian Federation, the United Kingdom or any taxing authority thereof, the Bank may, subject to the satisfaction of certain conditions, be obliged to prepay the Petrocommerce Loan. See "The Petrocommerce Loan Agreement". In the event that the Bank is required to pay additional amounts under the Petrocommerce Loan Agreement as a result of tax imposed by any taxing authority in the Russian Federation or the United Kingdom, the Bank will have the right to prepay the Petrocommerce Loan, upon not less than 10 days' notice to SBL, in whole (but not in part) at any time. See "The Petrocommerce Loan Agreement". In such circumstances, SBL will exercise its right to prepay the SBL Loan and SBLH PLC will exercise its right to redeem the Notes. See "Terms and Conditions of the Notes".

Early Redemption at the Option of the Noteholders	The Notes may be redeemed at the option of the Noteholders at their principal amount together with accrued interest to the date of redemption if a Change of Control (as defined in Condition 6 of the Terms and Conditions of the Notes) occurs.
Negative Pledge	Except in the case of Permitted Liens (as defined in the Petrocommerce Loan Agreement) the Bank shall not (and the Bank shall ensure that none of its Material Subsidiaries (as defined in the Petrocommerce Loan Agreement) shall) create or permit to subsist any Security (as defined in the Petrocommerce Loan Agreement) over any of its assets unless the Petrocommerce Loan is secured equally and rateably with such Security. See "The Petrocommerce Loan Agreement".
Market for the Notes	Application has been made to list the Notes on the Luxembourg Stock Exchange.
Payment, Delivery and Settlement	Payment for and delivery of the Notes are expected to be made on or about 10 February 2004. The Notes will settle against payment in U.S. dollars through the facilities of Euroclear and Clearstream Luxembourg.
Form of Notes	The Notes will be issued initially in the form of a Global Note in registered form without coupons attached. Notes will be sold to investors in reliance on Regulation S and will be represented by the Global Note deposited with, and registered in the name of Chase Nominees Limited as a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in the Global Note will be limited to persons that have accounts with Euroclear or Clearstream, Luxembourg or persons that may hold interests through such participants. Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear, Clearstream, Luxembourg and their participants, as applicable.
Codes	ISIN: XS0185558755 Common Code: 018555875

DESCRIPTION OF THE TRANSACTION

The following summary description should be read in conjunction with, and is qualified in its entirety by, the information set forth under "Terms and Conditions of the Notes" and "The Petrocommerce Loan Agreement" appearing elsewhere in this Offering Circular.



The transaction will be structured as a loan to the Bank by SBL (the "Petrocommerce Loan"). SBLH PLC will issue the Notes which will be limited recourse loan participation notes issued for the sole purpose of financing a loan by SBLH PLC to SBL (the "SBL Loan"). SBL will use the proceeds of the SBL Loan for the sole purpose of financing the Petrocommerce Loan. The Notes will be constituted by, subject to, and have the benefit of, the Trust Deed to be entered into by SBLH PLC, SBL and the Trustee. The obligations of SBLH PLC to make payments under the Notes shall constitute an obligation only to pay to the Noteholders an amount equal to and in the same currency as sums of principal, interest and/or additional amounts (if any) actually received by or for the account of SBLH PLC pursuant to the SBL Loan Agreement.

As provided in the Trust Deed, SBL will charge in favour of the Trustee for the benefit of the Noteholders as security for the payment obligations of SBLH PLC in respect of the Notes (a) its rights to principal, interest and additional amounts (if any) as lender under the Petrocommerce Loan Agreement, (b) its right to receive all sums payable by the Bank under any claim, award or judgment relating to the Petrocommerce Loan Agreement and (c) amounts received pursuant to the Petrocommerce Loan Agreement in an account with JPMorgan Chase Bank, London Branch in the name of SBL, together with the debt represented thereby (the "SBL Account"), in each case other than certain amounts in respect of certain Reserved Rights (as defined in the Trust Deed). SBL will assign certain administrative rights under the Petrocommerce Loan Agreement to the Trustee. The Bank will be obliged to make payments under the Petrocommerce Loan to SBL in accordance with the terms of the Petrocommerce Loan Agreement to the SBL Account.

In addition, as provided in the Trust Deed, SBLH PLC will charge in favour of the Trustee for the benefit of the Noteholders as security for its payment obligations in respect of the Notes (a) its rights to principal, interest and additional amounts (if any) as lender under the SBL Loan Agreement, (b) its right to receive all sums payable by SBL under any claim, award or judgment relating to the SBL Loan Agreement and (c) amounts received pursuant to the SBL Loan Agreement in an account with JPMorgan Chase Bank, London Branch, in the name of SBLH PLC, together with the debt represented thereby (the "SBLH PLC Account" and, together with the SBL Account, the "Accounts"). SBLH PLC will assign

certain administrative rights under the SBL Loan Agreement to the Trustee. SBL's obligation to make payments under the SBL Loan will be deemed to be satisfied to the extent that payments are made to the SBLH PLC Account by SBL in amounts equal to those received into the SBL Account by SBL from the Bank pursuant to the Petrocommerce Loan Agreement.

Each of SBL and SBLH PLC will covenant not to agree to any amendments to or any modification or waiver of, or authorise any breach or potential breach of, the terms of the Loan Agreements unless the Trustee has given its prior written consent (except in relation to the Reserved Rights). Neither SBL nor SBLH PLC (save as expressly provided in the Trust Deed and the Loan Agreements or with the consent of the Trustee) shall pledge, charge or otherwise deal with the Loans or the Charged Property (as defined in the Trust Deed) or any right or benefit either present or future arising under or in respect of the Loan Agreements or the Accounts or any part thereof or any interest therein or purport to do so. Any amendments, modifications, waivers or authorisations made with the Trustee's consent shall be notified to the Noteholders in accordance with Condition 14 (*Notices*) of the Terms and Conditions of the Notes and will be binding on the Noteholders.

The security under the Trust Deed will become enforceable upon the occurrence of a Relevant Event, as further described in the Terms and Conditions of the Notes.

Payments in respect of the Notes will be made without any deduction or withholding for or on account of taxes of the United Kingdom except as required by law. See "Terms and Conditions of Notes – Taxation". In that event, SBLH PLC will only be required to pay additional amounts to the extent that it receives corresponding amounts under the SBL Loan Agreement and SBL receives corresponding amounts under the Petrocommerce Loan Agreement. The Petrocommerce Loan Agreement provides for the Bank to pay such corresponding amounts in these circumstances. In addition, payments under the Petrocommerce Loan Agreement will be made without any deduction or withholding for or on account of Russian taxes, except as required by law, in which event the Bank will be obliged to increase the amounts payable under the Petrocommerce Loan Agreement (save in certain circumstances).

In certain circumstances, the Petrocommerce Loan may be prepaid at its principal amount, together with accrued interest, at the option of the Bank upon the Bank being required to increase the amount payable or to pay additional amounts on account of taxes in the Russian Federation or the United Kingdom pursuant to the Loan Agreements or required to pay additional amounts on account of certain costs incurred by SBL. SBL may (in its own discretion) require the Petrocommerce Loan to be prepaid if it becomes unlawful for the Petrocommerce Loan, the SBL Loan or the Notes to remain outstanding, as set out in the Petrocommerce Loan Agreement. In each case (to the extent that SBL has actually received the relevant funds from the Bank) the payment amount of the relevant Notes (or in the case of a prepayment for tax reasons or illegality, all outstanding Notes) will be prepaid by SBLH PLC together with accrued interest. See "Risk Factors – Risks Relating to the Notes", "The Petrocommerce Loan Agreement – Repayment and Prepayment – Prepayment in the event of Taxes" and "– Prepayment in the event of Illegality" and "Terms and Conditions of the Notes – Redemption".

The Bank has agreed and the Noteholders will be deemed to have acknowledged, accepted and agreed that SBL is entitled to deduct amounts in respect of commissions, fees, costs and expenses in connection with the Petrocommerce Loan Agreement and the Notes from the advance to be made to the Bank pursuant to the Petrocommerce Loan Agreement in the event that an amount in respect of such commission, fees, costs and expenses has not been paid by the Bank to SBL prior to the making of the advance.

RISK FACTORS

An investment in the Notes involves a high degree of risk. Accordingly, prospective investors should consider carefully certain factors, including (but not limited to) those set out below, in evaluating the Notes prior to making any investment decision.

Risks Relating to the Bank

Corporate Governance and Disclosure

The corporate affairs of the Bank are governed by the laws governing companies incorporated in Russia and by the Bank's charter and internal regulations adopted pursuant to its charter and such laws. The rights of shareholders and the responsibilities of members of the Bank's Council Board of Directors (the "Board") and its Managing Board under Russian law are different from, and may be subject to certain requirements not generally applicable to, corporations organised in the United States, the United Kingdom and other jurisdictions.

A principal objective of the securities laws of the United States, the United Kingdom and other countries is to promote full and fair disclosure of all material corporate information to the public. The Bank is subject to Russian law requirements, which oblige it to publish, among other things, annual financial statements, quarterly disclosure reports as a securities issuer, reports on affiliated entities and information on material events relating to the relevant company (such as major acquisitions and increases in charter capital). However, there is less publicly available information concerning the Group and its subsidiaries than there is for listed companies in the United States, the United Kingdom or certain other jurisdictions.

In addition, approximately 82.29 per cent. of the Bank's total share capital is currently controlled by the LUKOIL Group. See "The Bank – Relationship with LUKOIL and the LUKOIL Group". LUKOIL will, for the foreseeable future, be able to elect the majority of the members of the Board and determine the outcome of all matters requiring majority shareholder approval without recourse to the minority shareholders. LUKOIL's interests may differ from the interests of Noteholders.

Exposure to Russian Corporate Risk

The Russian economy has been generally liberalising only since 1991 and as a result many businesses in Russia have limited experience in operating in competitive market conditions as compared to their Western counterparts. In addition, the Russian economy has experienced significant volatility since 1991. Accordingly, the financial performance of Russian corporations is generally more volatile, and the credit quality of Russian corporates on average is less predictable, than similar companies doing business in more mature markets and economies. If a significant number of the Group's corporate borrowers experience poor financial performance due to a general Russian or regional economic downturn or volatility in certain sectors of the Russian or regional economy, the Group could suffer material adverse consequences on its financial performance and results of operations.

Interest Rate Sensitivity

The Group is exposed to interest rate risk principally as a result of lending and making advances to customers and other banks at fixed interest rates and in amounts and for periods which differ from the Group's funding sources (customer deposits, bank borrowings and securities offerings). The Group attempts to manage this risk by fixing lending rates only on a short term basis. The Bank also seeks to match its interest rate positions to minimise interest rate risk. Despite these efforts, there can be no assurance that significant adverse interest rate movements will not have an adverse effect on the Group's results of operations.

Interest rates have been declining in Russia over the past few years. Further decreases are expected which will put pressure on the Group's interest margins. While the Bank expects that growth in lending will continue to generate increased interest income offsetting any declines in interest margin, the pace of loan portfolio growth may be constrained by the ability of the Group to increase its lending to customers who meet the Group's credit quality standards and other business criteria. There can be no assurance that the rate of balance sheet growth or the financial performance of the Group may not be adversely affected by these constraints.

Increasing Competition

The Russian market for financial services is becoming highly competitive. In the corporate banking market, the Group principally competes with a number of other national and regional banks, some of which have a broader geographic reach, more branches and greater capital resources than the Group. The Bank expects the Russian banking market to become increasingly competitive as a result of the deregulation of the banking industry. The Bank expects this trend to contribute to increased competition in both deposit-taking and lending activities, which could narrow spreads between deposit and loan rates, which could have an adverse impact on the Group's profitability. In addition, in the retail banking market, in common with other Russian retail banks, the Group competes with Sberbank, the former monopoly retail bank of the Soviet Union. Sberbank held approximately 70 per cent. of total retail deposits (compared to approximately 2 per cent. for the next largest competitor) as at 30 June 2003, and is the only major bank to have a government guarantee for its retail deposits. The Group also competes with the subsidiaries of international banks in the retail lending sector of the retail banking market. If the Group is unable to continue to compete successfully in the corporate banking sector or to execute its strategy for expansion in the retail banking sector, it could have a material adverse effect on the Group's business and results of operations.

Relationship with the LUKOIL Group

In terms of both funding and revenues, the Group was historically reliant on the LUKOIL Group (as defined above). The Group has two types of exposure to the LUKOIL Group, namely, the loans it makes to members of the LUKOIL Group and the guarantees and other contingent liabilities it assumes on behalf of members of the LUKOIL Group. As at 30 June 2003, loans extended to the LUKOIL Group amounted to U.S.$129.3 million (comprising short-term credits of U.S.$68.2 million and long-term credits of U.S.$61.1 million) and deposits and other lending made by the LUKOIL Group with the Group amounted to U.S.$105.0 million (comprising U.S.$101.6 million in short-term deposits/lending and U.S.$3.4 million in long-term deposits/lending). All credit extended to members of the LUKOIL Group is made on an "arm's length" basis and the credit and payment terms in respect of such credits are generally no more favourable than those offered to third parties.

Whereas the Group intends to continue its close business relationship with the LUKOIL Group, in the medium-term the Group is continuing to develop its various banking businesses in areas and for customers which are not related to the LUKOIL Group, which is expected to result in proportionally reduced exposure to members of the LUKOIL Group.

The LUKOIL Group remains, however, the principal customer of the Group and any material adverse effect on the operation and financial performance of the LUKOIL Group may have a material adverse effect on the Group's business and operations.

LUKOIL has expressed its medium-term intention (in a non-binding memorandum of understanding entered into with the European Bank for Reconstruction and Development) to accept the reduction of its majority shareholding interest in the Bank (through dilution by way of new issues of shares, sale, transfer or otherwise) by 31 December 2004. The Bank understands, however, that LUKOIL is not currently planning or taking any steps to effect the sale, disposal or transfer of any part of its interest in the Bank. The Bank also understands that it is LUKOIL's current intention to maintain its shareholding interest in the Bank, provided that its continued holding does not constrain the diversification of the Group's banking operations and business, that the Group continues to be a valued resource for LUKOIL within the regions in which the Group operates and that LUKOIL is satisfied with the return on its investment in the Group.

Changes in Customer Focus

One of the key aspects of the Group's growth strategy is to expand its corporate customer base by drawing on its experience from business with LUKOIL to provide the same full-range services to other corporate clients. Many of Russia's corporates have established in-house banking entities through which they conduct substantially all of their banking. In the current environment, although the Group may compete for the banking business of these corporates, such corporates may not require or make use of the full range of banking services offered by the Group.

In addition, the Group's strategy in the immediate future is, amongst other things, to (i) focus on growing its small to medium-sized enterprises ("SMEs") base and (ii) grow its retail customer base significantly.

Although increased lending to SMEs, as well as retail customers, diversifies the Group's loan portfolio, it may also increase the credit risk exposure in the loan portfolio. SMEs and retail customers typically have less financial strength, and negative developments in the Russian economy could affect these borrowers more significantly than large companies. There is a relatively small number of SMEs in Russia with adequate credit histories. The limited number of high credit quality corporate customers in Russia to which the Group may lend or otherwise provide banking services may significantly inhibit the Group's ability to achieve its growth objectives while maintaining an acceptable level of credit risk. The ability of the Group to grow its customer base and expand its loan portfolio will depend on continuing to successfully implement its credit policies and provisioning procedures, as well as promoting capital growth in order to maintain its capital adequacy requirements. If the Group is unable to successfully implement its growth strategy or accepts a higher degree of credit risk to achieve growth in the future, it could suffer material adverse consequences on its financial performance and results of operations.

Risks relating to Growth Strategy

The growth of the Group following the financial crisis of 1998 was sustained under the close supervision of LUKOIL, the Bank's controlling shareholder. Through a combination of organic growth and a series of strategic acquisitions, the Group has experienced significant growth in recent years, particularly in the size of its overall loan portfolio, the amount of deposits taken from non-LUKOIL related entities and in its sales network, and may continue to do so to meet its strategic objectives. Expansion of the Group's sales network entails significant investment, as well as increased operating costs. The Group may also acquire regional banks as part of its domestic expansion. Overall growth in the Group's business also requires greater allocation of management resources away from daily operations. In addition, the management of such growth will require, among other things, continued development of the Group's financial and information management control systems, the ability to integrate new branches or newly acquired financial services businesses with existing operations, the ability to attract and retain sufficient numbers of qualified management and other personnel, the continued training of such personnel, the presence of adequate supervision and the maintenance of consistency of customer services. Failure to manage this growth, while at the same time maintaining adequate focus on the Group's existing business units, could have a material adverse effect on the business, financial condition, results of operations and prospects of the Group.

Loan and Deposit Concentration

The Group's loan portfolio shows relatively high industry and individual borrower concentration. As of 30 June 2003, the oil exploration and refinery, trade, building and construction and manufacturing sectors accounted for 7.7, 22.0, 8.6 and 15.4 per cent. of the Group's total loan portfolio (gross of provisions), respectively. In the event of an economic downturn in one or more of these segments, a substantial percentage of the Group's corporate borrowers could become unable to service or repay their loans, which could have a material adverse effect on the Group's financial condition and results of operations. In addition, as at 30 June 2003 the Group's 10 largest borrowers, or groups of related borrowers, accounted for 46.8 per cent. of the total loan portfolio (gross of provisions) at that date, with exposure to the LUKOIL Group (the single largest borrower) being approximately U.S.$129.3 million, constituting approximately 21.5 per cent. of the total loan portfolio (gross of provisions). An impairment in the ability of one or more of these borrowers to repay their loans could result in a material adverse effect on the Group's financial condition and results of operations.

In addition, any economic difficulties which impact on the ability of the Group's depositors to meet liquidity needs from current operations could also cause such customers to withdraw their funds from the Group. If such withdrawals were to occur within a relatively short period of time, it could cause liquidity difficulties for the Group together with the loss of a significant source of funding, which could have a material adverse effect on the Group's financial condition and results of operations.

Financial Position and Financial Statements of the Group

Accounting and reporting regulations in Russia are not comparable to those in Western countries. Russian accounting legislation continues to develop and has been subject to change on a regular basis in recent years.

Legislative and Regulatory Reforms having an effect on the Russian Banking Sector

At the end of 2001, the Government of the Russian Federation and the CBR issued a joint declaration setting out the strategy for banking reform in Russia and calling for certain legislative steps and structural changes to be taken during the next five years. Among other measures aimed at increasing the stability of the Russian banking sector, the strategy envisages (i) an increase in capital adequacy requirements, (ii) the introduction of amendments to the Russian Civil Code preventing the early withdrawal of funds held on deposit accounts opened for a certain term at the request of the depositor, (iii) the acceptance of International Accounting Standards (IAS) by all Russian banks and (iv) the gradual implementation of a mandatory system of securing private depositors' funds held by all Russian banks.

The Russian Government has recently announced plans to reform the state pension system. If successfully implemented, this reform is expected (i) to create a long-term rouble funds market, (ii) to provide an opportunity for Russian banks to provide asset management services in relation to a certain portion of pension funds and (iii) to allow Russian banks (in addition to Sberbank) to service the payment of pensions to individuals.

Although such changes are generally viewed as beneficial reforms to the Russian banking system, any delay in the implementation of, or failure to implement, such reforms may adversely impact Russian banks, including the Group, and may inhibit such banks from expanding their businesses. In addition, although the implementation of a mandatory system of securing deposits of individual customers may have the benefit of giving depositors more comfort that their monies will be protected against default or a further banking crisis, the deposit insurance premiums may (depending on their level) negatively impact net interest margins if the volume of additional deposits gained does not offset the additional expense of such premiums which Russian banks will be required to incur.

The new Federal Law "On Insuring Individuals' Deposits in the Banks of the Russian Federation" No. 177-FZ passed by the State Duma on 23 December 2003 (the "Deposits Insurance Law") introduced rules regulating insurance of individuals' deposits placed with Russian banks. Russian retail banks are now required to satisfy certain qualification tests to be able to participate in the deposits insurance system and, more generally, to attract individuals' deposits. Should the Borrower fail to comply with all the application requirements (e.g. liquidity and financial reporting requirements – please also see "The Russian Banking System and Regulation – Banking Reform") or choose not to participate in the system of individuals' deposits insurance, it will not be able to attract deposits from and open accounts for individuals.

Furthermore, the State Duma has passed the first reading of the draft law on currency regulation and control (the "Currency Control Bill") which purports to liberalise the Russian financial markets. In particular, it removes the existing restrictions on money transfers abroad, allows Russian companies and individuals to open foreign bank accounts and increases significantly the ability of Russian companies and individuals to bank directly with foreign banks without using the services of Russian intermediary banks. At this stage, the Currency Control Bill has yet to be finalised and is subject to further comments from various working groups. However, if it is enacted substantially as proposed, the Group may find itself facing increasing competition from established international financial institutions, which can offer more attractive terms to Russian corporate and retail clients than the Group currently does or which can offer services that are not currently available in Russia, such as securitisation or derivatives transactions. The Group may not be able to compete effectively for Russian clients with reliable and well-established foreign banks, which may have a material adverse effect on its business, financial condition, results of operations and prospects.

International Operations

Certain existing investments of the Group are in high risk and volatile markets in addition to those in Russia, such as Ukraine and Moldova, which may be susceptible to significant adverse developments

similar to those which occurred in Russia in 1998. With plans for the further expansion of the branch network and operations in these and other parts of the CIS and Central and Eastern Europe in coming years, the exposure of the Group to high risk and volatile markets is likely to increase. International expansion, particularly into markets that remain in the relatively early stages of development and which are more susceptible to fiscal and economic crises, may expose the Group to additional risks.

Dependence on Key Management

The Bank is dependent on its senior management for the implementation of its strategy and the operation of its day to day activities. In addition, certain business relationships of members of senior management may be important to the conduct of the Bank's business. No assurance can be given that key members of senior management will remain at the Bank.

Risks Relating to Russia

Political Risks

Since 1991, Russia has been evolving from a communist state with a centrally planned economy to a pluralist democracy with a market economy. The process of political and economic reform has not been uninterrupted nor has it been completed, and no assurance can be given that the reform process will continue. The Russian political system remains vulnerable to social and ethnic unrest and any significant political instability could adversely affect the value of foreign investments in Russia and the Group's ability to carry on its business. Until 2000, the Government was characterised by frequent change, having, in addition to the resignation of President Yeltsin on 31 December 1999 and the election of President Putin on 26 March 2000, experienced five changes in prime minister since March 1998. State Duma elections held in December 2003 resulted in an increase in the percentage of votes received by the pro-presidential United Russia Party and other allies or supporters of President Putin. The new presidential elections are scheduled for 14 March 2004. The value of investments in Russia, including investments in the Group, could be reduced if such frequent change resumes or if political liberties or market-oriented reforms were to be curtailed.

During Russia's transformation from a centrally planned economy to a market economy, legislation has been enacted to protect private property against expropriation and nationalisation. However, it is possible that due to a lack of experience in enforcing these provisions or due to political change, these protections may not be enforced in the event of an attempted expropriation or nationalisation. Some Government entities have tried to invalidate earlier privatisations. Expropriation or nationalisation of any of the Bank's or its subsidiaries' assets, potentially with little or no compensation, would have a material adverse effect on the Group.

Russia is a federation of republics, territories, regions, districts, cities of federal importance and autonomous areas. The delineation of authority among the constituent entities of the Russian Federation and Government authorities is often uncertain and at times contested. Lack of consensus between local and regional authorities and the Government often results in the enactment of conflicting legislation at various levels, and may result in political instability. This lack of consensus may have negative economic effects on the Group, which could have a material adverse effect on their ability to meet their financial obligations.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict. Russian military and police forces have been engaged in Chechnya in the recent past and continue to maintain a presence there. The spread of violence, or its intensification, could have significant political consequences. These consequences may include the imposition of a state of emergency in some parts or throughout Russia. These events could have a material adverse effect on the investment environment in Russia.

The failure of some Russian public sector entities to pay full salaries on a regular and timely basis, and the failure of Russian public sector employees' salaries and benefits to keep pace with the increasing cost of living, could lead in the future to labour disputes and protests in the outlying regions of the Russian Federation. This may have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism with restrictions on foreign involvement in the Russian economy and increased violence, any of which could have a material adverse effect on the Group.

Economic Risks

Reform initiatives

Since the late 1980s and early 1990s, the Government has been attempting to implement policies of economic reform and stabilisation. These policies have involved liberalising prices, reducing defence expenditures and subsidies, privatising state-owned enterprises, reforming the tax and bankruptcy systems, and introducing legal structures designed to facilitate private, market-based activities, foreign trade and investment. Despite the implemented reform policies, the Russian economy at times experienced declining industrial production, significant inflation, an unstable but managed currency, rising unemployment and underemployment, high Government debt relative to gross domestic product, high levels of *de jure* and *de facto* corporate insolvency, a weak banking system providing limited liquidity to Russian enterprises, widespread tax evasion and the penetration of organised crime into the economy.

The Russian economy has been subject to abrupt downturns. In particular, the Government's decision in August 1998 temporarily to stop supporting the rouble and servicing certain domestic and foreign debts caused the currency to collapse and led to a severe devaluation of the rouble, a sharp increase in the rate of inflation, the significant deterioration of the country's banking system, significant defaults on hard currency obligations, a dramatic decline in the prices of Russian debt and equity securities, and an inability to raise funds on international capital markets. While the Russian economy has improved in a number of respects since 1998, there can be no assurance that recent trends in the Russian economy will continue or will not be reversed.

Although economic conditions in Russia have recently improved, there is a lack of consensus as to the scope, content and pace of economic and political reform. No assurance can be given that reform policies will continue to be implemented and, if implemented, will be successful, that Russia will remain receptive to foreign trade and investment, or that the economy in Russia will continue to improve. Any failure of the current policies of economic reform and stabilisation could have a material adverse effect on the operations of the Group.

Exchange rates, exchange controls and repatriation restrictions

In recent years, the rouble has experienced a significant depreciation relative to the U.S. dollar and there has been significant instability in the rouble exchange rate, particularly following the financial crisis of August 1998. Before August 1998, the Central Bank had been trying to support the rouble within a certain band. However, after the significant August 1998 devaluation of the rouble, the band was cancelled. The ability of the Government and the Central Bank to reduce the volatility of the rouble will depend on many political and economic factors, including their ability to control inflation and the availability of foreign currency.

The rouble is generally not convertible outside Russia. A market exists within Russia for the conversion of roubles into other currencies, but it is limited in size and is subject to rules limiting such conversion. Currently, up to 30 per cent. of foreign currency revenues from export sales must be converted into roubles and the exact amount is to be determined by the CBR (which is currently 25 per cent. of foreign currency revenues). The relative stability of the exchange rate of the rouble against the U.S. dollar since 1999 has mitigated risks associated with forced conversion. There can be no assurance that a relatively stable market will continue indefinitely. Current Russian law permits the Bank to convert its roubles into foreign currency to make payments to meet its financial obligations. A new Federal Law No. 173-FZ "On Currency Control and Regulation" ("New Currency Control Law") officially published on 17 December 2003 introduces a new currency control regime which will come into force in June 2004. The New Currency Control Law purports to liberalise the existing Russian currency control regulations by way of limiting the competence of the regulatory bodies and relaxing existing restrictions on currency operations. In particular, the New Currency Control Law revoked the concept of transaction-specific CBR permits (licences) and introduced reserve requirements and special accounts. It also liberalises rules relating to purchase of foreign currency and opening offshore accounts by Russian residents.

However, it is likely that various regulations will be developed by the CBR and the Russian Government for the effective implementation of the New Currency Law and it is not yet possible to estimate the effect of these regulations. Should the implementation of the New Currency Law result in uncertainties or disputes in interpretation, this may have a negative effect on the operations and business of the Group.

Russia's physical infrastructure continues to deteriorate

Russia's physical infrastructure is in very poor condition, which could disrupt normal business activity. Russia's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. Particularly affected by, and subject to, disruption are rail and road networks, power generation and transmission systems, communication networks and building stock. The Government is actively considering plans to reorganise the nation's rail, electricity and telephone systems. Any such reorganisation may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. The continued deterioration of Russia's physical infrastructure will harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Russia and may interrupt business operations, all of which could have a material adverse effect on the Group's business.

International sources of funding

Russia in the past has received substantial funding from several foreign governments and international organisations and through international capital markets transactions. After the events of August 1998, none of the above sources of financing was immediately available to Russia. While the Bank is not aware of any effort by the Government to secure new funding, the value of investments in Russia could be adversely affected if the Government were to fail in an attempt to regain access to international sources of funding or the international capital markets. The occurrence of one or more of these factors could have a material adverse effect on the Group's ability to raise additional sources of external funding.

Fluctuations in the global economy

Russia's economy could be adversely affected by market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems outside Russia or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. Additionally, because Russia produces and exports large amounts of oil, the Russian economy is particularly sensitive to the price of oil on the world market, and a decline in the price of oil could slow or disrupt the Russian economy. These developments could severely limit the Group's access to capital and could adversely affect the purchasing power of the Group's customers and thus the Group's business.

Developing State of Russian Banking Sector

The Russian banking sector remains in a nascent state compared to its Western counterparts. The laws regarding the regulation of banks are in a state of flux. Banks in Russia operate in an unclear regulatory environment with a relatively new and underdeveloped regulatory framework to guide them. It is unclear how these legal and regulatory developments will affect the competitive banking landscape in Russia and whether it will significantly advantage certain banking activities. No assurance can be given that the regulatory environment in which the Group operates in Russia will not change in such a manner that has a material adverse effect on the Group's ability to compete and thus its business, financial condition, and results of operations.

Lack of Reliable Official Data

Official statistics and other data published by Russian federal, regional and local governments, and federal agencies are substantially less complete or reliable than those of Western countries, and there can be no assurance that the official sources from which certain of the information set forth herein has been drawn are reliable or complete. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia herein is therefore subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Taxation

Taxes payable by Russian companies are substantial and include value added tax, excise duties, profit taxes, payroll-related taxes, property taxes and other taxes. Historically, the system of tax collection has been relatively ineffective, resulting in the imposition of new taxes in an attempt to increase government revenues. However, the Russian Government has initiated reforms of the tax system that

have resulted in some improvement in the tax climate. The recently enacted reform reduced the corporate profits tax rate applicable to commercial banks from 43 per cent. to 24 per cent. It has been effective since 1 January 2002.

Russia's tax laws and regulations are subject to frequent change (including an increase in the profit tax rate for commercial banks from 38 per cent. to 43 per cent. on 1 January 2001 and a decrease from 43 per cent. to 24 per cent. on 1 January 2002), varying interpretations and inconsistent enforcement. In some instances, even though unconstitutional, Russian tax authorities have applied certain taxes retroactively. In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. In addition, tax laws are unclear with respect to the deductibility of certain expenses. The uncertainty could possibly expose the Group to significant fines and penalties and to enforcement measures despite its best efforts at compliance, and could result in a greater than expected tax burden.

In addition, transfer pricing legislation became effective in Russia on 1 January 1999. This legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price differs from the market price by more than 20 per cent. and in respect of all transactions involving the trading of securities and derivatives. Controlled transactions include transactions with related parties, commodity swap (barter) transactions, foreign trade transactions and transactions with unrelated parties if the price of the transactions differs from the price on similar transactions by more than 20 per cent. within a short period of time. To date, there has been no formal guidance as to how these rules will be applied. If the tax authorities imposed significant additional tax liabilities as a result of transfer pricing adjustments, it could have a material adverse impact on the Group. Russia's largely ineffective tax collection system and continuing budget requirements increase the likelihood that Russia will impose arbitrary or onerous taxes and penalties in the future, which could have a material adverse effect on the Group's business, financial condition and results of operations.

It is expected that Russian tax legislation will become more sophisticated and introduce additional revenue raising measures. Although it is unclear how these provisions will operate, introduction of these provisions may affect the Group's overall tax efficiency and may result in significant additional taxes becoming payable. Although the Group will attempt to minimise such exposures with effective tax planning, it cannot offer any assurance that additional tax exposure will not arise while the Notes are outstanding. Additional tax exposure could cause its financial results to suffer.

Legal Risks

Weakness relating to the Russian legal system and Russian legislation

In Russia, the post-Soviet legislative base has generally been formed to encourage the development of the market economy. Several fundamental Russian laws have recently been adopted, which regulate the formation, activity, corporate structure and liquidation of legal entities. However, the recent nature of many Russian laws and the rapid evolution of the Russian legal system have caused problems relating to the clarity of legislative acts, often resulting in ambiguities, inconsistencies and irregularities in their application. In addition, Russian legislation often leaves substantial legal gaps in the regulatory environment. The risks associated with the current Russian legal system include:

- some legal acts overlap or contradict one another, leading to ambiguities in the application of these acts, or of other acts;
- there is limited judicial explanation regarding the interpretation and application of Russian legislation;
- governmental authorities use the incompleteness of the Russian legal system to their advantage, dealing with normative acts in a discretionary manner;
- bankruptcy procedures, provided for by the appropriate laws, are subject to abuse from both bankrupt enterprises and creditors.

All the above factors may adversely affect the Group's ability to realise its contractual rights or to protect itself in suits brought against it.

Russian Bankruptcy Law

Russian bankruptcy law is new and still developing, and is subject to differing interpretations. Cases concerning the bankruptcy of any credit organisation are considered by the arbitration court in accordance with the Arbitration Procedural Code of the Russian Federation of 24 July 2002 (the "APC"), the Federal Law On Insolvency (Bankruptcy) of 26 October 2002 and the Federal Law On the Insolvency (Bankruptcy) of Credit Organisations of 25 February 1999. Nevertheless, there are insufficient precedents to be able to predict how claims by SBLH PLC, SBL or the Noteholders against the Bank would be resolved in the event of the Bank's bankruptcy.

A bankruptcy case can be instituted only after the licence to carry out banking activities has been withdrawn. In the event of the Bank's bankruptcy, the priority for settling creditors' claims is as follows:

- first, claims by individuals, which are the Bank's creditors under deposit and bank account agreements, and also the claims of citizens to whom the Bank bears responsibility for damage caused to their life and health;
- secondly, the disbursement of redundancy payments and the wages of past and present employees of the Bank and also royalties under intellectual property agreements; and
- thirdly, the claims of other creditors.

The claims of creditors secured by pledge take priority over all other creditors, except where the claims of the first and second priority creditors arise before the relevant pledge is created. The lenders' claims under subordinated credits (loans) are satisfied only when all the claims of other creditors have been satisfied.

It should be noted that before creditors' claims are settled as described above, the following current obligations are paid:

- costs related to bankruptcy litigation;
- the utility rates necessary for the debtor to continue its activities;
- claims of creditors made after the request to initiate the bankruptcy proceedings was accepted by the arbitration court, but before the debtor is pronounced bankrupt; and
- outstanding wages due after the request to initiate the bankruptcy proceedings was accepted by the arbitration court and the wages of the debtor's employees for the period during which the bankruptcy proceedings take place.

In the event of the Bank's bankruptcy, the bankruptcy legislation in effect may adversely affect the Bank's ability to make payments, including any required gross-up payments, to SBLH PLC, SBL or the Trustee.

Difficulty in enforcing Foreign Court Judgments or Arbitral Awards

Proceedings for the recognition and the enforcement in Russia of foreign court judgments are governed by Chapter 31 of the APC which provides that the recognition and enforcement in Russia of foreign court judgments and arbitral awards is determined by the international treaties to which the Russian Federation is party and by the federal laws of the Russian Federation. The Russian Federation (as successor to the Soviet Union) is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention"). A foreign arbitral award obtained in a country which is party to the New York Convention should be recognised and enforced by a Russian court (subject to the qualifications provided for in the New York Convention, compliance with Russian civil procedure regulations and other procedures and the requirements established by Russian legislation). Accordingly, the Loan Agreements contain a provision allowing for the arbitration of disputes. It should be noted that the Noteholders have the right to arbitrate any dispute arising out of the Loan Agreements through the assignment of SBLH PLC's or SBL's respective rights under the Loan Agreements to the Trustee for the benefit of the Noteholders.

The recognition and enforcement of foreign court judgments will depend on the particular country where the relevant judgment is rendered. If the Russian Federation is party to an international treaty, which provides for the recognition and enforcement of judgments in civil cases with another country, then the relevant judgment should be recognised by the courts in Russia. The arbitration court determines the presence or absence of grounds for the recognition and the enforcement in Russia of foreign court

judgments or arbitral awards by considering the evidence presented by the applicant, the claim application and the counter-arguments of the respondent. The arbitration court has no right to reconsider the substance of the decision of the foreign court.

Lack of independence of the judiciary

The independence of the judicial system and its immunity from economic, political and national influences in Russia remains largely untested. Russia is a civil law jurisdiction and, as such judicial precedents have no binding effect on future decisions. However, it should be noted that according to clause 304 of the APC, a court decision which has entered into legal force can be cancelled or changed, if it is inconsistent in interpretation and application with the legal norms of the courts. Further, most court decisions are not readily available to the public.

These factors make judicial decisions in Russia difficult to predict, and effective redress is uncertain. Court claims are often used to further political aims. In addition, court judgments are not always enforced or followed by the law enforcement agencies. These uncertainties also extend to the protection of property rights. See "– Political Risks".

Governmental discretion

Government authorities in Russia have a high degree of independence from one another and may at times (without hearing or prior notice) act in a manner that is not in full compliance with the law. In the past, Government actions have included the withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. At present, the Central Bank of the Russian Federation can withdraw a bank's licence to carry out banking operations only on the basis of the provisions of the Federal Law On Banks and Banking Activities of 2 December 1990. Federal and local government entities have also used loop-holes in the legislation on share issues and registration as grounds for legal claims and other demands for the cancellation of such issues and registrations and/or rendering transactions void, often with political motives. Currently, the rules for issuing and registering securities are governed by the Federal Law On the Securities Market of 22 April 1996 and, in relation to credit organisations, by the acts of the Central Bank of the Russian Federation (Instruction of the Central Bank of the Russian Federation No. 102 of 22 July 2002 On the Rules of Issuance and Registration of Securities by Credit Organizations in the Russian Federation).

Shareholder liability under Russian legislation

The Civil Code of the Russian Federation and the Federal Law on Joint Stock Companies of 26 December 1995 generally provide that the shareholders in a Russian joint stock company and the members of a Russian limited liability company are not liable for the liabilities of the company and only bear the risk of losing their investment. There is, however, an exception to this rule, in the case where one company (the parent) determines the decisions of another company (the subsidiary). In certain circumstances, the parent bears joint and several responsibility for the transactions concluded by the subsidiary in carrying out the decisions determined by the parent. In addition, the parent is liable for the subsidiary's debts if the subsidiary becomes insolvent or bankrupt as a result of action or inaction of the parent. Accordingly, the Bank may be held jointly and severally liable for the transactions of its subsidiaries, if they are proved to have been concluded pursuant to the Bank's decisions/instructions.

Regulation of Russian capital markets

The Russian securities market is still growing and developing. The Federal Commission on the Securities Market is the federal authority responsible for the regulation of the securities market, the development of the state policy on the securities market and control over the activities of professional participants of the securities market. The regulations of the Federal Commission on the Securities Market are not always coordinated and may be contradictory, which could reduce the protection available to holders of the Bank's securities.

Risks Relating to the Notes

Taxation

In general, interest payments on borrowed funds made by a Russian entity to a non-resident are subject to Russian withholding tax at a rate of 20 per cent., subject to reduction or elimination by an applicable double tax treaty. Based on professional advice it has received, the Bank believes that interest

payments on the Petrocommerce Loan made by the Bank to SBL will not be subject to tax in Russia under the terms of the double tax treaty between the Russian Federation and the United Kingdom. However, there can be no assurance that an exemption from withholding will be available. If payments under either of the Loans are subject to any withholding, the Bank will be obliged (except in limited circumstances) to increase the amounts payable as may be necessary to ensure that SBL or SBLH PLC, as the case may be, receives a net amount that will not be less than the amount it would have received in the absence of such withholding. Payments in respect of the Notes will be made without deduction or withholding for or on account of United Kingdom taxes except as required by law. In that event, SBLH PLC will only be required to pay additional amounts to the extent that SBL receives corresponding amounts from the Bank under the Petrocommerce Loan Agreement. The Petrocommerce Loan Agreement provides for the Bank to pay such corresponding additional amounts in these circumstances. There is some doubt as to whether the gross-up provisions contained in the Petrocommerce Loan Agreement are valid and enforceable under Russian law (whether in relation to Russian taxes which may be required to be withheld by the Bank or United Kingdom taxes which may be required to be withheld by SBL). Due to the limited recourse nature of the Notes, if the Bank were to fail to pay any such gross-up amounts due to such amounts payable to SBL under the Petrocommerce Loan Agreement being held to be invalid under Russian law, the amounts payable by SBLH PLC under the Notes would be correspondingly reduced. Any failure by the Bank to pay such amounts would constitute an Event of Default under the Petrocommerce Loan Agreement. In certain circumstances (including in certain circumstances following enforcement of the security upon a Relevant Event (as defined in the Trust Deed)), in the event that the Bank is obliged to increase the amounts payable, it may prepay the principal of the Petrocommerce Loan together with accrued interest, and (to the extent that SBL has actually received the relevant funds from the Bank and has transferred an equivalent sum to the SBLH PLC Account) all outstanding Notes would be redeemed by SBLH PLC.

SBLH PLC and SBL have granted security by way of a charge in favour of the Trustee over certain of their respective rights and interests as lenders under the Loan Agreements (other than any rights over and benefits constituting Reserved Rights as defined in the Trust Deed) as security for SBLH PLC's payment obligations in respect of the Notes and under the Trust Deed and have assigned absolutely certain administrative rights under the Loan Administration Assignment. In certain circumstances, the Trustee can (subject to it being indemnified and/or secured to its satisfaction) be required by the Noteholders holding at least one quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Loan Administration Assignment). The security under the Trust Deed will become enforceable upon the occurrence of a Relevant Event, as further described in the Terms and Conditions of the Notes.

In these circumstances, payments under the Loan Agreements (other than in respect of Reserved Rights) would be required to be made to, or to the order of, the Trustee. Under Russian tax law, payments of interest and other payments made by the Bank to the Trustee will in general be subject to Russian income tax withholding at a rate of 20 per cent. It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under any double tax treaty. In addition, while it may be possible for some Noteholders who are eligible for an exemption from Russian withholding tax under double taxation treaties to claim a refund of tax withheld, there would be considerable practical difficulties in obtaining any such refund.

See also "Loan Agreements – 5 Repayment and Prepayment", "Loan Agreements – 6 Payments", "Terms and Conditions of the Notes – 6 Redemption", "Terms and Conditions of the Notes – 8 Taxation" and "Taxation – The Russian Federation".

SBL ceases to be a Qualifying Lender

Under the terms of the Petrocommerce Loan Agreement, if SBL ceases to be a bank which is resident in a jurisdiction which has a double tax treaty with Russia under which the payment of interest by Russian borrowers is generally able to be made without deduction or withholding of Russian income tax (upon completion of any necessary formalities required in relation thereto) (a "Qualifying Lender"), then (save in certain circumstances) the Bank will not be liable to pay additional amounts to SBL which exceed the sum it would have been obliged to pay if it had obtained the benefit provided by such double tax treaty (through SBL remaining a Qualifying Lender). If SBL ceases to be a Qualifying Lender in the

circumstances envisaged in the Petrocommerce Loan Agreement, the amount of any payment made to SBL by the Bank which is subject to Russian withholding tax will be paid by the SBLH PLC to the Noteholders and such amount will not be increased by any additional amounts payable on account of tax. See "The Petrocommerce Loan Agreement – 10.19 Lender Covenants".

Payments under the Notes Limited to the Amount of Certain Payments Received by SBLH PLC in respect of the SBL Loan

In each case where amounts of principal, interest and additional amounts (if any) under the Terms and Conditions of the Notes or the Trust Deed are to be paid by SBLH PLC in respect of the Notes, the obligations of SBLH PLC to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of SBLH PLC pursuant to the SBL Loan Agreement. SBL is obliged under the SBL Loan Agreement only to account to SBLH PLC on each date upon which payments are due under the SBL Loan for an amount equivalent to sums of principal, interest and additional amounts (if any) received by or for the account of SBL, pursuant to the Petrocommerce Loan. Consequently, the failure of the Bank to meet its payment obligations under the Petrocommerce Loan in full would result in the Noteholders receiving less than the scheduled amount of principal or interest or other amounts (if any) on the relevant due date.

No Direct Recourse of the Noteholders to the Bank

Save as otherwise expressly provided in the Terms and Conditions of the Notes and in the Trust Deed, no proprietary or other direct interest in SBL's rights under or in respect of the Petrocommerce Loan Agreement or in SBLH PLC's rights under or in respect of the SBL Loan Agreement exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any provision of the Loan Agreements or have direct recourse to the Bank except through action by the Trustee pursuant to the Loan Administration Assignment (as defined in the Terms and Conditions of the Notes) granted to the Trustee in the Trust Deed. Neither SBLH PLC nor SBL nor, following the enforcement of the Security Interests created in the Trust Deed, the Trustee shall be required to take proceedings to enforce payment under the Loan Agreements unless it has been indemnified and/or secured by the Noteholders to its satisfaction.

In addition, under the Terms and Conditions of the Notes, Noteholders will be deemed to have accepted that:

(i) neither SBLH PLC, SBL nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or liability, or, save as otherwise expressly provided in the Trust Deed or in paragraph (vi) below, obligation in respect of the performance and observance by the Bank of its obligations under the Petrocommerce Loan Agreement or the recoverability of any sum of principal, interest or additional amounts (if any) due or to become due from the Bank under the Petrocommerce Loan Agreement;

(ii) neither SBLH PLC, SBL nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the financial condition, creditworthiness, affairs, status or nature of the Bank;

(iii) neither SBLH PLC, SBL nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Bank under or in respect of the Petrocommerce Loan Agreement;

(iv) neither SBLH PLC, SBL nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying Agent, the Paying Agent, the Registrar or the Transfer Agent of their respective obligations under the Paying Agency Agreement;

(v) the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by the Bank of its obligations under the Petrocommerce Loan Agreement and its covenants, credit and financial standing and upon performance by SBL of its

obligations under the SBL Loan Agreement. The Bank has represented and warranted to SBL in the Petrocommerce Loan Agreement that the Petrocommerce Loan Agreement constitutes a legal, valid and binding obligation of the Bank; and

(vi) SBLH PLC, SBL and the Trustee shall be entitled to rely on self-certification of the Bank as a means of monitoring whether the Bank is complying with its respective obligations under the Petrocommerce Loan Agreement and shall not otherwise be responsible for investigating any aspect of the Bank's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Loan Administration Assignment and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of SBLH PLC or SBL to the assigned property whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security; the Trustee has no responsibility for the value of such security.

Secured Indebtedness

Any secured indebtedness incurred by the Bank from time to time is effectively senior to its obligations under the Petrocommerce Loan, which are unsecured (as at 31 December 2002 the Bank had incurred secured indebtedness in an amount of U.S.$23.8 million and as at 30 June 2003 the Bank had incurred no secured indebtedness). As a result, if the Bank were to default on the Petrocommerce Loan, and such default were to trigger an event of default under any of its secured indebtedness, holders of its secured indebtedness would have priority over SBL, SBLH PLC and the Trustee acting on behalf of the Noteholders.

No Existing Market and Market Volatility

Application has been made to list the Notes on the Luxembourg Stock Exchange. However, there can be no assurance that an active trading market for the Notes will develop or, if one does develop, that it will be maintained. If an active trading market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected. The market for securities issued by Russian companies is influenced by economic and market conditions in other Eastern European countries and other emerging markets and has experienced volatility in the past. Although international markets have stabilised since the Asian crisis in 1997 and the devaluation of the Russian rouble in August 1998, there can be no assurance that events will not cause a recurrence of such market volatility or that such volatility will not adversely affect the price of the Notes.

Credit Rating

Outstanding Eurobonds of the Russian Federation are rated "Baa3" (outlook positive) by Moody's Investor Services, "BB" (outlook stable) by Standard & Poor's and "BB+" (outlook positive) by Fitch, Inc. The Bank has received a long-term counterparty credit rating of B (outlook stable) with a short-term counterparty credit rating of C from Standard & Poor's, a division of the McGraw-Hill Companies, Inc. The Bank has received an E+ Financial Strength Rating (FSR) and ratings of B1/NP for long- and short-term foreign currency deposits from Moody's Investors Service, all of which carry stable outlooks. Any change in the credit rating of any of the Bank or the Russian Federation could adversely affect the trading price for the Notes. A change in the credit rating of one or more corporate Russian borrowers could also adversely effect the trading price for the Notes. **A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.**

USE OF PROCEEDS

The net proceeds from the offering of the Notes after deduction of underwriting fees and commissions and payment of other costs and expenses associated with the offering of the Notes, which net proceeds are expected to amount to approximately U.S.$118,000,000, will be used by SBLH PLC for the sole purpose of financing the SBL Loan. The proceeds from the Petrocommerce Loan, which is being funded in full by the SBL Loan, will be used by the Bank for working capital and general corporate purposes.

STANDARD BANK LONDON HOLDINGS PLC

SBLH PLC was incorporated as a private limited company in England and Wales under the Companies Act 1985 on 10 May 1988, with registered number 2255588. SBLH PLC was subsequently re-registered as a public limited liability company in England and Wales under the Companies Act 1985 on 29 May 2003. Its registered office and principal place of business is at Cannon Bridge House, 25 Dowgate Hill, London EC4R 2SB.

Neither SBLH PLC nor any of its affiliates is an affiliate of the Bank.

The authorised share capital of SBLH PLC is £150,000,000, comprising 150,000,000 ordinary shares of £1.00 par value each and U.S.$200,000,000, comprising 200,000,000 ordinary shares of U.S.$1.00 par value each ranking *pari passu* in all respects. The issued and fully paid up share capital of SBLH PLC is £50,000,000, comprising 50,000,000 ordinary shares of £1.00 par value each and U.S.$158,977,629 comprising 158,977,629 ordinary shares of U.S.$1.00 par value each.

The members of the Board of Directors of SBLH PLC are R.A.G. Leith, T.G. Wheeler and D.F. Dugmore.

Since SBLH PLC's sole obligation in respect of the Notes is to make certain payments in relation to the Notes, as and when payments on the Petrocommerce Loan and the SBL Loan are received by SBL and SBLH PLC from the Bank and/or SBL, as the case may be, pursuant to the Petrocommerce Loan Agreement and the SBL Loan Agreement, respectively, financial information relating to SBLH PLC is not included in this Offering Circular.

STANDARD BANK LONDON LIMITED

SBL was incorporated as a private limited company in England and Wales under the Companies Act 1985 on 11 May 1987, with registered number 2130447. Its registered office and principal place of business is at Cannon Bridge House, 25 Dowgate Hill, London EC4R 2SB. SBL is an authorised institution under the Banking Act 1987 and is authorised and regulated by The Financial Services Authority.

Neither SBL nor any of its affiliates is an affiliate of the Bank. SBL is a wholly-owned subsidiary of SBLH PLC.

The authorised share capital of SBL is £300,000,000, comprising 300,000,000 ordinary shares of £1.00 par value each and U.S.$500,000,001, comprising 500,000,000 ordinary shares and 1 'A' ordinary share of U.S.$1.00 par value each. The issued and fully paid up share capital of SBL is U.S.$424,175,999, comprising 424,175,998 ordinary shares of U.S.$1.00 par value each and 1 'A' ordinary share of U.S.$1.00 par value.

The members of the Board of Directors of SBL are:

Chairman	J.H. Maree
Chief Executive	R.A.G. Leith
Executive Directors	M.J. Botha, W.S. Dorson, D. Feld, I.G. Gibson, N.J. Holden, J.M.K. Pearson, T.G. Wheeler and M.J. Wilde
Non-Executive Directors	D.P.H. Burgess, D.E. Cooper, B.J. Kruger (alt. to M.J.D. Ruck), R.M. Mansell-Jones, M.J.D. Ruck, C.J. Sheridan, T.R. Smeeton and B.A. Ursell

Since SBL's sole obligation in respect of the Notes is to make certain payments to SBLH PLC pursuant to the SBL Loan, as and when payments on the Petrocommerce Loan are received by SBL from the Bank pursuant to the Petrocommerce Loan Agreement, financial information relating to SBL is not included in this Offering Circular.

CAPITALISATION OF THE GROUP

The following table sets forth the unaudited consolidated debt and stockholders' equity of the Group as at 30 June 2003.

	As at 30 June 2003
	(U.S.$ thousands)[1]
Debt	
Deposits and balances from banks and other financial institutions	55,585
Current accounts and deposits from customers	809,818
Certificates of deposit and promissory notes	246,587
Bonds issued	35,407
Other liabilities[2]	16,210
Total debt	1,163,607
Stockholders' equity	
Common stock[3]	174,581
Preference stock[4]	15,861
Treasury stock	(13,032)
Retained earnings	39,751
Other comprehensive income	22,529
Total stockholders' equity	239,690
Total Capitalisation[5]	1,403,297

Notes:

(1) The amounts of common stock and preference stock, as well as the value of treasury stock, are given at historical cost. Other indicators in the Capitalisation Table have been calculated at the rate of RUR 30.3483 = U.S.$1.00, the official rate of the CBR on 30 June 2003.

(2) In addition to the liabilities shown in the above table, the Group has certain commitments and contingent liabilities outstanding as at 30 June 2003: guarantees (U.S.$40.7 million); import letters of credit (U.S.$26.1 million); and confirmed export letters of credit (U.S.$5.0 million).

(3) As at 30 June 2003, the Bank had issued 450,000,000 common stock shares of par value RUR 10.00 each. All of the Bank's common stock share capital is fully paid up.

(4) As at 30 June 2003, the Bank had issued 500,000 preference stock shares of par value RUR 1,000.00 each. All of the Bank's preference stock share capital is fully paid up.

(5) There has been no material change in the capitalisation of the Group since 30 June 2003 except that the Bank has repaid a U.S.$20 million syndicated loan in November 2003.

SELECTED FINANCIAL AND OPERATING INFORMATION

The following tables set forth selected consolidated financial and operating information for the Group for the years ended and as at 31 December 2000, 2001 and 2002 and the six month periods ended and as at 30 June 2003 and, where appropriate, 2002.

The financial information set out below has been extracted from the audited consolidated financial statements of the Group for the three years ended and as at 31 December 2000, 2001 and 2002 and from the unaudited interim consolidated financial statements of the Group for the six months ended and as at 30 June 2003 and 2002.

Income Statement Data

	Year ended 31 December			*Six months ended 30 June*	
	2002	*2001*	*2000*	*2003*	*2002*
	(Audited)			*(Unaudited)*	
	(U.S.$ thousands)				
Interest income	75,466	44,814	36,073	49,506	39,606
Interest expense	(39,600)	(24,647)	(25,674)	(36,136)	(24,185)
Net interest income before provision for loan impairment	35,866	20,167	10,399	13,370	15,421
Provision for loan impairment	(5,778)	(11,385)	(1,968)	(7,459)	(93)
Net interest income after provision for loan impairment	30,088	8,782	8,431	5,911	15,328
Fee and commission income	18,583	11,909	9,440	13,491	8,829
Fee and commission expense	(2,049)	(1,184)	(753)	(1,860)	(896)
Net income from trading securities	20,228	19,207	4,786	27,973	10,807
Other income	12,182	6,404	5,823	9,761	5,794
Non-interest income	48,944	36,336	19,296	49,365	24,534
General administrative expenses	(41,552)	(22,315)	(16,985)	(27,048)	(16,679)
Income before other provisions, income taxes and minority interest	37,480	22,803	10,742	28,228	23,183
Provision for impairment other than loan impairment	(469)	(428)	444	70	94
Income before income tax and minority interest	37,011	22,375	11,186	28,298	23,277
Income tax expense	(7,997)	(13,111)	(5,321)	(5,884)	(3,955)
Income before minority interest	29,014	9,264	5,865	22,414	19,322
Minority interest	(243)	—	—	99	(132)
Net income	28,771	9,264	5,865	22,513	19,190

Balance Sheet Data

	Year ended 31 December			*30 June*
	2002	*2001*	*2000*	*2003*
	(Audited)			*(Unaudited)*
	(U.S.$ thousands)			
ASSETS				
Cash	21,357	16,983	8,511	28,027
Due from the Central Bank of the Russian Federation	174,300	184,198	92,007	221,077
Placements with banks and other financial institutions	153,757	175,488	50,458	102,136
Loans to customers	425,573	291,522	184,647	566,128
Trading securities	189,172	66,151	67,351	208,575
Investments in available for sale and other securities	75,066	24,116	27,297	144,222
Held to maturity securities	1,911	—	—	1,829
Amounts receivable under reverse repurchase agreements	2,112	—	—	30,880
Goodwill	3,672	—	—	3,566
Deferred tax assets	1,966	1,299	1,697	433
Other assets	23,809	10,036	3,373	64,968
Property, plant and equipment	42,186	21,801	14,392	40,188
Total Assets	1,114,881	791,594	449,733	1,412,029
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits and balances from banks and other financial institutions	129,092	27,860	90,606	55,585
Current accounts and deposits from customers	603,008	522,168	274,133	809,818
Certificates of deposit and promissory notes	163,224	67,659	33,377	246,587
Deferred tax liability	373	—	—	6,924
Other liabilities	6,738	7,232	2,527	16,210
Total Liabilities	902,435	624,919	400,643	1,170,531
Minority Interest	2,171	2,633	—	1,808
Stockholders' Equity				
Common stock 450,000,000 shares issued with a par value of roubles 10 at 31 December 2002 (2001: 450,000,000; 2000: 100,000,000)	174,581	174,581	55,589	174,581
Preference stock – 500,000 shares issued with a par value each of roubles 1,000 at 31 December 2002 (2001: 0; 2000: 0)	15,861	—	—	15,861
Treasury stock, at cost, at 31 December 2002 34,528,867 shares (2001: 33,864,755; 2000: 43,826)	(12,999)	(11,885)	(18)	(13,032)
Retained earnings/(accumulated losses)	27,042	1,345	(6,481)	39,751
Other comprehensive income	5,790	1	—	22,529
Total Stockholders' Equity	210,275	164,042	49,090	239,690
Total Liabilities, Minority Interest and Stockholders' Equity	1,114,881	791,594	449,733	1,412,029

Financial Ratios

	As at and for the year ended 31 December			*As at and for the 6 months ending 30 June*	
	2002	*2001*	*2000*	*2003*	*2002*
	(Audited)			*(Unaudited)*	
			(per cent.)		
The Bank's Performance Ratios:					
Net interest margin[1][7]	5.20	4.02	3.34	2.94	5.69
Non-interest income to total Bank income[2]	57.71	64.31	64.98	78.69	61.40
Cost income ratio[3]	48.99	39.49	57.20	43.11	41.74
ROA[4][7]	2.58	1.17	1.30	3.19	4.53
ROE[5][7]	13.68	5.65	11.95	18.79	20.39
Balance Sheet Ratios:					
Customer deposits to customer loans	141.69	179.12	148.46	143.05	182.28
Loans to total assets	38.17	36.83	41.06	40.09	35.86
Stockholders' equity to total assets	18.86	20.72	10.92	16.97	22.21
Tier I capital adequacy ratio[6]	22.28	32.74	15.51	19.73	37.80
Total capital adequacy ratio[6]	23.53	33.99	16.76	20.98	39.05
Asset Quality:					
Non-performing loans to total loans (gross)	0.38	0.07	0.09	0.40	0.26
Provisions to total loans (gross)	6.07	6.17	3.63	5.86	6.24
Provisions to non-performing loans	100	100	100	100	100
Provisions charge to total loans[7]	1.84	3.93	1.49	2.58	0.04
Funding:					
Retail deposits/total liabilities	19.03	18.34	11.91	21.13	18.79

Notes:

(1) Net interest income divided by interest-earning assets as at 31 December or, as the case may be, 30 June in the relevant year.

(2) Net non-interest income excluding provisions to net revenues.

(3) Operating costs including depreciation but excluding provisions to net revenues excluding provisions.

(4) Return on Assets comprising net income divided by total assets as at 31 December or, as the case may be, 30 June in the relevant year.

(5) Return on Equity comprising net income divided by stockholders' equity as at 31 December or, as the case may be, 30 June in the relevant year. The change in the ROE amount as at 31 December 2001 is partially attributable to the issue of RUR 3.5 billion of additional share capital in the last quarter of 2001.

(6) Calculated in accordance with Basle Capital Accord standards.

(7) This ratio has been calculated, with respect to its income statement component for the six months ended 30 June 2003 and 2002, on an annualised basis.

THE BANK

Introduction

The Bank was founded on 22 April 1992 and has developed into a leading bank operating in Russia and (through subsidiaries) certain states of the former Soviet Union. As at 1 November 2003, the Bank was the eleventh largest bank in Russia in terms of capital[1] and the twelfth largest in terms of total assets[1]. Pursuant to Chapter 3 of its Charter, and according to the General Licence granted by the CBR, the Bank is able to provide any banking service which is not prohibited by the law. The Bank is a versatile financial institution providing a comprehensive range of banking services. The principal objectives of the Bank and its consolidated subsidiaries, taken as a whole (the "Group") include the provision of banking and settlement services to OJSC LUKOIL ("LUKOIL") and its subsidiaries (together with LUKOIL, the "LUKOIL Group"), one of Russia's leading energy conglomerates, which, as at 30 June 2003, owned an 82.29 per cent. interest in the Bank. The Group aims to maintain an operating presence through branches or offices in regions and areas where members of the LUKOIL Group operate.

The Group provides a range of corporate and retail banking services (including the provision of loans, deposit-taking and debit card services), as well as undertaking securities and foreign exchange trading, fund management, trade and export credit agency finance, and leasing. The Group is currently considering expanding its investment banking activities to include underwriting operations.

As at 31 December 2003, the Bank's network in Russia comprised the Head Office and six additional offices in Moscow, 17 regional branches, 15 additional offices in the Russian Federation, 10 foreign exchange offices (which principally handle currency transactions) and 21 cash offices (which accept payment orders for customers and execute cash transactions), an electronic clearing house, 112 operational cash dispensers, and 482 POS terminals. In addition to the Bank, the Group comprises four operating companies: JSC Komi Regional Bank Ukhtabank ("Ukhtabank") (in which the Group currently has a 96.74 per cent. shareholding interest), which the Group acquired in 2001; JSC Stavropolpromstroybank ("Stavropolpromstroybank"), in which the Group holds a 77.27 per cent. interest; BC Unibank S.A. ("Unibank"), a bank operating in Moldova (in which the Group acquired a 100 per cent. interest in 2002); and JSC Bank Petrocommerce-Ukraine ("Petrocommerce-Ukraine") (formerly Aviatekbank), a bank operating in the Ukraine, in which the Group holds a 90.82 per cent. interest. The Bank and these subsidiaries comprise the principal members of the Group. As at 30 June 2003, the Bank had 1,582 employees.

The Head Office of the Bank is located at 24 Petrovka Street, Moscow 127051.

The Bank is licensed and registered with the Central Bank of Russia (the "CBR") under registration number 1776 and is recorded in the Unified State Register of Legal Entities with Ministry of Taxes and Levies of the Russian Federation under registration number 1027739340584. The Bank is also licensed by the Federal Commission for Securities Market to act as a broker, dealer, trust manager and a depository in the Russian securities market. The Bank also holds a licence as a commodities exchange broker (number 396) issued by the Ministry for Antimonopoly Policy and Business Support of the Russian Federation.

The Bank is a member of the Moscow Interbank Currency Exchange ("MICEX"); the Russian Trading System ("RTS"), a remote electronic stock trading system; and the Chamber for Commerce and Industry. The Bank participates in a number of associations, including the National Association of Securities Market Participants; the National Stock Exchange Association; the Association of Participants in the Promissory Notes Market; the Association of Russian Banks; the Union of Moscow Banks; and the Association of Regional Banks of Russia.

The Bank is licensed by the State Customs Committee of the Russian Federation to act as a guarantor to the Russian customs authorities in relation to the import and export activities of Russian companies.

The Bank is regulated and supervised by the CBR. It has been a member of SWIFT since 1999 and full (principal) member of the VISA International payment system since 1998.

1 Source: Profile, a Russian economic magazine (based on Russian Accounting Standards).

History and Development

The Bank was founded on 22 April 1992 by, amongst others, the oil concern Langepas-Uray-Kogalymneft (which was subsequently reorganised and acquired by LUKOIL). From 1993 to 1997, the Group developed its product range and its geographical network in Russia. This included the development of relationships with corporate and retail customers and the commencement of its debit card business. The Group also commenced its activities in the money and securities markets, including the commencement of trading on MICEX in 1994. During the 1998 Russian financial crisis, the Group avoided material losses due to insignificant exposure to rouble denominated Russian Government domestic debt, GKOs, whose market collapsed. In 1998, following the collapse of Imperial Bank, its then preferred bank, the LUKOIL Group decided to make the Bank its primary banking institution.

Since the end of 1998, the Group has expanded its geographical presence, both within Russia and elsewhere in the Commonwealth of Independent States (the "CIS"). In 1998, the Bank acquired Kogalymneftekombank (which had one branch) and Bank Langepas (which had three branches) and, in addition, opened five new branches in Astrakhan, Volgograd, Kaliningrad, Kirov and Perm. In addition, in 1999 it opened two new branches in Saratov and Novorossiysk.

In 2000, the Bank was converted into an open joint-stock company with a charter capital of RUR 400 million. In addition, the Bank opened two additional offices in Moscow and a new regional branch in Nizhni Novgorod. Also in 2000, the Bank issued RUR 600 million additional shares at par value, increasing the charter capital of the Bank to RUR 1 billion. Its financial operations at this time had become significant and the size of its network contributed to its position as one of the larger banks operating in Russia.

In 2001, the Group adopted its development strategy for the period from 2001 to 2006 (see "The Bank – Strategy"). The Bank issued a further RUR 3.5 billion additional shares at par value, increasing the charter capital of the Bank to RUR 4.5 billion. The Group acquired a 66.7 per cent. shareholding interest in Ukhtabank and opened a third additional office in Moscow.

In 2002, the Bank opened a new branch in Archangelsk and issued a further RUR 0.5 billion additional shares at par value, increasing the charter capital of the Bank to RUR 5 billion. In addition, the Bank's shares were admitted for trading on RTS. In December 2002, the Group acquired a 100 per cent. interest in Unibank, one of the largest banks in Moldova, which had previously been controlled by the LUKOIL Group. During 2002, the Group acquired a 90.76 per cent. shareholding in Petrocommerce-Ukraine, together with a 71.66 per cent. interest in Stavropolpromstroybank, which gave it control of one of the largest banks in the Stavropol region of Russia. In addition, the Group increased its shareholding in Ukhtabank to 96.74 per cent.

In 2003, the Bank opened new branches in Krasnodar and Samara. In addition, the Group increased its shareholding in Stavropolpromstroybank and Petrocommerce-Ukraine to 77.27 per cent. and 90.82 per cent., respectively.

Ownership and Capital Structure

As at 30 June 2003, the charter capital of the Bank totalled RUR 5 billion, comprising 450,000,000 common stock shares of par value RUR 10.00 each and 500,000 preference stock shares of par value RUR 1,000.00 each.

As at 30 June 2003, members of the LUKOIL Group owned approximately 82.29 per cent. of the Bank's shares, with 77.87 per cent. being held directly by LUKOIL.

The table below shows the principal shareholders of the Bank as at 31 December 2003.

Shareholder	*Percentage of Shares held*
LUKOIL	77.87
Financial Industrial Integration (an investment company specialising in Russian corporate stocks)[1]	1.01
AL-Investuniversal (an investment company)[1]	2.52
Financial Systems and Consultations (an investment company specialising in Russian stocks and promissory notes)[1]	3.01
Fortalesa (a property developer)[1]	0.38
Others[2]	15.21
Total	100

Notes:

(1) Denotes a consolidated member of the Group. The shares in the Bank that are held by each of these companies have been accounted for as treasury stock in the Group's consolidated unaudited balance sheet as at 30 June 2003.

(2) This comprises approximately 500 corporate and private individual shareholders of the Bank.

Relationship with LUKOIL and the LUKOIL Group

LUKOIL is the Bank's majority shareholder and members of the LUKOIL Group are among the Group's principal customers.

LUKOIL is a major vertically-integrated oil company which controls a significant range of operations and reserves within and outside Russia. LUKOIL is the parent company of the LUKOIL Group, whose operations range from oil and gas exploration and production to refining and sale of oil products. As at 31 December 2002, on an audited consolidated basis, the LUKOIL Group's total assets comprised U.S.$22.0 billion, its net assets comprised U.S.$14.0 billion and its net income comprised U.S.$1.8 billion.

The Group's principal business objectives include managing and optimising the financial flows of LUKOIL Group companies and providing them with a full range of banking services, including corporate banking, retail services, payroll, card services and remittance services for employees. The Group has become the sole provider of treasury services to the LUKOIL Group and the Group has set up electronic banking stations in the majority of LUKOIL's offices. As a result, a significant proportion of the Group's transactions, credit exposures and funding are with the members of the LUKOIL Group.

The LUKOIL Group is a stable group of customers and the Group believes that income from its exposure to the LUKOIL Group forms a relatively predictable base for its revenue performance. Rates charged to the LUKOIL Group tend to be at the lower end of the range of market rates, which reflects the stability and lower risk accorded to the LUKOIL Group as a group of related borrowers by the Group. The following tables show the amount of loans (by maturity) and the amount of deposits (by term) which are attributable to the LUKOIL Group as at the dates shown.

Loans to the LUKOIL Group	*As at 31 December*			*As at 30 June*
	2002	*2001*	*2000*	*2003*
		(U.S.$ thousands)		
Short-term loans/credits[(1)(2)]	89,971	74,120	28,210	68,119
Long-term loans/credits[(1)]	53,671	12,684	2,476	61,139
Total	143,642	86,804	30,686	129,258

Notes:

(1) Short-term loans and credits are those due within one year at the date shown and long-term loans and credits are those due after more than one year at such date.

(2) The majority of short-term loans to the LUKOIL Group represent overdraft facilities provided by the Bank for cash-flow purposes.

Deposits from the LUKOIL Group	*As at 31 December*			*As at 30 June*
	2002	*2001*	*2000*	*2003*
		(U.S.$ thousands)		
Current accounts, deposits and promissory notes issued (up to 12 months)	144,714	127,231	158,285	101,629
Deposits and promissory notes issued (more than 12 months)	5,087	2,888	426	3,368
Total	149,801	130,119	158,711	104,997

LUKOIL supported the Group during the 1998 Russian financial crisis and contributed to subsequent capital increases, improving the capital adequacy of the Group and assisting in the preparation for future expansion of the Group's business. As a result of the Group's strategic partnership with LUKOIL, the Bank's charter capital has increased substantially since 1998 (from RUR 121 million as at 1 January 1999 to RUR 5 billion as at 30 June 2003). In addition, the Bank holds LUKOIL ADRs in its securities portfolio.

The Group currently intends to continue its close business relationship with the LUKOIL Group acting as its primary banking institution. The Group has developed a significant range of operational procedures and product lines in order to accommodate the needs of the LUKOIL Group, including real-time monitoring of the budgetary control of the LUKOIL Group. Part of the Group's strategy is to have a presence through a branch of the Bank in each area where the LUKOIL Group has a material presence so that the Group can efficiently service the financial needs of LUKOIL Group members. In addition, through the ongoing relationship with the LUKOIL Group, the Group has developed important and valuable experience in managing the LUKOIL Group's financial service requirements.

The LUKOIL Group has a majority representation on the Bank's Council Board of Directors (six out of the nine members are senior managers within the LUKOIL Group).

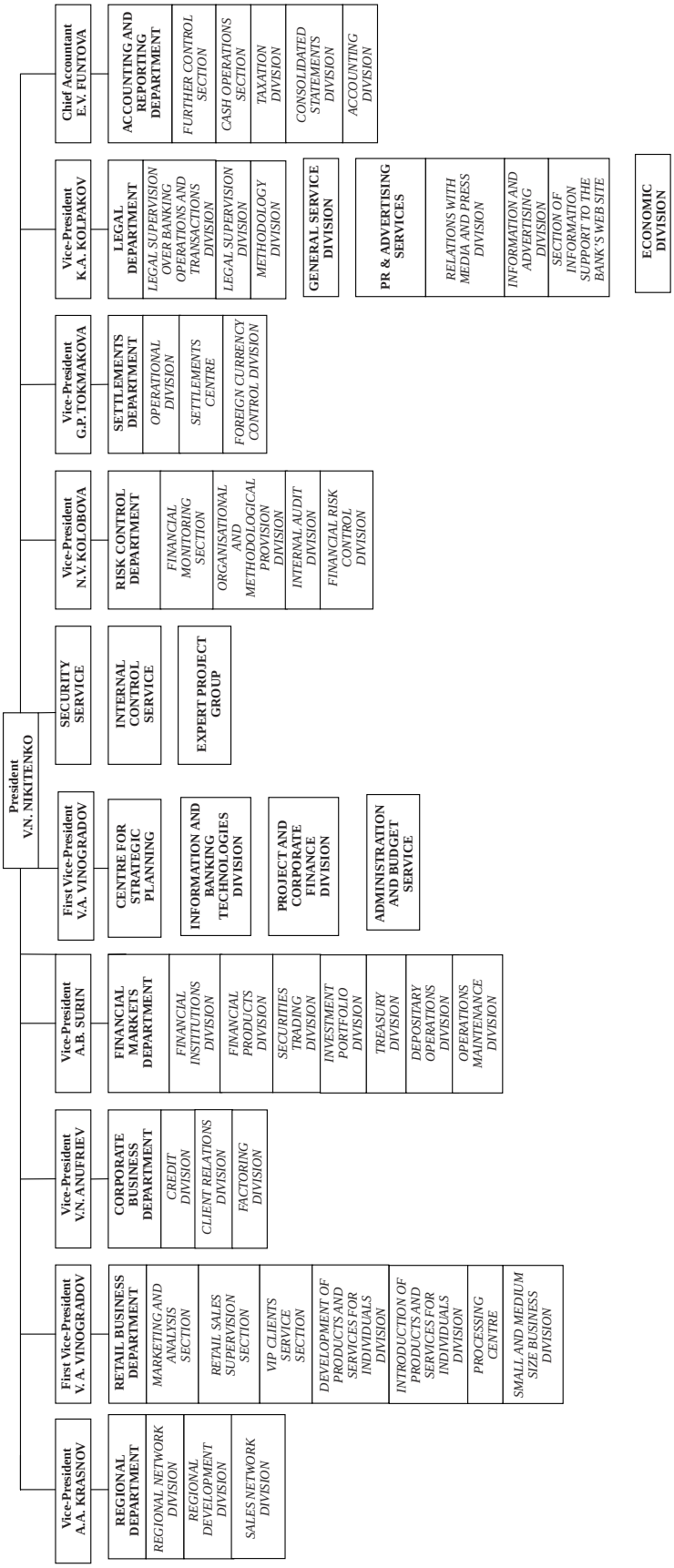
Organisation

The principal members of the Group are the Bank, Ukhtabank, Stavropolpromstroybank, Unibank and Petrocommerce-Ukraine. Other members of the Group, which principally hold financial instruments and real estate totalling approximately U.S.$104 million and which are controlled through option agreements (see "The Bank – Ownership and Capital Structure"), principally conduct operations on behalf of these entities. In addition, as at 31 December 2003, the Bank conducted its operations from its Head Office and six additional offices in Moscow, together with 17 regional branches, 15 additional offices in twelve subjects of the Russian Federation (including the Perm region, the Republic of Komi, the Stavropol territory, the Tyumen region and the Yamalo-Nents autonomous district), 10 foreign exchange

offices (which principally handle currency transactions) and 21 cash offices (which accept payment orders for customers and execute cash transactions).

The Bank's day-to-day activities are exercised by the Managing Board and the President, with the activities of the Managing Board and the President being over-seen by the Council Board of Directors. See "The Bank – Management". The principal operational committees are the Main Credit Committee, the Small Credit Committee and the Financial Economic Committee which are supported by the Risk Control Department, the Security Service Department and the Legal Department. The principal business units of the Bank are (i) corporate banking, (ii) retail banking, (iii) financial markets, (iv) securities trading, and (v) fund management.

The chart below sets out the Bank's current organisational structure.



Strategy

In 2001, the Group adopted a five-year development strategy for the period from 2001 to 2006. This development strategy envisages that the Group will continue to develop its network across more regions of the Russian Federation, the CIS and Central and Eastern Europe and will continue to develop as a versatile financial institution providing a broad range of products and services. The Group intends further to increase its established corporate banking business by offering an increased range of products tailored for its corporate customers and to attract increased retail banking business from individuals and small to medium-sized enterprises ("SMEs"), as well as to expand the Group's activities in both the domestic and the international capital markets. It is expected that corporate banking business will continue to be the principal focus of the Group for the foreseeable future.

Servicing the banking, financial and settlement needs of LUKOIL and members of the LUKOIL Group remains one of the Group's principal business objectives. The Group also aims to continue to use its experience from its business with LUKOIL to provide a similar wide range of services to other corporate customers and to individual customers. A related strategic goal is to provide the employees of members of the LUKOIL Group with a full range of banking services using the Group's close relationship with various of the respective employers in the LUKOIL Group in order to gain access to the needs of the employee base.

In the medium-term, the Group is planning to continue its relationship with the LUKOIL Group and also to develop its various banking businesses in areas and for customers which are not related to the LUKOIL Group. In particular, it intends to focus its efforts on expanding its corporate and retail banking operations and its capital markets activities. The Bank intends to take advantage of opportunities afforded by its subsidiaries and its branch network, which gives it a presence in twelve subjects of the Russian Federation (including the Perm region, the Republic of Komi, the Stavropol territory, the Tyumen region and the Yamalo-Nents autonomous district), as well as Moldova and the Ukraine, in order to target international, national and regional enterprises outside the LUKOIL Group.

In addition, in the medium-term, the Group is planning to develop its business further by focusing on increased growth in its product sales and delivery and in opening up market segments in which it has not hitherto had a presence. The Group has identified the following executive actions which are critical to its strategy:

- emphasising the importance of corporate customer business in all product areas. This will include continuing efforts to attract major corporate and industrial customers and using its range of services, including investment management, to introduce such customers to the Group;
- increasing the volume of corporate lending, especially to customers not related to the LUKOIL Group. This will involve focusing on the expansion of business with, and servicing the requirements of, small and medium-sized businesses (both in deposit taking and in corporate credit);
- further diversifying the Group's loan portfolio into the shipping, agri-business, food, construction, transport, forestry, timber and information technology industries;
- increasing business with individual customers, in terms of attracting individual depositors and in developing its retail loan base and the market for its plastic cards services;
- expanding its sales network, through the controlled expansion of its additional office network in Moscow and its branch and additional office network in the regions;
- increasing the volume of the Group's treasury and fund management operations;
- further developing the Group's securities trading business and commencing an investment banking business including underwriting and advisory services; and
- obtaining a licence to start operations involving precious metals.

As part of its overall strategy, in the next three years, it is expected that the Group's regional network will increase by approximately 20 additional offices, initially in Moscow, Sochi, Novosibirsk, Omsk, Samara, Murmansk and Narian-Mar, together with those regions of the Russian Federation where members of the LUKOIL Group have operations. The regional development programme will serve to

respond to the growing needs of the LUKOIL Group in various regions and to respond to banking business opportunities in areas which indicate the promise of economic development. This programme is expected to be complemented by the development of the Group's ATM network, implementation of technology for establishing and organising mini-offices and sales outlets of the Group and the further evolution of the Group's IT system and remote access products to allow customers to access their bank accounts and which comprise a range of services, including Internet Banking, Home Banking and Remote Trading.

The strategic planning of the Group also provides for the possibility of economic decline, market volatility and a financial crisis environment so that, in the event such conditions occur, the Group has a contingency plan, is able to respond with anti-crisis measures and can still progress its strategy within an environment of negative economic and financial conditions.

The Bank continues to monitor potential strategic acquisitions within the Russian Federation and the CIS (primarily where members of the LUKOIL Group have operations), as well as within other parts of Central and Eastern Europe.

By pursuing this strategy, the Group aims to continue its growth (both organically and by means of strategic acquisitions) and its development as a financial institution and to maintain an efficient wide-ranging banking business.

Funding

Sources of Funding

The principal sources of funds for the Group are demand and term deposits from corporate borrowers and individuals, which as at 30 June 2003, amounted to U.S.$809.8 million (31 December 2002: U.S.$603.0 million), borrowings in roubles and foreign currencies from domestic and foreign banks and institutions on both a bilateral and a syndicated basis, the issuance of certificates of deposit and promissory notes and inter-bank borrowing.

The Group's funding strategy is to increase its rouble and foreign currency deposit base through the expansion of its network and its corporate and retail customer base. This will allow for the expansion of its customer lending operations and will lead to a diversification of its sources of funding. The Group intends to continue to obtain short- and medium-term financing in the rouble bond market, through the issue of rouble bonds and promissory notes and also intends to continue to obtain medium-term financing through its correspondent banking relationships and through financings in the international markets (including in the syndicated loan and capital markets). In addition, following the implementation of the Government's proposed pension reform, the Group intends to attract funds from the resultant pension fund market.

The Group accepts deposits denominated in roubles and foreign currency. As at 30 June 2003, approximately 30 per cent. of the Group's total current accounts and deposits from customers were in foreign currencies, principally U.S. dollars, with the remainder being in roubles. As at 30 June 2003, the Group had approximately U.S.$555.8 million in demand deposits (other than promissory notes, certificates of deposit and bonds issued), representing 47.5 per cent. of total liabilities and U.S.$309.6 million in term deposits, representing 26.5 per cent. of total liabilities. The Group is focusing on increasing total term deposits as a proportion of its sources of funding, partly through the greater attraction to customers of higher interest rates payable on such deposits. As at 30 June 2003, current accounts and deposits from customers provided 69.2 per cent. of the Group's total liabilities with inter-bank deposits providing 4.7 per cent. of the Group's total liabilities. Certificates of deposits, bonds issued and promissory notes provided 24.1 per cent. of the Group's total liabilities.

As at 30 June 2003, borrowings from banks and financial institutions amounted to U.S.$55.6 million, of which U.S.$37.8 million were in foreign currencies.

The following table sets forth an analysis of liabilities for the Group as at the dates indicated.

	As at 31 December			As as 30 June
	2002	*2001*	*2000*	*2003*
	(U.S.$ thousands)			
Deposits and balances from banks				
Vostro (Demand)	14,318	10,847	87,889	11,549
Term	114,774	17,013	2,717	44,036
Total deposits and balances from banks	129,092	27,860	90,606	55,585
Current accounts and deposits from customers				
Demand	385,059	409,127	183,057	544,236
Term	217,949	113,041	91,076	265,582
Total current accounts and deposits from customers	603,008	522,168	274,133	809,818
Certificates of deposit, bonds issued and promissory notes	163,224	67,659	33,377	281,994
Other liabilities				
Deferred tax liability	373	—	—	6,924
Other liabilities	6,738	7,232	2,527	16,210
Total other liabilities	7,111	7,232	2,527	23,134
Total liabilities	902,435	624,919	400,643	1,170,531

Deposits

Demand Deposits

Demand deposits are operated as current accounts. Interest is paid on balances at rates determined by the Group from time to time and customers are permitted to make an unlimited number of withdrawals. As at 30 June 2003, total demand deposits from customers amounted to U.S.$544.2 million or 46.5 per cent. of the total liabilities of the Group, as compared with U.S.$385.1 million or 42.7 per cent. of total liabilities of the Group as at 31 December 2002.

Term Deposits

In Russia, term deposits have traditionally been placed for relatively short periods of time, due to the inflationary environment. As at 30 June 2003, total term deposits from customers amounted to U.S.$265.6 million or 22.7 per cent. of the total liabilities of the Group, as compared with U.S.$217.9 million or 24.2 per cent. of the total liabilities of the Group as at 31 December 2002. The Bank intends to increase the proportion which term deposits bear to the Group's deposit base and to the Group's total liabilities.

The following table sets forth an analysis of the Group's total deposits and balances from banks, current accounts and deposits from customers, certificates of deposit and promissory notes, bonds issued and other liabilities by maturity as at the dates indicated.

	As at 31 December			*As at 30 June*
	2002	*2001*	*2000*	*2003*
		(U.S.$ thousands)		
Three months or less	694,345	532,551	375,585	827,238
More than three months, but less than or equal to one year	170,786	75,538	23,919	255,495
More than one year	37,304	16,830	1,139	87,798
Total deposits and balances from banks, current accounts and deposits from customers, certificates of deposits, bonds issued and promissory notes and other liabilities	902,435	624,919	400,643	1,170,531

The following tables set out the Group's deposits and other liabilities by rouble and foreign currency and by maturity at the dates indicated.

	As at 31 December			*As at 30 June*
	2002	*2001*	*2000*	*2003*
		(U.S.$ thousands)		
Deposits and balances from banks				
Roubles	87,127	10,768	86,239	17,831
Foreign currency	41,965	17,092	4,367	37,754
Total deposits and balances from banks	129,092	27,860	90,606	55,585
Current accounts and deposits from customers				
Roubles	366,456	384,182	146,437	565,936
Foreign currency	236,552	137,986	127,696	243,882
Total current accounts and deposits from customers	603,008	522,168	274,133	809,818
Certificates of deposit and promissory notes				
Roubles	105,114	58,173	15,922	238,059
Foreign currency	58,110	9,486	17,455	8,528
Total certificates of deposit and promissory notes	163,224	67,659	33,377	246,587
Bonds issued				
Roubles	—	—	—	35,407
Foreign Currency	—	—	—	—
Total bonds issued	—	—	—	35,407
Other liabilities				
Roubles	5,383	5,310	—(1)	18,884
Foreign currency	1,728	1,922	—(1)	4,250
Total other liabilities	7,111	7,232	2,527	23,134
Total liabilities	902,435	624,919	400,643	1,170,531
Roubles	564,080	458,433	—(1)	876,117
Foreign currency	338,355	166,486	—(1)	294,414

Note:

(1) Certain information as to the rouble and foreign currency-denominated other liabilities of the Group was not available as at the date indicated.

	As at 31 December			As at 30 June
	2002	2001	2000	2003
	(per cent.)			
Roubles	62.5	73.4	63.8	74.8
Foreign currency	37.5	26.6	36.2	25.2
Total liabilities	100	100	100	100

	As at 31 December			As at 30 June
	2002	2001	2000	2003
	(U.S.$ thousands)			
Short term[1]	865,131	608,089	399,504	1,082,733
Long term[1]	37,304	16,830	1,139	87,798
Total deposits and balances from banks, current accounts and deposits from customers, certificates of deposits, bonds issued and promissory notes and other liabilities	902,435	624,919	400,643	1,170,531

	As at 31 December			As at 30 June
	2002	2001	2000	2003
	(per cent.)			
Short term[1]	95.9	97.3	99.7	92.5
Long term[1]	4.1	2.7	0.3	7.5
Total deposits and balances from banks, current accounts and deposits from customers, certificates of deposits, bonds issued and promissory notes and other liabilities	100	100	100	100

Note:

(1) "Short term" means due within one year at the relevant date and "Long term" means due after more than one year at the relevant date.

Banks in Russia are free to set interest rates paid on deposits without restriction by the Central Bank or any other Government agency.

Deposits and balances from banks and other financial institutions

The Group lends and borrows amounts from the inter-bank money market in Russia, usually on an overnight basis arising as a result of the Group's liquidity management requirements. Although the Group uses the inter-bank money market in Russia for the purposes of managing its liquidity position, the general policy of the Bank is that inter-bank financing should not constitute a significant part of its general funding.

The Bank also has arranged for an additional interest-bearing credit line to be made available to it by the CBR which the Bank uses for liquidity purposes on an intermittent basis. See "Risk Management – Liquidity Risk".

The Group's deposits and balances from banks and other financial institutions comprise loans in roubles and foreign currencies from local and foreign banks and institutions on a bilateral and a syndicated basis. As at 30 June 2003, the Group's outstanding loans included in deposits and balances from banks and other financial institutions amounted to U.S.$38.2 million, of which 22.4 per cent. was denominated in roubles (31 December 2002: U.S.$110 million, of which 66.1 per cent. was denominated in roubles).

In November 2002, the Bank entered into a U.S.$20,000,000 Syndicated Term Loan Facility which was arranged by Standard Bank London Limited and which was repaid in full in November 2003. The Bank currently intends to arrange a further syndicated loan facility during 2004. In addition, in March 2003, the Bank issued RUR 1,000,000,000 15.0 per cent. domestic bonds which are due to mature in 2006.

The table below sets out a breakdown of the Group's deposits and balances from banks and other financial institutions (including loans and other debt financing) as at the dates indicated.

	As at 31 December			*As at 30 June*
	2002	*2001*	*2000*	*2003*
	(U.S.$ thousands)			
Vostro accounts	14,318	10,847	87,889	11,549
Term deposits	114,774	17,013	2,717	44,036
Total[(1)]	129,092	27,860	90,606	55,585

Note:

(1) As at 30 June 2003, one bank maintained a deposit with the Group which individually comprised more than 10 per cent. of deposits and balances from banks and other financial institutions. The gross value of this deposit as at 30 June 2003 was U.S.$8,238,000.

Lending

Corporate banking is the principal lending activity of the Group. The Group offers a range of traditional banking services to private corporate customers. Loans to such customers as at 30 June 2003 comprised approximately 92.7 per cent. of the Group's total loan portfolio (gross of provisions) (31 December 2002: 89.2 per cent.). The Group's corporate lending products include short-term loans, longer-term investment loans (which finance capital assets) and factoring facilities offered to small, medium and large corporate businesses in Russia and the CIS.

Analysis of Loans

The Group primarily lends to corporate customers although since mid-2001 it has also concentrated on expanding its retail loan business. As at 30 June 2003, loans (net of provisions) amounted to U.S.$566.1 million, representing 40.0 per cent. of the Group's total assets.

The Bank employs a number of categories to describe the types of loans advanced and contingent commitments made on behalf of its customers as follows:

Category	*Description*
Corporate Loans	Loans to corporate customers (including small- and medium-sized enterprises) to fund day-to-day operations
Municipal Loans	Loans to local government entities
Individual Loans	Loans to individuals, including for the purchase of retail items
Guarantees	Non-cash facility for guaranteeing commercial and financing requirements of corporate customers, including performance bonds
Letters of Credit	Letters of credit issued by the Bank in favour of its customers for the importing of goods and services by Russian businesses

Loans and contingent liabilities by type

The following table sets out details of the Group's loans by type, as at the dates indicated.

	As at 31 December						*As at 30 June*	
	2002		*2001*		*2000*		*2003*	
	Amount	*Percentage of loan portfolio*	*Amount*	*Percentage of loan portfolio*	*Amount*	*Percentage of loan portfolio*	*Amount*	*Percentage of loan portfolio*
	(U.S.$ thousands, except percentages)							
Corporate Loans	404,221	89.2	293,317	94.4	187,069	97.6	557,340	92.7
Municipal Loans	28,720	6.4	8,631	2.8	—	—	19,448	3.2
Individual Loans	20,125	4.4	8,741	2.8	4,542	2.4	24,603	4.1
Total Loans	453,066	100	310,689	100	191,611	100	601,391	100

The Group has commitments and contingent liabilities in respect of, *inter alia*, guarantees and letters of credit on behalf of its customers. These instruments bear a credit risk similar to that of loans granted to customers.

The following table sets out details of the Group's guarantees and letters of credit commitments and contingent liabilities, as at the dates indicated, and are shown based on the contractual maturity of the instrument (being the latest date the Group may be called to honour its obligation under the relevant instrument).

	As at 31 December			*As at 30 June*
	2002	*2001*	*2000*	*2003*
	(U.S.$ thousands)			
Guarantees	36,378	6,250	4,624	40,668
Letters of credit	6,072	12,354	19,452	31,164
Total	42,450	18,604	24,076	71,832

The outstanding contractual amount of any guarantee or letter of credit does not necessarily represent future cash requirements, as many of these commitments may expire or terminate without needing to be funded.

The following table sets out the proportion of the Group's loan portfolio (gross of provisions) which is secured and unsecured, as at the dates indicated.

	As at 31 December			As at 30 June
	2002	*2001*	*2000*	*2003*
	(U.S.$ thousands)			
Secured	359,625	235,989	141,039	493,119
Unsecured	93,441	74,700	50,572	102,272
	453,066	310,689	191,611	601,391

Loans by economic sector

The Group's principal customers are members of the LUKOIL Group, which are primarily involved in the energy and petrochemical sectors. In addition, the Group lends to corporate customers in the industry sectors indicated below.

The following table sets out an analysis of the exposure by economic activity of the Group's customer loan portfolio (gross of provisions), as at the dates indicated.

	As at 31 December						As at 30 June	
	2002		2001		2000		2003	
Sector	*Amount*	*per cent.*	*Amount*	*per cent.*	*Amount*	*per cent.*	*Amount*	*per cent.*
	(U.S.$ thousands, except percentages)							
Oil exploration and refinery	98,668	21.8	89,823	28.9	48,869	25.5	46,099	7.7
Trade	72,300	16.0	59,882	19.3	38,445	20.0	132,310	22.0
Building and Construction	59,649	13.2	3,007	1.0	—	—	51,632	8.6
Manufacturing	50,337	11.1	51,240	16.5	18,408	9.6	92,856	15.5
Transportation	25,738	5.7	11,880	3.8	2,905	1.5	41,690	6.9
Agriculture, forestry and timber	16,520	3.6	19,863	6.4	1,527	0.8	23,659	3.9
Food	16,407	3.6	—	—	—	—	39,944	6.6
Municipal government	28,720	6.4	8,631	2.8	—	—	19,448	3.3
Finance	11,686	2.6	17,008	5.5	39,786	20.8	18,360	3.1
Chemistry	10,636	2.4	—	—	—	—	14,024	2.3
Power generation	4,562	1.0	14,665	4.7	—	—	42,084	7.0
Other	37,718	8.2	25,949	8.3	24,629	12.9	54,682	9.1
Mining/Metallurgy	—	—	—	—	12,500	6.5	—	—
Individuals	20,125	4.4	8,741	2.8	4,542	2.4	24,603	4.1
Total	453,066	100	310,689	100	191,611	100	601,391	100

Loans by currency exposure

The following table sets out an analysis of the exposure by currency of the Group's customer loan portfolio (net of provisions), as at the dates indicated.

	As at 31 December						*As at 30 June*	
	2002		*2001*		*2000*		*2003*	
	Amount	*per cent.*	*Amount*	*per cent.*	*Amount*	*per cent.*	*Amount*	*per cent.*
	(U.S.$ thousands, except percentages)							
Roubles	258,630	60.8	210,623	72.2	110,155	59.7	294,010	51.9
Other currencies	166,943	39.2	80,899	27.8	74,492	40.3	272,118	48.1
Total	425,573	100	291,522	100	184,647	100	566,128	100

Loans by maturity

The following table sets out the maturity structure of the Group's loans to customers (net of provisions), as at the dates indicated.

	As at 31 December						*As at 30 June*	
	2002		*2001*		*2000*		*2003*	
	Amount	*per cent.*	*Amount*	*per cent.*	*Amount*	*per cent.*	*Amount*	*per cent.*
	(U.S.$ thousands, except percentages)							
Less than one month	78,183	18.4	68,518	23.5	60,168	32.6	53,359	9.4
One to three months	62,864	14.8	62,861	21.5	45,537	24.7	36,167	6.4
Three to six months	50,668	11.9	61,692	21.2	43,719	23.7	133,740	23.6
Six months to one year	108,513	25.5	70,493	24.2	28,486	15.4	146,409	25.9
More than one year	125,345	29.4	23,241	8.0	6,737	3.6	196,453	34.7
No maturity	—	—	4,717	1.6	—	—	—	—
Total	425,573	100	291,522	100	184,647	100	566,128	100

In common with most other Russian banks, the Group's loan portfolio is predominantly short-term. As at 30 June 2003, loans due within one year or earlier represented approximately 65.3 per cent. of the Group's customer loan portfolio (70.6 per cent. as at 31 December 2002).

Loans by national breakdown

The following table sets out an analysis of the Group's customer loan portfolio (net of provisions) by national region.

	As at 31 December			*As at 30 June*
	2002	*2001*	*2000*	*2003*
	(U.S.$ thousands)			
Government of the Russian Federation	—	6,321	4,296	—
Other Russian entities[1]	378,080	275,843	150,139	491,864
Other non-OECD countries	35,803	5,919	17,860	51,046
OECD countries	11,690	3,439	12,352	23,218
Total	425,573	291,522	184,647	566,128

Note:

(1) Includes all entities domiciled in the Russian Federation, including the Russian subsidiaries of foreign entities.

Loans by amount and number of borrowers

As at 30 June 2003, the largest exposure of the Group to any entity or related group of entities amounted to U.S.$129.3 million to the LUKOIL Group, representing 21.5 per cent. of the customer loan portfolio (gross of provisions) (as at 31 December 2002: U.S.143.6 million; 2001: U.S.$86.8 million; 2000: U.S.$30.7 million). The Group's top 20 borrowers accounted for 56.6 per cent. of the Group's total loan portfolio as at 30 June 2003.

As at 30 June 2003, the Group's top 10 borrowers accounted for a total gross exposure of the Group of U.S.$314.8 million, comprising loans totalling U.S.$281.7 million (representing 46.8 per cent. of the Group's total gross loan portfolio) and guarantees totalling 33.1 million.

Credit Approval

Each of the Bank's branches is subject to its own particular limit on the amount of a loan which it may make to a particular customer or on the aggregate amount of loans that may be made at any particular time to a group of related companies. In setting lending limits for the Bank's branches, the Bank applies certain criteria including an analysis of amounts requested, the local customer base serviced by the relevant branch, an assessment of the quality of the current loan portfolio (including the particular branch's loan book) and the strategic need to diversify its loan portfolio. These limits are reviewed monthly by the Bank's Credit Committee and communicated across the Bank's network. Each of the Bank's branches operates within the requirements of a unified credit procedure promulgated by the Bank's Head Office and which is overseen by the relevant credit officer in the branch. This procedure allows for a review of each loan application on the basis of risk control, as well as taking into account any business advantage which may accrue to the Bank. The Bank's branch in Perm has the highest limit for a single loan to a corporate customer, being RUR 686 million, as at 30 June 2003.

When an application is made to a branch or additional office for a loan, the loan application, together with all necessary supporting documentation, is submitted for determination under the uniform credit procedure which applies to the branches. The supervising credit officer at the relevant branch or additional office then conducts a review of the loan application and analyses the supporting documentation and the underlying collateral to be provided, as well as conducting detailed research into the applicant's business, financial performance and prospects and the applicant's standing in the relevant industry sector and that sector's performance and prospects, together with any unusual factors to be considered, prior to final determination of the loan application. The application is also reviewed by the relevant branch's Legal and Security Departments. Following a favourable analysis of the application by the three areas of the Bank, the loan is subject to approval by the relevant branch's credit committee.

The internal credit committee within the branch will decide on the loan application within the credit limits which apply to that branch. In the event that an application is made for a loan which exceeds the relevant branch's limit for amounts of loans or does not fall within the prescribed parameters for the type of loan to be advanced, a further loan application, summarising the supporting documentation, is submitted by the relevant branch to the Credit Division at the Bank's Head Office which co-ordinates the involvement of the Risk Control Department, the Legal Department and the Security Department at the Bank's Head Office. Each of these three Departments then conducts its own review of the loan application and analyses the summary documentation and the underlying collateral to be provided. The Legal Department reviews the capacity of the potential borrower and the legal risks which may apply to the application. The Security Department assesses reputational risks associated with the counterparty and the Risk Control Department assesses credit risk on the basis of a thorough analysis of the application which includes a review of the borrower's financial condition, its position in its industry sector, a comprehensive analysis of the relevant industry and of the project concerned. As a result of the analysis, the borrower is assigned a rating and the amount of provision necessary to cover the risk is determined, should the loan be granted. A review of the collateral offered in respect of the loan is separately undertaken and includes a visual inspection or a documentary examination.

Following their review, all of the Departments submit their findings as part of the submission of the loan application to the Bank's Small Credit Committee (for loans of up to U.S.$500,000 and standard retail loan applications) or the Bank's Main Credit Committee (for loans of more than U.S.$500,000 or non-standard credit applications) for final discussion and determination of the loan application.

When assessing the creditworthiness of an applicant, the Bank looks at factors such as the management of the borrower, the main business activities of the borrower, the geographical location of the borrower, its suppliers and customers, its position in the industry, information on previously received credits, the financial position of the borrower (including its financial stability and turnover) and an economic appraisal of the likely return on the loan.

The Bank evaluates its customers in accordance with their credit history, the quality of collateral offered, their financial condition (taking into account such matters as indebtedness ratios and cash flows) and the Bank's own analysis of sector and regional risk.

The rating which is assigned to the borrower reflects the probability of non-repayment of the loan. Any assessment of the risk of non-payment of a Russian customer's debt is hampered by the lack of reliable information in Russia on a credit applicant. The financial statements of most customers are not prepared in accordance with International Accounting Standards or audited in accordance with International Standards on Auditing. It is therefore difficult reliably to evaluate the financial condition of customers. In addition, there is no centralised information source of credit information which would permit thorough tracking of credit histories.

Whether or not to extend the maturity of a loan is in the Group's discretion and any decision is reached only after a review of the customer's overall credit history and quality and the reasons for extending the loan. As a general rule, an extension of maturity is likely to be refused if the customer does not have credit balances in its accounts or if there is an obvious deterioration in the customer's financial condition or a material risk of the customer becoming insolvent.

The Small Credit Committee has six members, is chaired at Vice-President level and also includes the Head of the Risk Control Department, the Head of Credit, the Head of Customer Relations, the Deputy Head of the Legal Department and the Head of Economic Security. The Main Credit Committee has seven members, is chaired by Vladimir Anufriev (Vice-President) and also comprises four of the Bank's other Vice-Presidents, together with the Head of Security and the Head of Credit. The decision of the relevant Credit Committee is final and is not capable of being reversed by senior management action.

Following approval of a loan by the relevant Credit Committee, standard form loan documentation is prepared, the loan facility is made available to the customer and then monitoring of the loan commences. The Bank aims to arrange for determination by the relevant Credit Committee of a loan application within approximately one week after the original submission of the credit application to the Credit Division.

The table below sets out the various thresholds of authorisation within the Bank in relation to credit operations:

Type of officer/committee	*Limits*
Vice-president – Head of Corporate Business Department	Authorises standard credit operations for amounts not greater than U.S.$50,000.
Credit Committees of Branches	Authorise standard credit operations within the loan limits set for each branch.
Small Credit Committee of the Bank	Authorises standard credit operations the volume of which (including loans, promissory notes, guarantees and other liabilities of a borrower and any group related to such borrower) does not exceed U.S.$500,000.
Financial Economic Committee	Approves indicative interest rates for loans.
Main Credit Committee of the Bank	1. Authorises credit operations the volume of which (including loans, promissory notes, guarantees and other liabilities of a borrower and any group related to such borrower) exceeds U.S.$500,000 and any non-standard credit operations; and 2. Reviews credit policy and other internal documents related to credits.

Type of officer/committee	*Limits*
President of the Bank	1. If necessary, coordinates the decisions of the Credit Committees; and 2. Approves authorisation limits.
Managing Board	Makes decisions on the key credit lending decisions.
Board of Directors	Makes decisions on the credit operations in which the Bank is interested and on major loans according to current legislation.

Monitoring

Each branch of the Bank monitors each of its loans and its loan portfolio pursuant to well-defined prescribed procedures. As well as ensuring that the borrower fulfils its obligations under each loan, the Bank at branch or office level regularly monitors the value of the underlying collateral for each loan, as well as being able to make regular site visits to the borrower's premises. In relation to its loan portfolio, the Bank also monitors the level of non-performing loans and the concentration and volume of loans to any particular borrower, group of borrowers or industry sector.

Payments under each loan are made direct to the branch which advanced the funds to the borrower. Daily reports of any overdue amounts are generated by each of the branches and are reviewed the next day at the Group's Head Office. During the monitoring process, extra collateral may be taken in relation to any loan obligation which may be regarded as liable to breach by the borrower. In addition, contractual arrangements may be made with the borrower for the setting-off of any amount(s) owed to the Bank against assets of the borrower held elsewhere (for example, in an account at another bank). Consequently, the Bank's exposure to any default is minimised.

In the event that a payment is not made when due, the borrower is contacted by one of the Bank's credit inspectors to ascertain the reason for non-payment. During this time, the Bank revises its rating of the borrower, the risk-weighting accorded to such borrower and adjusts its provisioning accordingly. Default interest accrues until such payment is made. In the event that payment is not made within five days of becoming due, this may also cause the entire loan to become due. The Bank then commences legal proceedings for the recovery of the debt.

Collateral

The Bank usually takes collateral as security for all loans and credit facilities granted to its customers. Loans, even to related parties, are generally over-secured in terms of value of the security. The main types of collateral or credit support taken are guarantees, Russian Government securities, shares in blue-chip companies, liquid promissory notes, real estate, goods, wares and merchandise and similar monetary assets. Pledges of, amongst other things, equipment are a typical form of security taken by the Bank. According to the Bank's internal procedures, collateral should be provided (where it is required) to cover outstanding liabilities during the whole duration of a transaction.

The Credit Division and Legal Department are responsible for monitoring and registering the collateral taken. The frequency of a collateral review will depend on the type of collateral taken. Collateral taken over shares, for example, is reviewed monthly. In normal circumstances, collateral is generally expected to be realised within three months. However, the enforcement and sale of certain collateral, such as real property and industrial equipment, may take longer owing to lengthy legal procedures and other factors, such as seasonal price fluctuations and demand.

Provisioning

The Risk Control Department of the Bank implements the credit review and provisioning policies of the Bank which it communicates to the branch network. In assessing whether a provision is justified in respect of a credit, the Bank's policy is to assess the particular credit on the basis of credit record, financial position, cashflow in accounts (whether with the Bank or with others), the strength of the credit's business, the quality of the project being financed (if applicable), the state of the collateral and other relevant factors.

The Bank uses a scoring system in respect of the application of such criteria and then applies provisions (on the basis of percentage of the loan amount) to loans affected. The Bank makes a provision

for 2 or 5 per cent. in relation to standard loans which are under review. Loans with non-standard features will be subject to provisions ranging from 10 per cent. to 100 per cent. The Bank's approach to recognising risks in particular credits is based on U.S. GAAP provisioning policies.

Provisions which are made are reviewed on a monthly basis as credit quality is reassessed. Each branch monitors the quality of its loan book by reference to the guidance on monitoring and provisioning produced by the Risk Control Department. The provisioning exercise which the Bank undertakes includes certain procedures, as described below.

The Bank focuses on the identification of loans which are significant and which, if fully provided for, would have a material effect on the Bank's profitability.

The procedure for assigning a risk weighting, which determines the provisioning, is standard and applies to any loan. If the loan is significant (i.e. has to be approved at the Main Credit Committee), a risk weighting is indicated in the report of the Risk Control Department to the Main Credit Committee. For other loans that are not individually significant, the risk weighting is assigned by the relevant credit officer in accordance with the methodology accepted in the Bank and is assessed by the risk manager before submitting the relevant loan application for the approval of the relevant credit committee. The final decision on provisioning is made by the relevant credit committee. If the credit quality of the borrower subsequently changes, then the provisioning may be revised in the course of monthly monitoring.

In accordance with the requirements of the CBR, the Bank performs a credit appraisal of the loan portfolio and a review of its provisions on a monthly basis.

The following table sets out the principal amounts covered by the various provisioning percentages of the Bank as at the date indicated:

	31 December 2002			*30 June 2003*		
Effective provisioning rate	*Amount of loan portfolio*	*Amount of provision*	*Percentage of loan portfolio*	*Amount of loan portfolio*	*Amount of provision*	*Percentage of loan portfolio*
	(U.S.$ thousands)		*(%)*	*(U.S.$ thousands)*		*(%)*
2%	262,156	5,243	57.86	319,338	6,387	53.10
5%	78,155	3,908	17.25	155,387	7,770	25.84
10%	38,372	3,837	8.47	52,945	5,295	8.80
15%	35,587	5,338	7.86	52,583	7,887	8.75
20%	36,937	7,387	8.15	12,874	2,575	2.14
50%	158	79	0.03	5,831	2,916	0.97
100%	1,701	1,701	0.38	2,433	2,433	0.40
Total	453,066	27,493	100	601,391	35,263	100

The following table sets out details of changes in the provision for loan impairment for loans to customers.

	Year ended 31 December			*Six months ended 30 June*	
	2002	*2001*	*2000*	*2003*	*2002*
	(U.S.$ thousands)				
Balance at 1 January/1 July	19,167	6,964	4,117	27,493	19,167
Charge to provision for loan impairment during the period	5,762	9,992	2,847	7,770	57
Loans written off during the period as uncollectable	(102)	—	—	—	—
Acquisition of subsidiaries	2,666	2,211		—	1,006
Balance at end of the period	27,493	19,167	6,964	35,263	20,230

In the year ended 31 December 2002, the Group made provisions amounting to U.S.$5.8 million in respect of its loans to customers, compared to U.S.$10.0 million in 2001. The overall increase in the level of provisioning was in line with the increase in the Group's overall asset base during 2002. In the six month period ended 30 June 2003, the Group made provisions amounting to U.S.$7.8 million in respect of its loans to customers, compared to U.S.$0.06 million for the corresponding period in 2002 (see "Recent Developments").

The Group's ratio of total customer loan provision to total customer loans amounted to 5.9 per cent. as at 30 June 2003, as compared to 6.1 per cent. as at 31 December 2002 and 6.2 per cent. as at 31 December 2001. Notwithstanding the development of its lending business in the SME and the retail sectors, the Group does not expect to experience a significant increase in its risk position based on this ratio. This is due to the continued pre-dominance of the Group's core corporate lending business as a percentage of the Group's total customer loan portfolio and the application of its traditional conservative credit appraisal techniques to corporate lending.

Capital Adequacy

The Bank is required to comply with capital adequacy guidelines promulgated by the CBR. These guidelines require a bank to maintain an adequate level of regulatory capital against risk-weighted assets and off-balance sheet exposures. The Group also complies with the Basle Capital Accord standards established by the Bank of International Settlements. The Group's total capital adequacy ratio is calculated in a similar manner to the Basle Capital Accord standards established by the Bank of International Settlements, by dividing the Group's Tier I capital, which comprises its share capital, retained earnings (general and legal reserves) and profit for the current period (net income), plus its Tier II capital, which includes the allowance for loan losses minus the deductions which comprise investments in unconsolidated subsidiaries and affiliates, by the aggregate of the Group's risk-weighted assets and risk-weighted off-balance sheet exposures. In accordance with the Basle Capital Accord standards, the Group must maintain a total capital ratio in excess of eight per cent.

The following table sets forth an analysis of the Group's capital base, based on Basle Capital Accord standards, as at the dates indicated:

	As at 31 December			*As at 30 June*
	2002	*2001*	*2000*	*2003*
	(U.S.$ thousands, except percentages)			
Stock[1]	190,442	174,581	55,589	190,442
Treasury stock	(12,999)	(11,885)	(18)	(13,032)
Retained earnings	27,042	1,345	(6,481)	39,751
Accumulated other comprehensive income	5,790	1	—	22,529
Minority interest	2,171	2,633	—	1,808
Less goodwill	(3,672)	—	—	(3,566)
Tier I capital	208,774	166,675	49,090	237,932
Tier II capital	11,715	6,363	3,956	15,075
Total capital	220,489	173,038	53,046	253,007
Deductions	—	—	—	—
Net total capital	220,489	173,038	53,046	253,007
Risk-weighted assets	937,172	509,025	316,487	1,206,017
Capital adequacy ratios				
Tier I ratio (%)[2]	22.28%	32.74%	15.51%	19.73%
Total capital ratio (%)[3]	23.53%	33.99%	16.76%	20.98%

Notes:

(1) Comprising common stock and preference stock, if relevant, as at each of the dates indicated.

(2) Tier I capital divided by risk-weighted assets.

(3) Net total capital divided by risk-weighted assets.

Although the Group's capital adequacy ratios are high, the Group's long-term expectation within its capital strategy is to maintain its Total capital ratio at an approximate level of 15 per cent., based on Basle Capital Accord Standards.

Corporate Banking

General

Credit transactions for the benefit of corporate customers currently comprise the Group's principal business activity. As at 30 June 2003, the total corporate loan portfolio of the Group (gross of provisions) amounted to U.S.$557.3 million or 92.7 per cent. of total loans of the Group, compared to U.S.$404.2 million or 89.2 per cent. of total loans in 2002, U.S.$293.3 million or 94.4 per cent. of total loans in 2001 and U.S.$187.1 million or 97.6 per cent. of total loans, in 2000.

As at 30 June 2003, the Group had loans totalling U.S.$129.3 million (gross of provisions) to members of the LUKOIL Group, compared to U.S.$143.6 million as at 31 December 2002, U.S.$86.8 million in 2001 and U.S.$30.7 million in 2000. As at 30 June 2003, the Group had loans to non-LUKOIL-related companies totalling U.S.$428.1 million (gross of provisions), compared to U.S.$260.6 million as at 31 December 2002, U.S.$206.5 million in 2001 and U.S.$156.4 million in 2000.

The Group provides a wide range of corporate banking services to its corporate customers in Russia, including corporate loans, export financing, letters of credit and guarantees in both roubles and foreign currencies, as well as cash collection and management services and foreign exchange remittances. The Group provides its corporate banking services through its network of branches and additional offices.

The Corporate Business Department is one of the largest Departments in the Bank. Total corporate loans outstanding as at 30 June 2003 (gross of provisions) amounted to U.S.$557.3 million (31 December 2002: U.S.$404.2 million), based on an active and fast growing corporate customer base. The Group's strategy is to provide corporate lending products to a range of small, medium and large Russian companies and Russian subsidiaries and branches of foreign multi-national corporations, particularly those with trade finance requirements. The Group is also examining establishing or broadening corporate banking relationships with the customers of its customers.

Loan facilities are provided mainly in roubles and U.S. dollars. As at 30 June 2003, the Group's foreign currency loans to customers amounted to approximately U.S.$272.1 million (31 December 2002: U.S.$166.9 million). The Group extends longer term U.S. dollar loans to corporate customers in Russia for industrial and manufacturing investment purposes and project financing, subject to the availability to the Group of matching long-term U.S. dollar funding.

The Group also makes available rouble and foreign currency non-cash facilities to its customers, principally comprising guarantees in relation to the importation of various materials, letters of credit in respect of trade financing activities and provides performance guarantees and bid bonds, principally in relation to project financing or construction transactions.

The Group estimates that in excess of 70 per cent. of account management, deposit drawing activities and basic cash management services for its corporate customers are undertaken through electronic banking facilities set up for the relevant corporate customer. The Group provides payroll services to the LUKOIL Group and other corporate customers. The Group also intends to extend to other corporate groups a range of cash management, payroll and remittance services similar to those which it currently supplies to the LUKOIL Group.

The Group's trade financing activities principally involve pre-export financing, import financing and issuing and confirming letters of credit and the provision of letters of guarantee. The Group's trade finance activities are funded through correspondent bank facilities matched in terms of currency and maturity and through general term facilities. Throughout 2002, the Group had foreign currency loans outstanding which were utilised for the Group's trade financing activities (issuance of letters of credit) of approximately U.S.$37 million. In addition to committed general term facilities, the Group also has correspondent banking lines which are generally on an uncommitted basis and require case-by-case approval for utilisation, often by reference to overall country or region exposure of the relevant correspondent bank. The Group also utilises various export credit programmes provided by overseas

agencies such as HERMES (Germany), OND (Belgium), NCM (the Netherlands), Eximbank USA, EGAP (Czech Republic), Export Bank of the Czech Republic and COFACE (France).

Customers

Members of the LUKOIL Group are the Group's main corporate customers. An increased focus on credit activities by each of the Bank's branches and an increased demand for credit in the regions has, however, allowed the Group to diversify its loan portfolio. In 2001 and 2002, the Group established banking relationships with a wide range of new corporate customers in various sectors of Russian industry.

Major corporate customers outside the LUKOIL Group include OJSC Prodimex (a sugar trader); OJSC GNK Nafta-Moscow (an oil products trader); Veles Capital (an investment company and provider of corporate finance services); Aquarius (a Russian IT company); the Transagro Group (a Russian financial and industrial group); NTV Plus (a satellite television company); OJSC Birulevsky Meat Processing Plant; RAO Unified Energy System (an electricity and heating distributor); OJSC Solikamsky Non-Ferrous Metals Plant (a supplier of metals to the car industry); OJSC Proton-Perm Motors (a machinery, construction and metals enterprise); OJSC Kirovo-Chepetsk Chemical Plant; Novoviatsky Mechanical Plant (a leading Russian producer of consumer electronics); OJSC Insurance Company Mezhregiongarant; the Novorossisky ship repair plant; Bazalt (an armaments manufacturer); Astrakhansky Korabel (a management company for a financial and industrial group, focusing on the ship-building industry); the Ministry of Finance of the Komi Republic; and OJSC Sovfrakht (a shipping and logistics company).

Strategy

The Group plans to attract further business from corporate customers whose operations are not related to those of the LUKOIL Group. As at 30 June 2003, 25.5 per cent. of the Group's total loan portfolio was attributable to or guaranteed by members of the LUKOIL Group (31 December 2002: 32.7 per cent.). By the end of 2003, the percentage of the Group's loan portfolio attributable to members of the LUKOIL Group had decreased.

The Group intends to concentrate on expanding its lending business with SMEs. This is supported by the Bank's participation in a programme sponsored by the EBRD to encourage the financing of SMEs. The Bank expects to use its subsidiaries, Stavropolpromstroybank and Ukhtabank, in its initiative to encourage SME lending in the regions of the Russian Federation.

Municipal Lending

In addition to its corporate banking and retail banking activities, the Group lends to local government entities. As at 30 June 2003, the Group had outstanding loans to municipal entities totalling U.S.$19.4 million or 3.2 per cent. of the Group's total loan portfolio, compared to U.S.$28.7 million or 6.4 per cent. in 2002 and U.S.$8.6 million or 2.8 per cent. in 2001.

Retail Banking

General

Traditionally, the Group has focused primarily upon the provision of corporate banking services, principally to members of the LUKOIL Group. Since mid-2001, however, the Group has extended its focus to retail banking. Following the adoption of its development strategy, the Group has started to extend a range of deposit and credit services to individuals and is currently expanding its retail services, notably card services, mortgage lending and payroll and remittance services. The Group also provides general banking services to employees of members of the LUKOIL Group.

The Bank's retail banking services are provided through its branches, rather than through its Head Office, as the branch network affords the best access to the Bank's retail customers. With the expansion in the variety of services offered by retail banking, the retail loan portfolio and deposit base has increased accordingly. As at 30 June 2003, loans to individuals outstanding (gross of provisions) amounted to U.S.$24.6 million representing 4.1 per cent. of total loans (total loans (gross of provisions) as at that date being U.S.$601.4 million). (31 December 2002: U.S.$20.1 million representing 4.4 per cent. of total loans.)

Retail loans principally constitute general purpose consumer loans, vehicle loans, or, to a limited extent, mortgage loans.

The Group commenced its project of implementing a comprehensive retail banking service during 2002. The retail project commenced with the Group's analysis of the current retail market and the standard of provision of banking services by existing banks. Through the use of such surveys, the Group analysed the value which retail services could bring, the product ranges and various packages which could be offered to customers and the current quality of service provided to customers, and gained an understanding of the particular income earning segments (based on household incomes) which were likely to use retail services offered by the Group. 63 retail branches and additional foreign exchange offices are configured in accordance with the Bank's brand, "Petrocommerce".

Through its analysis of the retail sector, the Group identified its target market as the middle and upper-middle income group of customers and the Group offers a wide range of retail products by way of a one-stop banking service through its enlarged branch network, including cash management account facilities, current and deposit accounts and consumer loans and mortgage loans, generally with a maximum maturity of 36 months, and which also allows it to cross-sell other financial products of the Group (including fund management and portfolio trading).

The Bank intends to deliver retail banking services through an expanded branch network complemented by ATM facilities, 24-hour telephone banking facilities and Internet banking. The Bank has established a retail information technology section to facilitate the introduction of its new retail products. As part of its retail strategy, the Bank will be using teamworking and quality of service techniques which it has employed in other parts of its human resource organisation. These techniques emphasise the strengths and requirements of teamwork and aim to provide members of its banking teams with a wide variety of skills (in terms of marketing, operation and credit analysis).

Deposits and Loans

The Group provides deposit and secured lending facilities to LUKOIL employees and to other individuals. As at 30 June 2003, the Bank had received deposits from individuals totalling U.S.$248.5 million (31 December 2002: U.S.$171.7 million). The Group offers customers remote access to their accounts via the Internet and, in 2002, established a call centre in Moscow to facilitate telephone banking. In addition, the Group offers car loans and is seeking to develop its customer base of small- and medium-sized enterprises. The Group does not currently seek to fund its other activities from deposits by retail customers – the retail banking services of the Group are generally self-funding. As at 30 June 2003, the Group had outstanding loans to individuals totalling U.S.$24.6 million (31 December 2002: U.S.$20.1 million).

Debit Card Services

In 1998, the Bank took over the plastic card business of Imperial Bank and it currently provides one type of payment card, using the VISA International System. In addition to having POS terminals and ATMs located in its Head Office, its branches and additional offices, the Bank is actively developing a network of ATM and POS terminals using the VISA international system. The Bank currently provides debit cards to its customers (including debit cards with an overdraft facility). By the end of 2003 it had introduced credit card products on a limited scale to VIP customers.

The number of VISA debit cards issued by the Bank in 2002 amounted to 92,700, an increase of 116.8 per cent. compared to 2001. As at 31 December 2003, the Bank had a total of approximately 244,080 VISA debit cards in issue (31 December 2002: 177,000). Since 2000, some of the Bank's regional branches (notably Perm, Kogalym, Pokachi and Volgograd) have also participated in the issuance of payment cards to their customers.

The Bank does not currently offer credit card services to its customers. It hopes to be able to offer both VISA and MasterCard services by the end of 2003 to a limited range of users including LUKOIL employees and a selected group of VIP clients, although it expects significant marketing costs to be incurred in relation to such services.

Mortgages

Due to various legal considerations in Russia, the provision of residential mortgages is not an established banking business. However, through a scheme which has benefited from a guarantee from a member of the LUKOIL Group, the Bank has provided mortgage financing for the purchase of 164 apartments by LUKOIL employees via its branch in Perm. As a separate project, the Group is currently developing pilot schemes, in association with other banks, including international financial institutions, under which it intends to make mortgage loans available to other LUKOIL employees. The Group believes that mortgage products will become increasingly attractive for those higher-earning income groups based in urban areas.

Payroll and remittance services

The Group offers payroll and remittance services to members of the LUKOIL Group and has set up electronic banking stations in the majority of LUKOIL's offices for the benefit of employees of the LUKOIL Group.

Strategy

The Group focused on the development of its range of car loans, loans to SMEs, unsecured loans and overdraft facilities during 2003. Following the conclusion of mortgage pilot schemes to be offered in association with other banks, including international financial institutions, the Group expects to be able to offer residential mortgage loans to individuals during the course of 2004. The Group expects that it will commence its marketing of its mortgage business, in part, by offering such products to LUKOIL employees. In addition, the Group plans to offer payroll and remittance services to the employees of its corporate customers outside the LUKOIL Group.

Financial Markets Activities

Securities Portfolio

The Group trades and invests in Russian Government bonds and Russian corporate stocks and bonds. In 2002, the average volume of investments in shares and corporate bonds increased while investments in GKOs/OFZs gradually decreased. As at 30 June 2003, 42 per cent. of the Group's securities trading portfolio represented investments in equities and 58 per cent. represented investments in debt obligations, compared to 67 per cent. and 33 per cent., respectively, as at 31 December 2002. As at 30 June 2003, 39 per cent. of the Group's available for sale and other securities portfolio represented investments in equities and 61 per cent. represented investments in debt obligations, compared to 41 per cent. and 59 per cent. respectively, as at 31 December 2002. For the six-months ended 30 June 2003, net income from trading and available for sale securities (excluding interest income) comprised U.S.$30.9 million, which was an increase of 125.5 per cent. compared to the six months ended 30 June 2002 (U.S.$13.7 million) (year ended 31 December 2002: U.S.$24.1 million which comprised an increase of 2.6 per cent. compared to 2001.)

The Group believes its securities trading strategy to be reasonably conservative. Its trading portfolio includes fixed income instruments, such as state debt securities, including OFZ and Russian Federation eurobonds, municipal bonds, corporate bonds and promissory notes. In addition to fixed income instruments, the portfolio also includes equity investments, such as highly liquid shares and depositary receipts of major Russian companies.

The Group provides brokerage and depository services to its customers. The Group's customers have access to brokerage services provided by the Group (i) in the Stock Market Section of MICEX, in RTS, in the RTS guaranteed quotes system, as well as in the OTC market; (ii) for rouble denominated state bonds, in the State Securities Section of MICEX; (iii) for corporate bonds, in the Stock Market Section of MICEX, as well as for foreign currency denominated state debt securities in the OTC market.

In 2002, the Group launched a new product, Internet Trading, which enables its customers to manage their securities portfolios on-line, to monitor quotes and to transact on the MICEX trading floors.

The employees of any member of the Group whose activities are directly connected with securities trading are not allowed to hold a brokerage account with this particular member of the Group or to trade securities for his/her own account.

The following table sets out details of the Group's trading securities portfolio as at the dates indicated:

	As at 31 December			As at 30 June
	2002	2001	2000	2003
	(U.S.$ thousands)			
Transneft preferred stock	74,092	—	—	24,177
LUKOIL ADRs	38,592	50,594	—	51,548
Russian Government OFZ bonds	20,409	14,917	35,623	18,425
Russian corporate bonds	16,647	—	—	80,042
Russian Government Eurobonds	12,338	—	13,851	340
Regional government bonds	12,192	331	1,777	21,246
LUKOIL common stock	8,582	150	14,530	2,851
Other equity securities traded on the Russian Trading System	6,211	143	1,561	9,464
Other bonds	109	—	—	482
Russian Government Ministry of Finance bonds	—	16	9	—
	189,172	66,151	67,351	208,575

The following table sets out details of the Group's available for sale and other securities portfolio as at the dates indicated:

	As at 31 December			As at 30 June
	2002	2001	2000	2003
	(U.S.$ thousands)			
Available for sale securities:				
LUKOIL ADRs	28,310	—	—	50,422
Russian Government Eurobonds	17,581	989	—	83
Municipal and other bonds	9,587	2,178	178	7,053
Promissory notes	17,289	16,024	24,502	62,992
Equity securities	51	2,028	—	—
Russian Government Ministry of Finance Bonds	23	—	—	—
LUKOIL common stock	—	93	—	—
Corporate bonds	—	—	—	17,760
	72,841	21,312	24,680	138,310
Other securities:				
Investments in affiliated companies	522	563	43	498
Investments in unconsolidated subsidiaries	271	164	140	679
Other securities	1,889	—	2,521	5,228
Investments in Petrocommerce Bank-Ukraine accounted for under the equity method	—	2,304	—	—
	843	3,031	2,704	6,405
Total investments in available for sale and other securities	75,523	24,343	27,384	144,715
Provision for impairment	(457)	(227)	(87)	(493)
	75,066	24,116	27,297	144,222

The following table sets out details of the interest and commissions earned by the Group in respect of its trading and available for sale securities activities:

	Year ended 31 December			*6 months ended 30 June*	
	2002	*2001*	*2000*	*2003*	*2002*
	(U.S.$ thousands)				
Interest income relating to debt securities	8,684	4,665	7,938	8,073	4,685
Net income from trading securities	20,228	19,207	4,786	27,973	10,807
Net income from available for sale and other securities	3,895	4,332	959	2,968	2,917
Total	32,807	28,204	13,683	39,014	18,409

Foreign Exchange Trading

In 2002, the Group participated in the complete range of money market operations, including conversion and arbitrage operations, foreign exchange sales and purchases of currency for customers. Diversification of money market operations enabled the Bank to manage its own liquidity and fulfil customer orders.

Fund Management

The Bank manages two funds: the Petrocommerce I Fund and the Petrocommerce II Fund (the "Funds"), which allow investors to participate in a portfolio of securities managed by investment specialists at the Bank. The Funds benefit from the Bank's custody department services, middle office facilities (which supervise documentary compliance) and treasury services. The target investor in each of these Funds is the private individual.

As at 30 June 2003, the total net asset value of the Funds was U.S.$51.6 million, compared to $15.56 million at 30 June 2002. Based on the Bank's strategy of accruing an acceptable risk/income ratio, the investments made by the Funds include Russian Federation eurobonds, corporate eurobonds of Russian companies, as well as rouble-denominated corporate bonds and shares of Russian companies.

The minimum investment requirement for clients of the Petrocommerce I Fund is RUR 300,000, whereas for clients of the Petrocommerce II Fund, this requirement is RUR 2,500,000. The Bank has adopted the same investment strategies for both the Petrocommerce I Fund and the Petrocommerce II Fund: 80-95 per cent. of the funds under management is invested in fixed income instruments, such as state, sub-federal and municipal bonds and eurobonds, corporate bonds, eurobonds and promissory notes. Equity investments do not exceed 20 per cent. of the respective Fund's total asset value. Investments in securities of any particular corporate issuer (or related issuers) may not exceed 15 per cent. of the respective Fund's total assets value.

Since January 2003, the return on investment of the Funds (profit per nominal share) has been approximately 20 per cent. per annum due to high yields in the domestic fixed income market and the appreciation of the rouble against the U.S. dollar.

Underwriting

The Group has started to develop its underwriting business. From January 2002 to May 2003, the Bank acted as co-arranger for three bond offerings by Russian issuers. In the course of two of these offerings, the Bank acquired a significant portion of the bonds issued.

Leasing Business

The Group commenced its leasing operations in 2000, which met with a positive level of customer demand. In 2002, however, customer interest in leasing products declined because of the impact of the introduction of the new Russian tax code. In providing leasing products for its customers, the Group works with three leasing companies: (i) LK Leasing (in which the Bank and LUKOIL are shareholders), which principally transacts business with members of the LUKOIL Group, including with respect to oil-

related equipment; (ii) TransLease (in which the Bank has no shareholding interest), which specialises in the leasing of transport and specialised equipment; and (iii) Petroleasing (in which the Bank has no shareholding interest, but which is itself a customer of the Bank), whose projects have included the leasing of telecommunications equipment.

Although the Group's leasing operations do not make a material contribution to the Group's business, the Group believes that, by offering leasing products, it can offer a more comprehensive range of financial services to its customers, for example mobile telecommunications and transportation companies.

Risk Management

Introduction

The purpose of the Group's risk management activities is to monitor and restrict the level and concentration of risk arising from the conduct of the Group's business. The principal forms of risk which are relevant to the Group's business are credit risk, market risk, liquidity risk, interest rate risk and exchange rate risk. See "The Bank – Lending – Credit Approval" and "– Provisioning" for a description of matters relating to credit risk and relevant credit approval procedures. The Group's attitude to the direction of its risk management policy is conservative. The Bank's risk management procedures are designed to identify and analyse relevant risks to the Group's business, prescribe appropriate limits to various risk areas and to monitor the level and incidence of such risks on an on-going basis. The Bank regularly reviews its risk analysis processes in order to institute improvements which are required in the light of the development and growth of its business and the varying nature of the risks which face the Group in its day-to-day business.

Organisation

Risk management policy and related activities are framed and supervised by the Bank's Financial Economic Committee (the "FEC"). The composition of the FEC is as follows:

Vladimir Vinogradov – First Vice-President, Chairman of FEC
Alexander Surin – Vice-President, Deputy Chairman of FEC
Natalia Kolobova – Vice-President
Galina Tokmakova – Vice-President
Alexei Krasnov – Vice-President
Yelena Mashonina – Head of Treasury Division
Natalia Zhukova – Head of Strategic Planning Centre
Sergey Beseda – Head of Customer Relations

The FEC supervises the various departments of the Bank where risk limits apply in order to monitor and enforce internal adherence to these limits. The FEC meets every week on a scheduled basis and is also able to meet at other times on an expedited basis in the event that risk issues require its prompt attention. The FEC liaises closely with the Risk Control Department which has day-to-day responsibility for identifying and analysing various operational risks and which reports on a weekly basis to the FEC. The Risk Control Department comprises experienced professionals in the conduct of risk management and is organised so that specific areas of risk are managed by officers specialising in that risk area. The FEC principally reviews and evaluates, on a weekly basis, the Bank's asset and liability position, interest rate risk, market risk and currency risk. The FEC also acts in a co-ordinating role in order to ensure that proper asset and liability management is exercised on behalf of the Bank. Where operational actions are required in order to give effect to asset and liability policy or decisions, the Treasury Division is also involved to take the appropriate action to implement such policy or decisions.

The Bank's Risk Control Department is charged with the detailed review and management of the Bank's system of internal risk controls. The Department also monitors risk assumed by the Bank's regional operations, as well as compliance with legal and accounting standards. The Risk Control Department is staffed by 25 professionals and is headed by Ms. Natalia Kolobova, who reports directly to the FEC.

The Bank seeks to maintain a liquid balance sheet, including a growing and substantial deposit base, to help it respond quickly to cash needs and minimise the potential for short-term liquidity

problems. In order to minimise interest rate risk, the Bank limits and monitors any mismatch in its asset and liability rate and maturity profile.

Treasury Operations

The Treasury Division within the Bank is responsible for the day-to-day executive management of the Bank's asset and liability position and the risk exposure of the Bank in relation to liquidity, interest rates and exchange rates. The Treasury Division is located at the Bank's Head Office in Moscow and provides treasury services for the Bank's branch network. The Treasury Division is managed by the Head of the Treasury Division, who is responsible for Treasury, and who sits on the FEC.

A principal objective of the Treasury Division is to manage the cashflows available to the Bank to ensure sufficient liquidity for the Bank's operations and ensure the availability of funds for the Bank's branch network. To carry out these objectives the Treasury Division engages in foreign currency trading and the Securities Trading Division engages in securities dealing. The Treasury Division employs four traders with limits imposed on their respective trading authorisations. The Risk Control Department exercises further control over fixed limits and any breaches of the limits made by any department are reported to the management of the Bank. Settlement procedures with regard to the Bank's trading activities are undertaken by the Treasury Division and positions from its dealing activities are reconciled on a daily basis.

Interest Rate Risk

An essential aspect of the management of the Group's assets and liabilities is its management of interest rate sensitivity. Interest rate sensitivity is the relationship between market interest rates and net interest income due to the maturity or re-pricing characteristics of interest-earning assets and interest-bearing liabilities. For any given period, the pricing structure is matched when an equal amount of such assets or liabilities mature or are re-priced in that period. Any mismatch of interest-earning assets and interest-bearing liabilities is referred to as a gap position. A positive gap denotes asset sensitivity and normally means that an increase in interest rates will have a positive effect on net interest income while a decrease in interest rates will have a negative effect on net interest income. A negative gap denotes liability sensitivity and would mean typically that an increase in interest rates would have a negative effect on net interest income and a decrease in interest rates would have a positive effect on net interest income.

The FEC establishes the base rates for loans to customers and the base rates for funds attracted, principally by way of deposit from customers. The Risk Control Department will apply a range of technical criteria for establishing appropriate interest rates in response to proposals from the Financial Markets Department for a preferred rate for the attraction of deposits. The FEC is the ultimate approval body in determining the basis of rates for attracting funds. A principal concern for the Bank in the management of assets and liabilities is that the rate of interest selected must be competitive within the market. The FEC will have regard to a benchmark group of competitor banks when setting interest rates both for deposits and assets. In considering various benchmark competitors whilst determining interest rate calculations for retail and corporate deposits, the FEC will review particular competitors by reference to the pricing position of such competitor bank's products, the range of such competitor bank's products and the quality of such competitor bank's services. In particular, where interest rates are considered in the context of the Bank's regional network, the activities of Sberbank, the state-owned nationwide retail banking institution, which is a principal competitor in the regions where the Bank has branches, are an important factor. The objective of the FEC in determining interest rates is to seek a balance in satisfying the demands of the business units involved in selling deposit products or developing the Bank's lending business, the need to be competitive in comparison with its competitor banks in particular sectors and the need to be conservative in approach where appropriate. Should the situation change, the FEC can instruct the Financial Market Department and the Risk Control Department to prepare the required interest rate changes within 24 hours and to determine new interest rates. The interest rates for loans and deposits are reviewed simultaneously. Any member of the FEC, as well as the Financial Market Department and the Risk Control Department, is authorised to assist in the determination as to a change in interest rates.

The Group is exposed to interest rate risk, principally as a result of lending to customers and other banks at fixed interest rates in amounts and for periods which do not match those of term deposits at fixed interest rates. At present there is no market for interest-rate derivatives in Russia, mainly due to the absence of an adequate legal and regulatory framework. As a result, the Group manages its interest rate risk primarily through matching assets and liabilities in each maturity band to the extent possible.

The Treasury Division monitors compliance on interest rate setting in accordance with the guidelines approved by the FEC and which are communicated and applied through the Bank's internal reporting system.

The table below summarises the effective average interest rate by rouble and by foreign currency for major monetary financial instruments outstanding as at 30 June 2003 and 31 December 2002. The analysis has been prepared on the basis of weighted average interest rates for the various interest-bearing financial instruments.

	As at 31 December 2002		*As at 30 June 2003*	
	Roubles	*Foreign Currency*	*Roubles*	*Foreign Currency*
	(per cent.)			
Assets				
Loans to customers	18.6	13.6	17.4	12.8
Placements with banks, Nostro	0.2	0.8	0.2	1.4
Placements with banks, term deposits	2.8	3.1	5.1	1.0
Trading securities	16.7	9.1	8.8	7.6
Investments in available for sale securities	20.0	10.3	10.7	9.3
Held to maturity securities	—	6.0	—	16.4
Amounts receivable under reverse repurchase agreements	—	3.8	7.0	—
Liabilities				
Current accounts and deposits from customers	7.3	5.2	6.7	5.3
Balances from banks, Vostro	0.9	0.2	0.2	0.1
Balances from banks, term deposits	10.0	6.5	1.2	5.4
Certificates of deposits and promissory notes	12.4	5.5	7.7	3.7
Bonds issued	—	—	13.6	—

Exchange Rate Risk

Exchange rate risk is the risk that the value of financial instruments will change owing to the movements in foreign exchange rates. The Group's major currency positions are in roubles, U.S. dollars and euros.

The following table sets forth the Group's net currency positions as at 30 June 2003.

	Roubles	*Other currencies*	*Total*
		('000 USD)	
Assets			
Cash	14,923	13,104	28,027
Due from the Central Bank of the Russian Federation	221,077	—	221,077
Placements with banks and other financial institutions	55,569	46,567	102,136
Loans to customers	294,010	272,118	566,128
Trading securities	156,649	51,926	208,575
Investments in available for sale and other securities	84,893	59,329	144,222
Held to maturity securities	—	1,829	1,829
Amounts receivable under reverse repurchase agreements	30,880	—	30,880
Goodwill	3,566	—	3,566
Deferred tax assets	433	—	433
Other assets	43,439	21,529	64,968
Property, plant and equipment	35,883	4,305	40,188
Total Assets	941,322	470,707	1,412,029
Liabilities			
Deposits and balances from banks and other financial institutions	17,831	37,754	55,585
Current accounts and deposits from customers	565,936	243,882	809,818
Certificates of deposit and promissory notes	238,059	8,528	246,587
Bonds issued	35,407	—	35,407
Deferred tax liability	6,924	—	6,924
Other liabilities	11,960	4,250	16,210
Total Liabilities	876,117	294,414	1,170,531
Net Position as of 30 June 2003	65,205	176,293	241,498
Net Position as of 31 December 2002	163,466	48,980	212,446
Net Position as of 31 December 2001	29,536	137,139	166,675
Net Position as of 31 December 2000	60,641	(11,551)	49,090

The Bank does not take open positions with regard to non-convertible currencies (other than the rouble) except where such positions are taken with regard to customer trading.

The Bank believes that its internal control procedures for monitoring open currency positions are satisfactory, although it recognises that the methodology of forecasts and the determination of trends can benefit from improvement. The Bank is reviewing the performance of its technology software which it uses in framing such methodology and making such determinations and intends to upgrade this software into the Bank's overall software and reporting systems.

The Bank was one of the founding members of the derivatives section of MICEX but owing to the lack of regulatory framework and the absence of significant development in the derivatives market, the Bank does not use derivative transactions as a means of hedging its risk exposure. The Bank is required to report to the Central Bank on a daily basis as to its open foreign currency positions and so this position is monitored daily. All transactions are monitored on-line and are entered into and tracked by the internal reporting system of the Bank. This data is reviewed by the Risk Control Department which controls compliance on open currency positions. The Bank has extended its foreign currency risk procedures to its subsidiary operation, Ukhtabank.

The Bank has adopted internal rules for dealing in foreign currency which comprise group and individual transaction limits on each foreign currency dealer in the Treasury Division, such as maximum

loss limits and rules for timely booking of completed transactions. The Director of the Treasury Division supervises the compliance of the dealing operations in accordance with these rules. The Director of the Treasury Division reports daily to the Risk Control Department on transactions executed and at the beginning of each day the Director informs the Risk Control Department of the current net position at the end of the previous working day. The Bank's Dealing operations are subject to routine checks by the Internal Audit Division.

Market Risk

The Bank has exposure to market risks arising from open positions in fixed income and equity securities and currencies, all of which are exposed to market movement. The FEC sets limits on the level of market risk which are monitored by the Risk Control Department on a daily basis. Depending on the instrument, the Bank uses different value-at-risk calculations to assess the market risk on its various portfolios. Through various analyses, different possible prices of instruments are modelled and volatility is assessed. The Group takes a conservative position with regard to market inter-relationships.

The Group has established different sets of limits to manage counterparty and market risks and control risk concentrations arising in trading activity. These include limits on counterparties and issuers, limits for each type of security and product, and limits on trading and proprietary positions. The Bank also operates limits in its securities dealing operations distinguishing between arbitrage and trading activities.

Trading limits are established by the FEC and are regularly reviewed according to the type of limit and quality of the counterparty. Changes to existing limits are immediately notified to the relevant traders and reflected in the dealing system. FEC decisions are based on submissions from the Risk Control Department on the financial and economic position of counterparties and issuers and the position of various market sectors. Such areas are constantly monitored by the Risk Control Department and reports are made immediately to the FEC on proposed modifications to existing limits.

Liquidity Risk

The Group aims to ensure that it has at all times sufficient liquidity to meet its commitment to its customers, both for loans and repayment of deposits, and to satisfy its own liquidity needs. The Group controls liquidity risk by implementing a number of policies, including holding sufficient amounts of cash matching the maturity profile of assets and liabilities, investing in a portfolio of low-risk assets that secure the repayment of current obligations and sourcing the inter-bank market. As a result of its well-managed liquidity risk positions, the Bank also has the benefit of a line of credit from the Central Bank which is granted on an interest-bearing basis and which also gives flexibility for the Bank in managing its liquidity position.

The Treasury Division maintains a liquid portfolio designed to provide support to the payment capacity of the Bank in the event that assets and liabilities fluctuate away from internal forecasts. The Treasury Division constantly reviews and seeks to improve the methodology for calculating and structuring the liquidity portfolio.

The net adjusted position (referred to and explained in the table below) which is used by the Bank as an internal liquidity measure (which is not prepared in accordance with U.S. GAAP) shows that the Group has generally maintained a conservative liquidity position in relation to its short term (less than one month) assets/liabilities.

The following table shows the Group's net liquidity position by maturity category on a U.S. GAAP basis and an aggregated adjusted measure as at 30 June 2003.

	Less than 1 month	*1 to 3 months*	*3 to 6 months*	*6 months to 1 year*	*More than 1 year*	*No maturity*	*Total*
				(U.S.$ thousands)			
Assets							
Cash	28,027	—	—	—	—	—	28,027
Due from the Central Bank of the Russian Federation	121,318	—	—	—	—	99,759	221,077
Placements with banks and other financial institutions	95,676	423	27	3,229	—	2,781	102,136
Loans to customers	53,359	36,167	133,740	146,409	196,453	—	566,128
Trading securities	—	370	164	15,287	104,714	88,040	208,575
Investments in available for sale and other securities	11,945	5,638	37,409	11,616	21,259	56,355	144,222
Held to maturity securities	323	808	451	247	—	—	1,829
Amounts receivable under reverse repurchase agreements	30,880	—	—	—	—	—	30,880
Goodwill	—	—	—	—	—	3,566	3,566
Deferred tax assets	—	—	—	—	433	—	433
Other assets	28,461	7,346	162	12,200	16,269	530	64,968
Property, plant and equipment	—	—	—	—	—	40,188	40,188
Total Assets	369,989	50,752	171,953	188,988	339,128	291,219	1,412,029
Liabilities							
Deposits and balances from banks and other financial institutions	29,112	—	20,000	4,473	2,000	—	55,585
Current accounts and deposits from customers	571,561	86,165	37,131	74,898	40,063	—	809,818
Certificates of deposit and promissory notes	50,257	77,249	19,688	95,795	3,598	—	246,587
Bonds issued	—	1,385	—	—	34,022	—	35,407
Deferred tax liability	—	—	—	—	6,924	—	6,924
Other liabilities	11,405	104	114	3,396	1,191	—	16,210
Total Liabilities	662,335	164,903	76,933	178,562	87,798	—	1,170,531
Net position as at 30 June 2003	(292,346)	(114,151)	95,020	10,426	251,330	291,219	241,498
Net position as at 31 December 2002 (U.S. GAAP)	(163,515)	(94,581)	(73,581)	88,548	179,473	276,102	212,446
Net adjusted position as at 30 June 2003[1]	197,719[2]	(174,301)[2]	101,375[2]	(155,975)[2]	125,857[2]	146,824[2]	241,498[2]

Notes:

(1) The adjusted net position as indicated comprises the net liquidity position which has been adjusted by the Group to produce an internal measure for the calculation of liquidity, as compared to the U.S. GAAP presentation shown in detail in the above table.

(2) Group's adjusted net position for each maturity band indicated. The adjustment principally comprises the transfer of certain trading securities and available for sale securities from "No maturity" to certain of the prior maturity bands (to reflect their higher liquidity) and the transfer from "Current accounts and deposits from customers" to the relevant maturity band of those amounts which are required (under the deposit agreement between the Bank and its depositor customer) to be retained on deposit for a particular duration.

The Group applies an internal adjustment measure of the liquidity gap to assist it in monitoring liquidity risk, as shown in the above table against the item "Net Adjusted cumulative position as at 31 December 2002". The Group believes its liquidity risk position to be conservatively and prudently managed and, on its adjusted basis, the Group aims to ensure that liquidity gaps do not exceed 10 per cent. of total assets.

The liquid assets in the Group essentially comprise primary liquid assets (cash, inter-bank deposits and CBR lines). The Group has consistently maintained a highly liquid position, has historically been able to act as a net lender in the inter-bank money market and has placed emphasis on matching the currency and maturity of its assets and liabilities. Inter-bank deposits in Russia are usually on an overnight basis and the policy of the Group is not to rely on the inter-bank money market for funding purposes as overnight borrowing rates are relatively high.

The Bank believes that the Group's customer deposits provide a stable funding base for its liquidity management. The Group's strategy is to increase its rouble deposit base through the expansion of deposit-taking activities in its branch network.

The liquidity ratio measured by net liquid assets to total deposits (including issued certificates of deposit, promissory notes and bonds) was 29.8 per cent. as at 30 June 2003, compared to 39.2 per cent. as at 31 December 2002 and 60.4 per cent. as at 31 December 2001. The adjusted liquidity ratio (including as assets liquid securities) comprised 50.9 per cent. as at 30 June 2003, compared to 56.4 per cent. as at 31 December 2002. The Group's liquid assets in foreign currency comprise deposits with very short-term maturity, placed with correspondent banks and the CBR to meet foreign reserve requirements.

The Group focuses on analysing its immediate (daily) and short-term (up to 30 days) liquidity positions. Information to assist the analysis and to make relevant forecasts is submitted on an on-line basis so that anticipated inflows and outflows of cash can be determined. The Group uses its expected cash holdings arising from deposits and assets, as well as its dealing operations including dealing in its securities portfolios and repo transactions, its correspondent relationships with Russian and foreign banks and its line with the CBR as a source of liquidity. The Group generally controls liquidity shortfalls, although such shortfalls tend to occur at the end of a year when payments tend to accumulate and money market volatility can occur. The Risk Control Department is responsible for the Bank's co-ordination of forecasts on its liquidity position which is then reviewed by the FEC with a view to deciding on the use of particular instruments to cover short liquidity positions.

International Operations

Expansion of its international operations is one of the priority development areas of the Group. The international operations of the Group's customers have increased the demand for international settlement and documentary operations, export and import operations and trade and structure financing. The Group is committed to expanding the range of its services relating to international operations, improving their quality, mitigating relevant risks and increasing cost-efficiency of such operations.

By the end of 2002, the Group's international correspondent network included 39 nostro accounts in 26 banks in 15 countries, including CIS countries. This international correspondent network enables the Group to effect many types of payments to many parts of the world in a cost- and time-efficient way.

The Group has established correspondent bank relationships with financial institutions in Europe, America and South-Eastern and Central Asia. The Group's principal correspondent banks are: The Bank of New York, New York; Bank of Tokyo-Mitsubishi Ltd., Tokyo; BCEN-Eurobank, Paris; Commerzbank AG, Frankfurt am Main; Credit Suisse First Boston, Zurich; Deutsche Bank Trust Companies Americas, New York; HypoVereinsbank, Munich; Moscow Narodny Bank Limited, London; Raiffeisen Zentralbank AG, Vienna; and Svenska Handelsbanken AB, Stockholm.

Expansion of its correspondent bank relationships has contributed to the extensive development of the Group's documentary operations business. The Group is committed to increasing its existing lines and to establishing new documentary lines. As at 31 December 2003, the total limits opened in favour of the Group amount to U.S.$71 million for documentary operations and U.S.$86.8 million for conversion operations.

During 2002, 125 export and import letters of credit were opened with a total volume of transactions of U.S.$37 million.

One of the Group's important strategies is to develop cooperation with major international banks in short- and long-term trade finance guaranteed by insurance companies. As of today, the Bank has agreed to participate in such arrangements with a number of major international banks.

The Group enters into transactions in the money markets with U.S. and Western European prime banks, including: The Bank of New York, New York; HSBC Bank USA, New York; Citibank, New York; JPMorgan Chase Bank, New York; American Express Bank, New York; Standard Bank, London; Moscow Narodny Bank, London; Deutsche Bank, Frankfurt/Main; Commerzbank AG, Frankfurt/Main; Kreiss Bank, Frankfurt/Main; HypoVereinsbank AG, Munich; Raiffeisen Zentralbank, Vienna; Donau-Bank, Vienna; ABN-AMRO Bank, Amsterdam; and Credit Commercial de France, Paris.

The Bank has entered into Framework Agreements for the financing of the import of equipment which is provided to the Bank's customers, guaranteed by national export credit agencies, with Deutsche Bank, Frankfurt am Main; Bayerische Hypo- und Vereinsbank AG, Munich; and Commerzbank, Frankfurt am Main.

The Group maintains active relations with the European Bank for Reconstruction and Development (the "EBRD"), HERMES (Germany), EGAP (Czech Republic), COFACE (France) and Export Bank of the Czech Republic. Eximbank USA has included the Bank into the list of Russian banks eligible for its export contracts guarantees for its customers' operations.

In 2002, the Bank entered into an unsecured credit facility for U.S.$20 million from a syndicate of international and Russian banks arranged by Standard Bank London Limited. This loan was repaid on 21 November 2003. The loan proceeds were used to finance corporate customers' operations, including pre-export financing.

Trade Finance

On 23 September 2002, the Bank signed an agreement of cooperation with the EBRD (the "EBRD Agreement"), within the framework of EBRD's Programme of Trade Support (the "EBRD Programme").

Under the EBRD Programme, the EBRD guarantees obligations of banks from Central and Eastern Europe and CIS countries. These guarantees are given by the EBRD for the benefit of the Western banks for the purposes of confirming trade finance transactions.

Following the Russian financial crisis of 1998, the Bank was one of the first Russian banks to join the EBRD Programme. In accordance with the EBRD Agreement, the EBRD will open a one-year U.S.$10 million guarantee line for the Bank. It is expected that the EBRD Agreement will allow the Bank to offer better prices on its trade finance transactions and therefore to attract new customers.

Information Technology

The Group sees technical support of its operations as a major priority. The Group looks for reliability, safety, quality and efficiency in its information and computer systems. All major computer systems used by the Group have back-up resources.

The Bank's most important system is IBSO (computer software designed by the Russian computer technology company, IBS). The Bank is using IBSO's "Fast-Info-System" to make rouble transfers on-line in the CBR clearing system and to make foreign currency transfers in SWIFT. The "Contour-Corporation" system enables the Bank to have immediate access to information on the transactions of its branches.

The Bank has installed REUTERS and Bloomberg systems to enter into transactions in financial markets, as well as providing remote access to the MICEX and the RTS trading floor, together with the "Quick Broker" system which enables the Bank's customers to enter into transactions with securities on MICEX.

Real Estate

The Group's principal fixed asset is the Bank's Head Office in Moscow, which is partially owned by the Bank and partially leased. The Bank has not granted any security over either its ownership interest or its rights under the lease in the property comprising its Head Office. As at 30 June 2003, the Bank's

ownership and rights under the lease for its Head Office were reflected at historical cost in the Group's balance sheet (under the line item "Fixed assets") at a total of approximately U.S.$5.4 million.

General Administrative Expenses

In the year ended 31 December 2002, the Group's total general administrative expenses in relation to its operations amounted to U.S.$41.6 million, compared to U.S.$22.3 million in 2001 and U.S.$17.0 million in 2000. Major items of expenditure during 2002 included expenses of U.S.$18.6 million in respect of employee remuneration, U.S.$3.5 million in respect of communication and information services and U.S.$3.4 million in respect of advertising and marketing. In the six months ended 30 June 2003, the Group's total general administrative expenses in relation to its operations amounted to U.S.$27.0 million, compared to U.S.$16.7 million for the corresponding period in 2002, which in part reflect the acquisition of Ukhtabank, Petrocommerce-Ukraine and Stavropolpromstroybank as subsidiaries of the Bank during 2002. (see "Recent Developments and Outlook").

Competition

As at 30 June 2003, the Bank was the twelfth largest bank in Russia in terms of capital[1] and the thirteenth largest in terms of total assets[1]. The Bank believes its principal competitors to be OJSC Ural-Siberian Bank, OJSC MDM Bank and Sberbank, since each of these banks has a wide regional presence and offers banking services to both corporate and retail customers.

Branch Network

Regional branches

In addition to its Head Office and three additional offices in Moscow, the Bank operates a network of 15 branches, together with a further 11 additional offices, within the Russian Federation. The Bank's largest branches are in Perm, Volgograd and Kogalym. As at 30 June 2003, in addition to its offices in Moscow, the Bank had 16 branches and 15 additional offices in the following areas of the Russian Federation, covering Northern Russia, Central Russia, Southern Russia, Western Siberia and the Kaliningrad enclave:

- Arkhangelsk
- Astrakhan
- Volgograd
- Kaliningrad
- Kirov
- Kogalym
- Langepas
- Nizhny Novgorod
- Novorissiysk
- Novocherkassk
- Perm
- Pokachi
- Rostov-on-Don
- Saratov
- Uray

Strategy

In the next three years, it is expected that the Bank's regional network will increase by approximately 20 additional offices in Moscow, Sochi, Novosibirsk, Omsk, Samara, Murmansk and Narian-Mar and in those regions of the Russian Federation where members of the LUKOIL Group have operations.

Subsidiaries

Russian Federation

Ukhtabank

As at 30 June 2003, the Group owned 96.74 per cent. of Ukhtabank, which operates a wide banking network in the Komi region of the Russian Federation. As at 30 June 2003, Ukhtabank had six branches in the Komi region and net assets of U.S.$18.4 million. For the year ended 31 December 2002, Ukhtabank earned net income of approximately U.S.$1.7 million.

1 Source: Profile, a Russian economic magazine (based on Russian Accounting Standards).

Stavropolpromstroybank

As at 30 June 2003, the Group owned 77.27 per cent. of Stavropolpromstroybank, which operates an extended banking network in the Stavropol region of the Russian Federation, which is second in size only to Sberbank's network in the region. As at 30 June 2003, Stavropolpromstroybank had 15 branches (including four additional offices) and net assets of U.S.$3.8 million. For the year ended 31 December 2002, Stavropolpromstroybank earned net income of approximately U.S.$0.3 million.

Others

In 2001, the Group acquired control over Financial Industrial Integration, Financial Systems and Consultations, AL-Investuniversal, each of which was a shareholder of Ukhtabank. In 2001, these companies acquired shareholding interests in the Bank which are reflected in the Bank's audited consolidated financial statements for the years ending 31 December 2002 and 2001 as Treasury stock. These members of the Group are controlled by the Group through option agreements and conduct their operations on behalf of the Group.

The CIS

Unibank

As at 30 June 2003, the Group owned 100 per cent. of Unibank, which operates a wide branch network throughout Moldova. As at 30 June 2003, Unibank had six branches (including one additional office) and net assets amounting to approximately U.S.$5.7 million. For the year ended 31 December 2002, Unibank earned net income of approximately U.S.$0.7 million.

Petrocommerce-Ukraine

As at 30 June 2003, the Group owned 90.82 per cent. of Petrocommerce-Ukraine. As at 30 June 2003, Petrocommerce-Ukraine had 11 branches (including 8 additional offices) throughout the Ukraine and had net assets amounting to approximately U.S.$4.0 million. For the year ended 31 December 2002, Petrocommerce-Ukraine earned net income of approximately U.S.$0.26 million.

Strategy

The Bank continues to monitor potential strategic acquisitions both within the Russian Federation and the CIS, primarily in those regions of the Russian Federation and countries of the CIS where members of the LUKOIL Group have operations. Further expansion through strategic acquisition might be pursued by the Bank in order to assist the Group in expanding its deposit base and its corporate and retail customer base.

Recent Developments and Outlook

Line items referred to in this section and which are derived from the unaudited consolidated financial statements of the Group as at and for the six month period ended 30 June 2003 reflect the fact that, as at 30 June 2002, the Bank's two operating subsidiaries were JSC Komi Regional Bank Ukhtabank and OJSC Stavropolpromstroybank (majority control of which was acquired in May 2002). As at 30 June 2002 the Bank did not own a majority interest in JSC Bank Petrocommerce-Ukraine and the Bank's interest in it was accounted for using the equity accounting method. In addition, as at 30 June 2002, the Bank did not own an interest in JSC BC Unibank S.A. The unaudited consolidated financial statements of the Group as at and for the six months ended 30 June 2003 include the Bank's four principal operating subsidiaries.

Income Statements

Consolidated net income of the Group for the year ended 31 December 2002 was U.S.$28.8 million, as compared with net income for the year ended 31 December 2001 of U.S.$9.3 million. The increase was in part attributable to net interest income (after provisions) increasing from U.S.$8.8 million in 2001 to U.S.$30.1 million in 2002 due to increases in loan assets. In addition, non-interest income increased by 34.7 per cent. in 2002 (U.S.$48.9 million) as compared with 2001 (U.S.$36.3 million). The Group's consolidated income before other provisions, income tax and minority interest increased by 64.4 per cent. in 2002 (U.S.$37.5 million), as compared with 2001 (U.S.$22.8 million).

Consolidated total assets as at 31 December 2002 (U.S.$1.1 billion) had increased by 40.8 per cent., as compared with total assets as at 31 December 2001 (U.S.$791.6 million). This was principally

attributable to the increase in loans to customers of 46.0 per cent. from U.S.$291.5 million as at 31 December 2001 to U.S.$425.6 million as at 31 December 2002 and the increase in trading securities from U.S.$66.2 million as at 31 December 2001 to U.S.$189.2 million as at 31 December 2002 and the increase in investments in available for sale securities from U.S.$24.1 million as at 31 December 2001 to U.S.$75.1 million as at 31 December 2002.

Consolidated total liabilities as at 31 December 2002 comprised U.S.$902.4 million, being an increase of 44.4 per cent., as compared with U.S.$624.9 million as at 31 December 2001. This was principally due to increases in inter-bank deposits, customer deposits and issuance of promissory notes.

Consolidated net income of the Group for the six months ended 30 June 2003 was U.S.$22.5 million which comprised an increase of 17.3 per cent. as compared to consolidated net income for the corresponding period in 2002 (U.S.$19.2 million). This was principally due to non-interest income for the six months ended 30 June 2003 (U.S.$49.4 million) increasing by 101.2 per cent. as compared to the corresponding period in 2002 (U.S.$24.5 million). The increase in non-interest income was offset by net interest income (after provisions) for the six months ended 30 June 2003 (U.S.$5.9 million) decreasing by 61.4 per cent. as compared to the corresponding period in 2002 (U.S.$15.3 million) and by general and administrative expenses for the six months ended 30 June 2003 (U.S.$27.0 million) increasing by 62.2 per cent. as compared to the corresponding period in 2002 (U.S.$16.7 million).

Net interest income (before provisions) for the six months ended 30 June 2003 (U.S.$13.4 million) decreased by 13.3 per cent. from the corresponding period in 2002 (U.S.$15.4 million) principally due to interest income for the six months ended 30 June 2003 increasing by 25.0 per cent. as compared to 2002 being offset by an increase in interest expense for the six months ended 30 June 2003 of 49.4 per cent. as compared to 2002. The result in interest income was affected by the decrease in interest margins caused by a decrease in interest rates on loans. Interest expense has increased due to the higher cost of funding arising, *inter alia*, from growth in the proportion of term deposits within the Bank's total liabilities and from increased demand by the Bank's customers for more sophisticated higher yielding deposit and investment products.

Provisions for loan impairment amounted to U.S.$7.5 million for the six months ended 30 June 2003 as compared to U.S.$0.09 million for 2002. This significant increase is attributable to the lack of growth in the customer loan book for the first six months of 2002 as compared to the significant increase of 33.0 per cent. in the customer loan book in the first six months of 2003. The amount of provisions by reference to total loans (gross) has remained stable at 5.9 per cent. as at 30 June 2003 (6.1 per cent. and 6.2 per cent. as at 31 December 2002 and 2001 respectively).

The increase in non-interest income for the six months ended 30 June 2003 of 101.2 per cent. compared to 2002 was principally due to increases in fee and commission income, net income from trading securities and net income from foreign exchange trading. Fee and commission income in 2003 increased by 52.8 per cent. over 2002 due to higher growth in the volume of customer transactions in settlements and cash operations. Net income from trading securities for the six months ended 2003 (U.S.$28.0 million) increased by 158.8 per cent. over 2002 (U.S.$10.8 million) due to the increased size of the trading securities portfolio and favourable domestic market conditions leading to significant trading gains.

General and administrative expenses for the six months ended 30 June 2003 increased by 62.2 per cent. over the corresponding six month period in 2002 which was principally due to increases in employee compensation and payroll-related taxes, repairs and maintenance and sundry expenses. In addition, the general and administrative expenses for the six months ended 30 June 2002 do not reflect the expenses of two of the Bank's principal subsidiaries as the Bank had not at that time acquired a majority interest in the subsidiaries (the contribution of those subsidiaries was reflected in the consolidated annual financial statements for 2002).

For the nine month period ended 30 September 2003 (on an unaudited, unreviewed and interim basis), the Bank believes that the Group's net income has increased as compared with the corresponding period in 2002. This has been partially due to a minimal increase in net interest income before provisions and a sizeable increase in non-interest income which were partially offset by expected increases in provisions and general and administrative expenses (the increase in which was effected by consolidation of all four principal subsidiaries from the start of 2003).

Balance Sheet

Total assets of the Group as at 30 June 2003 were U.S.$1,412 million, an increase of approximately 26.7 per cent. over total assets as at 31 December 2002 (U.S.$1,115 million). Cash due from the Central Bank as at 30 June 2003 had risen by 26.8 per cent. as compared to 31 December 2002, Loans to customers had risen by 33.0 per cent., Trading Securities had risen by 10.3 per cent. and Investments in available for sale and other securities had risen by 92.1 per cent.

The increase in loans to customers as between 30 June 2003 and 31 December 2002 reflects the strategy of the Bank in developing and growing its loan book. This is based on the developing businesses of the Bank's clients which require funding and the growth in client interest in new, more sophisticated products. In addition, the significant increase in receivables under reverse repurchase agreements was in part due to the introduction of more sophisticated and facilitative settlement arrangements at MICEX.

Total liabilities of the Group as at 30 June 2003 amounted to U.S.$1,171 million, an increase of 29.7 per cent. as compared to 31 December 2002. This increase is principally attributable to the growth in current accounts and deposits from customers of 34.3 per cent. as compared to 31 December 2002 and the growth in promissory note issuance of 51.1 per cent., which was partially offset by a decrease in deposits/balances from banks of 56.9 per cent.

The increase in deposits from customers accords with the Bank's strategy to grow the deposit base, in particular using increasingly term deposits which are a product which the more sophisticated clients will prefer to use to increase their returns. The significant increase in promissory notes reflects the development by the Bank of an issuance programme which has proven to be convenient for customers (especially in their use for settlement purposes).

As at 30 June 2003, the total stockholders' equity of the Group had increased to U.S.$239.7 million, an increase of 14.0 per cent. as compared to 31 December 2002. This increase was due to the addition in retained earnings and a rise in accumulated other income due to unrealised holding gains which are required to be reflected in equity for U.S. GAAP purposes.

The Bank believes that, as at 30 September 2003 (on an unaudited, unreviewed and interim basis), total assets have increased as compared with total assets at 31 December 2002 with the principal factors in such increase including an increase in loans to customers and in trading and available for sale securities which reflect the expected expansion of the Group's loan portfolio and the trading activities of the Bank's financial markets business which has benefited from encouraging market conditions.

The Bank believes that, as at 30 September 2003 (on an unaudited, unreviewed and interim basis), total liabilities have increased as compared with total liabilities at 31 December 2002 which is principally due to the funding strategy of the Group leading to, *inter alia*, expected further increases in customer deposits and issuance of certificates of deposit and promissory notes.

In March 2003, the Bank undertook its first placement of rouble bonds into the Russian domestic market in an aggregate amount of RUR 1 billion, for the purpose of diversifying the Bank's sources of funding.

The Bank intends to achieve further increases in loans to customers due to the development of its lending business, mostly to corporate customers not related to the LUKOIL Group and to the SME and retail sectors. This increasing business is expected to offset any reduction in the Bank's loan exposure to the LUKOIL Group and to allow the Bank to continue the diversification of its business and to implement its strategy for effective growth. In line with its developing lending portfolio, the Bank intends to further increase its sources of funding using the Notes, its promissory note programme and increases in term deposits from customers which are intended to offset reductions in demand deposit accounts.

Insurance

The Group does not have full coverage for its premises and equipment, business interruption or third party liability in respect of property or environmental damage arising from accidents on the Group property or relating to the Group Operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

The Group's fixed assets, cash in transit and cash in hand are covered by general insurance arrangements covering normal risk. Real estate which comprises security for loans provided by the Group is required to be covered by fire and asset protection. The Group does not have any credit risk insurance in relation to defaults by its customers, as this is generally not available in Russia.

Litigation

Neither the Bank nor any member of the Group is currently subject to any material litigation, arbitration or other disputes, nor does the Bank believe that there are any material litigation or arbitration claims threatened or pending against it. In addition, the Bank is not aware of any material disputes between itself and the Russian Central Bank, the Russian tax authorities or any other Russian Government departments or agencies.

Management

The Bank is run, in accordance with its Charter, by the following management bodies:

- the General Shareholders' Meeting;
- the Council Board of Directors;
- the President – a one-man executive body; and
- the Managing Board – a collegiate executive body.

The Management of the Bank has a two-tier structure, with the Council Board of Directors supervising the strategic development of the Bank's business and the Managing Board running the Bank's daily operations.

The General Shareholders' Meeting

The General Shareholders' Meeting is the supreme management body of the Bank. Its competence is determined by the Civil Code of the Russian Federation, the Federal Law on Joint Stock Companies and the Bank's Charter. The Bank's Charter provides that certain issues can only be resolved by the General Shareholders' Meeting of the Bank. These issues include, *inter alia*, the introduction of amendments and additions into the Bank's Charter or the approval of a new version of the Bank's Charter, any reorganisation of the Bank, the liquidation of the Bank, appointment of the liquidation commission and approval of the interim and final liquidation balance sheets. Similarly, the General Shareholders' Meeting cannot consider or take decisions on issues which do not fall within its competence, for example, *inter alia*, the participation of the Bank in holding companies, financial-industrial groups, other associations of commercial organisations, the formation of the executive bodies of the Bank and the early termination of their powers, and the setting of amounts of remuneration and compensation to be paid.

Council Board of Directors

The Council Board of Directors carries out the general management of the Bank and takes decisions in relation to this, except for those areas of the Bank's activity which fall within the competence of the General Shareholders' Meeting. Examples of its responsibilities include, *inter alia*, the outlining of priority directions of the Bank's activities, the calling of annual and extraordinary general meetings of shareholders of the Bank in compliance with applicable legislation, the approval of the agenda for general meetings of shareholders, and the placement of bonds and other securities. Issues which fall within the competence of the Council Board of Directors may not be resolved by any other executive body of the Bank.

The Council Board of Directors comprises nine members, six of whom are senior managers of members of the LUKOIL Group.

The following table sets out the members of the Council Board of Directors, as at 31 December 2003.

Name	*Principal activities outside the Group*
Yury Kadzhoyan*	General Director of Limited Liability Company LUKOIL-Kaliningradmorneft
Vladimir Nikitenko*	President of Open Joint-Stock Company Bank Petrocommerce
Stanislav Nikitin*	Deputy Head of Main Division for Treasury and Corporate Finance of Open Joint-Stock Company LUKOIL
Yury Popov*	Deputy General Director for Economy of Limited Liability Company LUKOIL-Zapadnaya Sibir
Oleg Sirotkin	General Director of Open Joint-Stock Company National Institute of Aviation Technologies
Aleksey Smirnov*	General Director of Closed Joint-Stock Company LUKOIL-Neftekhim
Yury Tshovrebov*	General Director of Open Joint-Stock Company Insurance Company LUKOIL
Nikolay Petrakov	Academic and Member of the Russian Academy of Sciences and Director of Institute of Market Research of the Russian Academy of Sciences
Valery Makarov	Academic and Member of the Russian Academy of Sciences and Director of Central Institute of Economics and Mathematics of the Russian Academy of Sciences

Note: * denotes a senior manager of a member of the LUKOIL Group.

Managing Board

The management of the Bank's current business activity is carried out by the President, Mr. Vladimir Nikitenko, and the Managing Board. These executive bodies take decisions on all issues related to the current business activity of the Bank, excluding those issues which fall within the competence of the General Shareholders' Meeting or the Council Board of Directors. The President and the Managing Board report to the Council Board of Directors and the General Shareholders' Meeting. They are responsible for the performance of the decisions made by the General Shareholders' Meeting and the Council Board of Directors.

Together with the President, the Managing Board comprises 7 Vice-Presidents supervising key business areas within the Bank, the Chief Accountant and four other senior employees.

The following table sets out the members of the Managing Board, as at 31 December 2003.

Name	*Position*
Vladimir Nikitenko	President, Chairman of the Managing Board
Vladimir Vinogradov	First Vice-President
Alexander Surin	Vice-President, Financial Markets Department
Vladimir Anufriev	Vice-President, Corporate Business Department
Alexei Krasnov	Vice-President, Regional Department
Natalia Kolobova	Vice-President, Risk Management Department
Galina Tokmakova	Vice-President, Settlements Department
Konstantin Kolpakov	Vice-President, Legal, Administrative and Economic Departments and Public Relations Service
Ekaterina Funtova	Chief Accountant, Head of Accounting and Reporting Department

Mr. Vladimir Nikitenko, President of the Board

Mr. Nikitenko joined the Bank in 1998 as its President and Chairman of the Managing Board. He has a university degree in finance and credit. In 1982, Mr. Nikitenko started his banking career in the Surgut branch of the State Bank of the USSR, Tyumen Region and in two years was promoted to Deputy Head of the branch. From 1987 to 1992, he worked in regional governmental authorities of the Tyumen Region. In 1992, Mr. Nikitenko returned to the banking business and joined the Surgut Municipal Bank AKKOBANK as its Chairman.

In the mid-1990s, the exploration of the Caspian oil region commenced and in 1996, he was invited to head Caspian Bank (Kazakhstan). Mr. Nikitenko is Deputy Head of the Council of the Association of Regional Banks of Russia and is a Member of the Board of the Association of the Russian Banks.

Vladimir Vinogradov, First Vice-President

Mr. Vinogradov supervises the Bank's Strategic Planning Centre, Retail Business Department, Project and Corporate Finance Division and Information and Banking Technologies Division, and is also responsible for the Bank's human resources policy.

Mr. Vinogradov was appointed First Vice-President of the Bank in 1998. Before joining the Bank, Mr. Vinogradov held management positions in the Moscow Commercial Bank APEX and the Commercial Bank APR-Bank. He has over nine years' experience in banking. He has a degree in aerodynamics and aircraft operations, and also holds a doctorate in systems analysis and operations research.

Alexander Surin, Vice-President

Mr. Surin supervises the Bank's Financial Markets Department.

Mr. Surin was appointed Vice-President in 2000. From 1999 to 2000, Mr. Surin worked with the Bank as Director of the Treasury Division. Before joining the Bank, Mr. Surin held management positions in the Moscow branch of Sibneftebank, Joint Stock Commercial Bank Russian National Investment Bank and Joint Stock Commercial Savings Bank of the Russian Federation (the Moscow regional bank). He has over nine years' experience in the Russian banking sector. He holds a degree in mechanical engineering, machine-tools and metal-cutting tools; finance and banking.

Vladimir Anufriev, Vice-President

Mr. Anufriev supervises the Bank's Corporate Business Department and the Bank's network of sub-branches in Moscow.

Mr. Anufriev was appointed Vice-President of the Bank in 2002. Before joining the Bank, Mr. Anufriev held management positions in Commercial Bank for Social Development Sotsinvestbank (a branch in the town of Sterlitamak), the Sterlitamak branch of Commercial Bank Bashprombank and the Sterlitamak branch of the International Commercial Bank Vostok. Mr. Anufriev held the position of a manager with the Sterlitamak branch and was a manager with the Moscow branch of Republican Investment and Credit Bank BashKreditBank. He has over 12 years' experience in the Russian banking sector. He holds a degree in economics and organisation of engineering industry; financial business administration.

Alexei Krasnov, Vice-President

Mr. Krasnov supervises the Bank's Regional Department.

Mr. Krasnov was appointed Vice-President of the Bank in 2002. Before joining the Bank, Mr. Krasnov held management positions in Commercial Agriculture Bank Bashkiriya, OJSC Urals-Siberian Bank (former name – Republican Investment and Credit Bank BashKreditBank), Investment Company BashKreditInvest and LLC Commercial Bank BashKreditRegion. He has over seven years' experience in the Russian banking sector. He has a degree in automated control systems; finance and banking.

Natalia Kolobova, Vice-President

Ms. Kolobova supervises the Bank's Risk Management Department and is a compliance controller.

Ms. Kolobova was appointed Vice-President in 2001. After joining the Bank in 1998, Ms. Kolobova held the position of Chief Accountant with the Bank. Before joining the Bank, Ms. Kolobova worked as

Deputy Chief Accountant with a branch of Joint Stock Commercial Bank Finist-Bank and as Chief Accountant with Commercial Bank Russian Industrial Bank. She has a degree in applied mathematics and banking.

Galina Tokmakova, Vice-President

Ms. Tokmakova supervises the Bank's Settlements Department.

Ms. Tokmakova has held the position of Vice-President of the Bank since 1999. From 1998 to 1999, Ms. Tokmakova worked with the Bank as Head of the Clearing Arrangement Department. Before joining the Bank, Ms. Tokmakova held various positions in the Commercial Bank Creditimpexbank including the position of Chairman of the Board – Head of the Debit Operations Department. She has over nine years' experience in the Russian banking sector. She has a degree in philosophy and holds a doctorate in philosophy.

Konstantin Kolpakov, Vice-President

Mr. Kolpakov supervises the Bank's Legal Department, the Administrative Department, the Economic Department and the Public Relations Service.

Mr. Kolpakov was appointed Vice-President of the Bank in 2002. Before joining the Bank, Mr. Kolpakov held management positions in state authorities of the Republic of Kazakhstan, including the Supreme Council of the Republic of Kazakhstan, the Office of President of the Republic of Kazakhstan, the Ministry of Justice of the Republic of Kazakhstan and OJSC Bank Kaspiyskiy (Kazakhstan). Before joining the Bank, Mr. Kolpakov's previous position was Deputy Chairman of the National Bank of the Republic of Kazakhstan. He has a degree in law.

Ekaterina Funtova, Chief Accountant

Ms. Funtova supervises the Bank's Accounting and Reporting Department.

Ms. Funtova was appointed Chief Accountant in 2001. From 1998 to 2001, Ms. Funtova worked with the Bank as Deputy Chief Accountant. Before joining the Bank, Ms. Funtova worked as Deputy Chief Accountant and as Chief Accountant with various financial institutions, including International Joint Stock Commercial Bank Chasprombank and Commercial Bank Russian Industrial Bank. She has a degree in railway transport process control.

Employees

As at 30 June 2003, the Bank had 1,582 employees, of whom approximately more than 75 per cent. had university or college education, and the average age of the Group's employees was 35.

The Group places emphasis on ensuring that its employees have a sufficient level of training and experience for operational efficiency and effectiveness. The Group pursues a policy of consolidating its human resources, both through hiring specialists from major banks and through in-house staff training in those areas of the Group's business that the Group considers give it a competitive advantage, in particular, leasing, factoring, risk management and customer relationship management.

There is no trade union representation for employees of the Group and the Group believes that its relations with its employees is good.

THE RUSSIAN BANKING SYSTEM AND REGULATION

Role of the CBR

The CBR is in many respects the successor to the former State Bank of the USSR, or Gosbank, and until 2002, it operated under the general terms of reference of the law "On the Central Bank of the Russian Federation (the Bank of Russia)" of 2 December 1990 as amended on 26 April 1995 with further amendments. In 2002, this law was superseded by the new law "On the Central Bank of the Russian Federation (Bank of Russia)" of 10 July 2002 (the "Central Bank Law"). According to the Central Bank Law, the Government of the Russian Federation is not liable for the CBR's obligations, nor is the CBR liable for the obligations of the Government of the Russian Federation, unless the relevant liability has been undertaken or is required by other Russian laws. The charter capital and other assets of the CBR are federal property. According to the latest available data, as at 1 July 2003, the CBR's assets amounted to RUR 2.5 trillion (U.S.$82.3 billion at the exchange rate of RUR30.38 per U.S.$1.00) and its gold and foreign currency reserves amounted to U.S.$64.88 billion.

The CBR is legally and financially independent from the Russian Government. The CBR is managed by the Chairman, the Board of Directors, and the National Banking Council, a collegial management body of the CBR carrying out certain, mostly supervisory, functions, (for example, making decisions on maximum capital expenditures of the CBR, distribution of profits gained by the CBR, appointment of the CBR's auditor and approval of the CBR's accounting rules and requirements). The CBR has regional branches in constitutive subjects of the Russian Federation (some of them are called National Banks). The Chairman of the CBR is proposed for appointment by the President of the Russian Federation and appointed for a fixed term of four years by the State Duma (the lower chamber of the Russian Parliament). The Chairman of the CBR can be replaced under the same procedure and has the right to participate in Government (Cabinet) meetings. Of the 12 members of the National Banking Council, two are appointed by the Federation Council (the upper chamber of the Russian Parliament), three are appointed by the State Duma from among its deputies, three are appointed by the President and three are appointed by the Government of the Russian Federation. The Chairman of the CBR is a member of the National Banking Council *ex officio*.

Under the Central Bank Law and laws "On Banks and Banking Activity", dated 2 December 1990 (as amended) (the "Banking Law") and "On Currency Regulation and Currency Control", dated 9 October 1992 (as amended) (the "Currency Control Law"') the CBR is authorised to adopt binding implementing regulations concerning banking and currency operations. The CBR has actively used this power in recent years, creating a detailed and extensive body of regulations.

Under current legislation, the CBR has the following major functions:

Function	*Summary*
Issue of money and regulation of circulation	The CBR is prohibited from issuing money and extending credits to the Government of the Russian Federation for the purposes of budget deficit financing.
Financing/ Monetary policy	Refinancing of banks by way of granting short-term credits at a discount rate; fixing reserve requirements for the banks; setting capital adequacy and similar ratio requirements for banks.
Transactions with other banks	Rendering decisions on the state registration of banks; registering securities issued by banks; extending credits to banks; maintaining correspondent accounts of banks in roubles; the provision of cash and settlement services of banks; providing banks with guarantees; the purchase and sale of Russian state securities, issuance of CBR bonds and certificates of deposit, purchase and sale of precious metals and natural gems and holding them in depositary accounts; purchase and sale of foreign currencies, and foreign currency payment documents issued by Russian and foreign banks.
Federal budget implementation and external debt service	Extending credits to the Ministry of Finance when provided for in the statute; acting as a placement agent with respect to government securities issued by the Ministry of Finance; administering budget accounts; acting as an agent for servicing the Russian Federation domestic state debt.

Exchange control	Regulation of dealing and settlements in roubles; regulation of foreign currency operations; administration of gold and currency reserves; establishment of regimes for rouble and foreign currency accounts of residents and non-residents in Russia.
Licensing	Issuance, suspension and revocation of banking licences to banks; issuance of permits with respect to capital transactions.
Control and supervision	Controlling banks' compliance with ratios and reserves requirements; imposition of sanctions for violations checking banking transactions; defining format requirements for accounting and statistical reports; fixing reporting schedules; appointment of temporary administration for commercial banks; control over acquisitions (and/or a trust management) of significant (more than 5 per cent.) stakes in credit organisations.

Regulation

Banking activities in Russia are broadly governed by the Banking Law, the Central Bank Law and, to a certain extent, by the Currency Law. The CBR has a number of supervisory roles (as outlined below). Generally, other institutions have only indirect influence over banks. The Federal Securities Commission issues permits for banking institutions acting as professional participants in the Russian securities market. Tax authorities supervise tax assessments. Fiscal authorities (for example, the Ministry of Finance) are largely inactive in relation to banks. The Association of Russian Banks, consisting of 488 banks and credit organisations (as at 5 October 2003) and established pursuant to the provisions of the Banking Law, is a private self-regulatory body. It offers various technical support to its members and lobbies the interest of commercial banks in all branches of power.

Set out below are some of the principal features of the regulatory regime governing banks in Russia:

1. Licensing	A licence must be obtained from the CBR for any "banking activity" as defined in the Banking Law. Applicants must be incorporated within the Russian Federation, submit an application for the state registration with an attached feasibility report and submit detailed information on the suitability of the management and other information. Under the Banking Law, a bank can be created in the form of a joint-stock company, a limited liability company or a company with additional liability. The latter form is not used in banking practice. An application for a licence may be refused if the founding documents are not in order, the financial or banking records of the founders are unsatisfactory or proposed candidates for executive and chief accountant positions do not meet qualification requirements.
2. Lending Limits	The CBR has established requirements for a number of capital adequacy and similar ratios, as well as various limits on diversification risks, and on currency risks. Details are set by periodic amendments to Instruction No. 1 of the CBR "On the Procedure for Regulating the Activities of Credit Organisations", approved by the order of the CBR No. 02-430, dated 1 October 1997, with further amendments ("Instruction No. 1"). The value of the assets of a bank is assessed by applying risk ratios to five different groups of risks. Under Instruction No. 1, a bank is not permitted to have exposure to any single borrower and related borrowers and to a single creditor in excess of 25 per cent. of its capital, to a shareholder (participant) of a bank in excess of 20 per cent. of its capital and to insiders such as its directors and officers, in excess of 3 per cent. of its capital. These limits currently apply to banks but are subject to further change and even abolition due to the amended scope of mandatory economic ratios introduced by the recently adopted Central Bank Law.

3. Capital Requirements

The CBR sets minimum equity (charter capital) requirements for banks. Since the end of September 2001, the minimum capital requirement was set at euro 5 million for newly founded banks and, since the end of February 2002, euro 5 million for banks founded by foreign banks under Directive of the CBR No. 586-u, dated 24 June 1999 (with further amendments).

Banks with capital equal to or in excess of euro 5 million were required to maintain a risk weighted capital-asset ratio of 10 per cent. and banks with capital of less than euro 5 million, a ratio of 11 per cent., commencing on 1 February 2000.

Those banks whose charter capital exceeds their net worth, are required to adjust their net worth (or, if possible, their charter capital) accordingly. The net worth of a bank is the aggregate amount of its fixed capital and additional capital decreased by certain mandatory reserves and some other amounts. A new procedure for reduction of banks' charter capital to adjust the amount of their net worth is established by Directive of the CBR No. 1260-u effective from 10 May 2003.

4. Reporting Requirements

Banks must regularly submit balance sheets, together with financial statements showing the actual financial position of the bank. They must also inform the CBR about providing large loans (exceeding 5 per cent. of a bank's capital).

Banking groups and consolidated groups (alliances of legal entities in which one bank, directly or indirectly, controls decisions of the governing bodies of the other legal entities and non-lending organisations within such alliances) must regularly submit consolidated financial statements to the CBR.

The CBR may at any time carry out full or selective checks of a bank's financial reports, and may inspect all books and records of the bank. In addition, annual audits must be carried out by a licenced auditing company under Russian auditing standards applicable to banks.

5. Liquidity and Reserve Requirements

Banks and banking groups (alliances of banks in which one bank directly or indirectly controls decisions of the governing bodies of other banks within this alliance) are obliged under the Central Bank Law to "ensure a necessary level of liquidity" to comply with Instruction No. 1.

The key elements of the current CBR reserve and liquidity requirements are as follows:

- Mandatory reserve requirements in the amount of 10 per cent. in respect of funds in roubles attracted from legal entities and funds in foreign currency attracted from legal entities and individuals, and 7 per cent. in respect of funds attracted from individuals in the form of rouble deposits.
- The ratio of liquid assets to demand deposits must be maintained at/above a minimum level, currently 20 per cent.
- The ratio of the total value of the debts due to the bank with the remaining term of over one year must not exceed 120 per cent. of the bank's own capital plus the value of deposit, loans and debts with the term of over one year

The ratio of liquid assets and total assets must be maintained at or above a minimum level, currently 20 per cent. The CBR is also

responsible for establishing mandatory reserve requirements for Russian banks (which cannot exceed 20 per cent. of the aggregate value of a bank's obligations). Mandatory reserves must be held on non-interest bearing deposits with the CBR.

Particular reserve requirements are set by the Board of Directors of the CBR from time to time.

The CBR has recently circulated new draft amendments of Instruction No. 1 for discussion. The proposed draft introduces certain changes into the mandatory ratios system. In particular, it purports to bring Instruction No. 1 into compliance with Article 62 of the Federal Law "On the Central Bank" dated 10 July 2002 No. 86-FZ (as amended) by reducing the number of mandatory ratios for banks (such as the risk per one creditor (depositor) and risk per one shareholder). It also introduces an obligation to monitor compliance with the ratios on a daily basis as opposed to the monthly reporting currently required in accordance with Instruction No.1. It is unclear when the new draft amendments will be passed and what effect on the Bank's operations they will have once enacted.

6. Accounting Practices

The CBR has established a standard format for the presentation of a bank's accounts and instructions on transactions recording within the accounts. It requires the preparation of financial statements and other accountancy in accordance with the Directive of the CBR "On Preparation and Submitting of Accountancy by Lending Organisations to the CBR" No. 7-U, dated 24 October 1997. Despite certain differences, such accounting statements represent a close approximation to International Accounting Standards. Starting from 1 January 2004, all credit organisations are required to prepare their accounting reports in accordance with IFRS. According to the CBR, it is expected that Russian banks will cease financial reporting based on Russian Accounting Rules by January 2006.

History of the Russian Banking Sector

Under the Soviet regime, Gosbank allocated resources from the Government's budget according to the prevailing economic plan, and the state-owned Sberbank offered banking services to retail clients. In 1987, with the relaxation of controls over companies and inter-bank settlements, a small group of dependent, specialised banks developed to conduct business relating to savings, foreign trade, construction, industry, agriculture and small enterprises.

In 1988 and 1989, in the second phase of reform, regional commercial banks (primarily in the form of cooperatives or joint-stock companies) began to emerge rapidly. By the beginning of 1992, 1,500 permits had been granted to banks. In 1991 three of the specialised state dependent banks were transformed into joint stock companies. Some regional branches became independent from head offices through management buy-outs.

After the collapse of the Soviet Union, in November 1991 the CBR assumed all functions of Gosbank and in December 1991 Gosbank was liquidated, while Sberbank remains the largest bank in Russia in terms of assets and volume of banking operations.

Banks

The number of commercial banks in Russia increased from about 358 in 1990 to 2,538 in 1996. Since the 1998 financial crisis (referred to below) the number of credit organisations operating in Russia, including many major banks, has fallen to 1,332 as at 1 September 2003.

On 17 August 1998, the Russian financial market suffered a serious crisis, causing major concern over the liquidity and solvency of the market as a whole. Many banks went bankrupt or fell under the

administration of the Credit Organisations Restructuring Agency ARCO (the "ARCO"), a state corporation established in 1999 for the purpose of financial recovery of banks and protection of interests of their creditors. In 2002, 14 banks were administered by ARCO and by 31 December 2002, 11 of them had completed the process of financial restructuring. Thus, due to the stabilisation of the banking sector in 2000 and 2001 and 2002, the importance of ARCO has decreased considerably.

The 1998 financial crisis revealed the lack of proper controls in the banking sector and strengthened anxiety of the public over the integrity of the banking system, with misleading advertising, money laundering, corruption, and criminal contacts all being major issues of concern. Currently the banking sector mostly offers services related to short-term financing, because few companies are sufficiently transparent and are able to provide the collateral required for long-term financing.

The limited presence of foreign owned banks holding banking licences strengthens the financial sector, although their activities have been restricted out of a fear that they may overwhelm the nascent Russian banks. Foreign owned banks face additional requirements in connection with obtaining a licence, for example, there must be a degree of reciprocity in the home country of the foreign bank and there is a limit for the aggregate level of participation of foreign capital within the Russian banking system established by the CBR Board of Directors.

Banking Reform

At the end of 2001, the Government of the Russian Federation and the Central Bank issued a joint declaration setting out the strategy for banking reform in Russia and calling for certain legislative steps and structural changes to be taken during the next five years. Among other measures aimed at increasing the stability of the Russian banking sector, the strategy envisages (i) an increase in capital adequacy requirements, (ii) the introduction of amendments to the Russian Civil Code allowing the early withdrawal of funds held on deposit accounts opened for a certain term, (iii) the acceptance of IFRS by all Russian banks and (iv) the gradual implementation of a mandatory system of securing private depositors' funds in the banks.

The Deposits Insurance Law introduced a system of insuring private deposits. Insurance of private deposits is now mandatory for all Russian banks that hold a CBR licence to attract deposits from individuals (the "retail banking licence"). The Deposits Insurance Law provides for the establishment of a new regulator, Agency for Deposits' Insurance (the "Agency"), that should assume responsibility for collecting deposits, managing the funds in the mandatory insurance pool, determining the insurance premiums and monitoring insurance payments.

From now on, banks issued with a retail banking licence will be entered into the register of the Agency. Banks that hold a valid retail banking licence will need to apply to the Central Bank to become registered as a participant in the mandatory deposits' insurance system. There are a number of tests that such bank is expected to meet before it will be admitted: (i) the CBR must be comfortable that its financial accounts and reports are true; (ii) it is in full compliance with the CBR mandatory ratios (capital adequacy, liquidity etc.); (iii) the CBR considers its solvency position sufficient; and (iv) the CBR has not cancelled such bank's banking licence etc. If a bank fails to comply with the above tests and or chooses not to participate in the deposits' insurance system, it will not be able to attract deposits from and open accounts for, individuals.

The targets of the Russian banking reform are also set out in the programme for the social and economic developments of the Russian Federation for the years 2003 to 2005, adopted by the Russian Government in August 2003. According to this programme, banking reform remains one of the priority tasks for the period until 2005. The programme contemplates, *inter alia,* simplification of procedures for banks' reorganisation and introduction of regulation of syndicated lending, affiliated parties' financing, credit bureaux and pledge of monies held in a bank account.

THE PETROCOMMERCE LOAN AGREEMENT

The following is the text of the Petrocommerce Loan Agreement which has been entered into between SBL and the Bank:

This Agreement is dated 5 February 2004 and made **between**:

(1) OPEN JOINT STOCK COMPANY BANK PETROCOMMERCE (the "**Bank**"); and

(2) STANDARD BANK LONDON LIMITED (the "**Lender**").

Whereas:

The Lender has at the request of the Bank agreed to make available to the Bank a loan facility in the amount of U.S.$120,000,000 on the terms and subject to the conditions of this Agreement.

Now it is hereby agreed as follows:

1 Definitions and Interpretation

1.1 Definitions

In this Agreement (including the recitals), unless otherwise defined herein, the following terms shall have the meanings indicated:

"**Account**" has the meaning given to it in sub-Clause 6.1 hereof;

"**Advance**" means the advance to be made under sub-Clause 3.1 of the sum equal to the amount of the Facility, as from time to time reduced by prepayment;

"**Affiliate**" of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person or (ii) any other Person who is a director or officer (A) of such specified Person, (B) of any Subsidiary of such specified Person or (C) of any Person described in Clause (i) above. For the purpose of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing;

"**Agreed Form**" means that the form of the document in question has been agreed between the proposed parties thereto and that either a copy thereof has been signed for the purpose of identification on behalf of each of Linklaters and Lovells or such document has been signed on behalf of the parties thereto and delivered to Linklaters to be held in escrow pending release on the Closing Date;

"**Agreement**" means this Agreement as originally executed or as it may be amended from time to time;

"**Banking Business**" means in relation to the Bank or any of its Material Subsidiaries, any type of banking business (including, without limitation, any factoring, consumer credit, mortgages, issuance of banking guarantees and letters of credit (and related cash cover provision), bills of exchange and promissory notes and payments under such guarantees, letters of credit and promissory notes, trading of securities, fund management and professional securities market participation business) which it conducts or may conduct pursuant to its licences issued by the appropriate authorities and accepted market practice and any applicable law;

"**Business Day**" means a day on which (a) the London Interbank Market is open for dealings between banks generally, and (b) if on that day a payment is to be made hereunder, commercial banks generally are open for business in Moscow, London, New York City and in the city where the specified office of the Principal Paying Agent is located;

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, participations, rights to purchase, warrants, options, or other equivalents (however designated) of capital stock of a corporation and any and all equivalent ownership interests in a Person other than a corporation, in each case whether now outstanding or hereafter issued;

a "**Change of Control**" shall be deemed to have occurred at each time (whether or not approved by the board of directors of the Bank) that any Person (other than a Permitted Holder) or Persons acting in concert (other than Permitted Holders), or any Persons acting on behalf of any such Person(s) (other than Permitted Holders), at any time is/are or become(s) (a) interested in or acquires an interest in more than 50 per cent. of the issued or allotted ordinary share capital of the Bank or (b) the beneficial owner of more than 50 per cent. of the Voting Stock of the Bank.

"**Change of Control Payment Date**" means, in respect of a Change of Control, the date specified by or on behalf of the Lender in the Change of Control Put Notice on which any part of the Advance is to be prepaid in accordance with sub-Clause 5.7, which date shall be the fourteenth Put Business Day immediately following the last day of the Put Period;

"**Change of Control Put Notice**" means, in respect of a Change of Control, a notice given by or on behalf of the Lender to the Bank specifying (i) the aggregate principal amount of Notes which are to be redeemed as a result of a Change of Control and (ii) the Change of Control Payment Date;

"**Change of Law**" means any of the enactment or introduction of any new law, the variation, amendment or repeal of an existing or new law, and any ruling on or interpretation by a competent authority of any existing or new law which, in each case, occurs after 5 February 2004 and for this purpose the word "**law**" means all or any of the following whether in existence at 5 February 2004 or introduced hereafter and with which it is obligatory or customary for banks or other financial institutions or, as the case may be, companies or other entities in the relevant jurisdiction to comply:

(i) any statute, treaty, order, decree, instruction, letter, directive, instrument, regulation, double taxation treaty, ordinance or similar legislative or executive action by any national or international or local government or authority or by any ministry or department thereof and other agencies of state power and administration (including, but not limited to, taxation departments and authorities);

(ii) any letter, regulation, decree, instruction, request, notice, guideline, directive, statement of policy or practice statement given by or required by any central bank or other monetary authority, or by any tax, fiscal or other authority (whether or not having the force of law); and

(iii) the decision or ruling on, or the interpretation of, any of the foregoing by any court of law, tribunal, central bank, monetary authority or agency or any tax, fiscal or other competent authority or agency;

"**Closing Date**" means 10 February 2004;

"**Contingent Liability**" means any agreement, undertaking, or arrangement by which any Person guarantees, endorses, or otherwise becomes or is contingently liable upon (by direct or indirect agreement, contingent or otherwise, to provide funds for payment, to supply funds to, or otherwise to invest in, a debtor, or otherwise to assure a creditor against loss) the indebtedness, obligation, or any other liability of any other Person (other than by endorsements of instruments in the course of collection), or guarantees the payment of dividends or other distributions upon the shares of any other Person. The amount of any Person's obligation under any Contingent Liability shall (subject to any limitation set forth therein) be deemed to be the outstanding principal amount (or maximum principal amount, if larger) of the debt, obligation, or other liability guaranteed thereby;

"**Default**" means any event which is, or after notice or passage of time or after making any determination under this Agreement (or any combination of the foregoing) would be, an Event of Default;

"**Dollars**", "**$**" and "**U.S.$**" means the lawful currency of the United States of America;

"**Environmental Laws**" means all laws, rules, regulations, ordinances, judgments, orders, decrees and agreements with, and licences, permits or franchises from, governmental entities, and all other regulatory restrictions (whether or not having the force of law) that (a) have been, are or may become applicable to the Bank or any Material Subsidiary or any properties or business now or in the past owned, leased, occupied or operated by the Bank or any Material Subsidiary and (b)

relate to the environment, health and safety, the use, possession, collection, storage, processing, treatment, emission, release, discharge, disposal, transfer or transport of Materials of Environmental Concern, or similar matters, or the remediation of any of the foregoing;

"**Event of Default**" has the meaning assigned to such term in sub-Clause 11.1;

"**Facility**" means the facility specified in Clause 2;

"**Group**" means the Bank and its Subsidiaries taken as a whole;

"**Guarantee**" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise) or (b) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided, however, that the term "**Guarantee**" will not include endorsements for collection or deposit in the ordinary course of business. The term "**Guarantee**" used as a verb has a corresponding meaning;

"**incur**" means issue, assume, Guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) or is merged into a Subsidiary will be deemed to be incurred or issued by such Subsidiary at the time it becomes or is so merged into a Subsidiary;

"**Indebtedness**" means any indebtedness, in respect of any Person for, or in respect of, moneys borrowed or deposits received; any amount raised by acceptance under any acceptance credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument; the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with U.S. GAAP, be treated as a finance or capital lease; receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis); any amount raised pursuant to any issue of shares which are expressed to be redeemable; any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing; any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account); any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and the amount of any liability in respect of any Guarantee or indemnity for any of the items referred to above;

"**Interest Payment Date**" means 10 February and 10 August of each year, save that the last Interest Payment Date shall be the Repayment Date (and not, for the avoidance of doubt, 10 February 2007);

"**Interest Period**" has the meaning assigned to such term in sub-Clause 4.2;

"**Issue Documents**" means this Agreement, the Trust Deed, the Subscription Agreement and the Paying Agency Agreement and "**Issue Document**" means any one of them;

"**Issuer**" means Standard Bank London Holdings PLC;

"**Loan**", at any time, means an amount equal to the aggregate principal amount of the Facility granted by the Lender pursuant to this Agreement and outstanding at such time;

"**Material Adverse Effect**" means a material adverse effect on (a) the business, operations, property, condition (financial or otherwise) or the reasonable business prospects of the Group taken as a whole; (b) the Bank's ability to perform its obligations under this Agreement or (c) the validity or enforceability of this Agreement or the rights or remedies of the Lender under this Agreement;

"**Material Subsidiary**" means at any time:

(i) each of Komi Regional Bank Ukhtabank, JSC Petrocommerce-Ukraine Bank, JSC Stavropolpromstroybank and JSC BC Unibank SA to the extent that each is from time to time a Subsidiary of the Bank; and/or

(ii) each Subsidiary of the Bank which has (together with its Subsidiaries, if any, on a consolidated basis if required to consolidate) total assets which amount to not less than 10 per cent. of the total assets of the Bank.

"**Materials of Environmental Concern**" means any toxic, ignitable, corrosive, reactive, radioactive or caustic substance, and any other substance considered a pollutant, contaminant or hazardous or potentially hazardous substance or waste;

"**Notes**" means the U.S.$120,000,000 9.00 per cent. loan participation notes due 2007 proposed to be issued by the Issuer and constituted by the Trust Deed;

"**Noteholder**" means the Person in whose name the Note is registered in the register of the noteholders (or in the case of joint holders, the first named holder thereof);

"**Officers' Certificate**" means a certificate signed on behalf of the Bank by two officers of the Bank at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Bank;

"**Paying Agency Agreement**" means the paying agency agreement dated the date hereof between the Lender, the Issuer, the Bank, the Trustee, JPMorgan Chase Bank, London Branch and J.P. Morgan Bank Luxembourg S.A. relating to the Notes;

"**Permitted Holders**" means OJSC LUKOIL or any of its Subsidiaries;

"**Permitted Liens**" means:

(i) Security granted by the Bank or a Material Subsidiary which is existing as at the date of this Agreement;

(ii) any netting or set-off arrangement entered into by the Bank or any Material Subsidiary in the ordinary course of its business for the purpose of netting debit and credit balances;

(iii) any lien arising by operation of law or in the ordinary course of business and not as a result of a Default, including any rights of set-off arising as a matter of law;

(iv) any Security entered into pursuant to any Issue Document;

(v) any Security upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any securitisation or like arrangement and whereby all payment obligations secured by such Security or having the benefit of such Security, are to be discharged solely from such assets or revenues;

(vi) any Security over any assets acquired after the date hereof and in existence at the date of such acquisition provided that such Security was not created in contemplation of the acquisition and provided further that no such Security shall extend to any other assets;

(vii) any Security securing Indebtedness of a Person existing at the time such Person is merged into or amalgamated with the Bank or any of its Subsidiaries provided that such Security was not created in contemplation of such merger or amalgamation and does not extend to any other assets, income or property of the Bank or any of its Subsidiaries;

(viii) Security created or arising in the ordinary course of Banking Business;

(ix) any Security over debt securities issued by a sovereign, state or government which is created to secure indebtedness owed to a national central bank under credit advanced by such national central bank to the Bank or any of its Material Subsidiaries in the ordinary course of its Banking Business;

(x) Security incurred, or pledges and deposits in connection with workers compensation, unemployment insurance and other social security benefits, and leases, appeal bonds and other obligations of like nature in the ordinary course of business;

(xi) Security for *ad valorem* income or property taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Bank has set aside on its books reserves to the extent required by US GAAP;

(xii) (i) bankers liens in respect of deposit accounts, (ii) statutory landlords liens, (iii) Security created to secure the performance of bids, trade contracts, government contracts, leases, statutory obligations, surety and appeal bonds, performance and return-of-money bonds or liabilities to insurance carriers under insurance or self-insurance arrangements or other obligations of like nature (so long as, in each cases with respect to the items described in paragraphs (i), (ii) and (iii) above of this paragraph (g), such Security does not secure obligations constituting Indebtedness for borrowed money and is incurred in the ordinary course of business), and (iv) Security arising from any legal proceeding, judgment, decree or other order which does not constitute an Event of Default;

(xiii) any Security granted by any member of the Group in favour of the Bank;

(xiv) Security upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any repo transaction;

(xv) Security in respect of any funds deposited by a member of the Group as collateral for the Indebtedness of any other member of the Group;

(xvi) any Security securing indebtedness incurred to refinance other Indebtedness permitted to be secured by any Security permitted under paragraphs (i) to (xvi) (inclusive) above provided that the replacement Security does not cover any assets other than the original assets subject to the original Security and that the principal amount secured thereby is not increased;

(xvii) any Security over a minority shareholding interest of 25 per cent. or less held directly or indirectly on an aggregate basis by the Bank or any of its Subsidiaries in a company or corporation where such Security is part of a security arrangement which includes the granting of security over all or substantially all of the shares of such company or corporation which is required by the lenders providing financing for such company or corporation, provided that the aggregate value of Security granted by the Bank and its Subsidiaries in respect of one transaction or a series of transactions and permitted by this paragraph does not, at any time, exceed 20 per cent. of the total shareholders' funds of the Bank; and

(xviii) any Security (other than any such Security as is referred to in paragraphs (i) to (xvii)) where the aggregate value of assets or revenues subject to such Security does not exceed U.S.$40,000,000;

"**Person**" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any agency or political subdivision thereof or any other entity;

"**Put Business Day**" means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in New York, London and Moscow and in the place of presentation;

"**Put Period**" means the period of 30 days after notice is given by the Issuer to the Noteholders of the occurrence of a Change of Control;

"**Rate of Interest**" has the meaning assigned to such term in sub-Clause 4.1;

"**Repayment Date**" means 9 February 2007;

"**Rouble**" means the lawful currency from time to time of the Russian Federation;

"**Sale/Leaseback Transaction**" means an arrangement relating to property now owned or hereafter acquired whereby the Bank or any Subsidiary of the Bank transfers such property to a Person and the Bank or such Subsidiary leases it from such Person;

"**Same-Day Funds**" means Dollar funds settled through the New York Clearing House Interbank Payments System or such other funds for payment in Dollars as the Lender may at any time reasonably determine to be customary for the settlement of international transactions in New York City of the type contemplated hereby;

"**SBL Loan**", at any time, means an amount equal to the aggregate principal amount of the facility granted by the Issuer pursuant to the SBL Loan Agreement and outstanding at such time;

"**SBL Loan Agreement**" means a loan agreement dated the date hereof between the Lender and the Issuer in a principal amount equal to the loan;

"**Security**" means any mortgage, pledge, security interest, encumbrance, easement, restriction, covenant, right-of-way, servitude, lien, charge or adverse claim of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof, including a Sale/ Leaseback Transaction);

"**Subscription Agreement**" means the agreement dated the date hereof between, *inter alios*, the Lender (in its capacity as lender under this Agreement), Standard Bank London Limited and ABN AMRO Bank N.V. in their capacity as Joint Lead Managers, the Issuer and the Bank providing for the issue and subscription of the Notes;

"**Subsidiary**" of any specified Person means any corporation, partnership, joint venture, association or other business entity, whether now existing or hereafter organised or acquired, (a) in the case of a corporation, of which at least 50 per cent. of the total voting power is held by such first-named Person and/or any of its Subsidiaries and such first-named Person or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or (b) in the case of a partnership, joint venture, association, or other business/entity, with respect to which such first-named Person or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract or otherwise if in accordance with U.S. GAAP such entity would be consolidated with the first-named Person for financial statement purposes;

"**Syndicated Loan**" means the credit agreement for a short term loan facility of U.S.$20,000,000 dated 22 November 2002 between the Bank, the Lender and the other parties thereto;

"**Taxes**" means any taxes (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation, the United Kingdom or any taxing authority thereof or therein or any organisation of which the Russian Federation or the United Kingdom may be a member or with which the Russian Federation or the United Kingdom may be associated or any country or state from or through which the Bank makes payments hereunder, provided, however, that for the purposes of this definition the references to the United Kingdom shall, upon the occurrence of the Relevant Event (as this term is defined in the Trust Deed), be deemed to be references to the jurisdiction in which the Trustee is domiciled for tax purposes; and the term "Taxation" shall be construed accordingly;

"**Trust Deed**" means the trust deed to constitute the Notes for the equal and rateable benefit of the Noteholders to be dated the Closing Date between the Lender, the Issuer and the Trustee as amended from time to time;

"**Trustee**" means J.P. Morgan Corporate Trustee Services Limited, as trustee under the Trust Deed and any successor thereto as provided thereunder; and

"**U.S. GAAP**" means generally accepted accounting principles in the United States.

"**U.S. GAAP Fiscal Period**" means any fiscal period for which the Bank or, with respect to any Material Subsidiary, such Material Subsidiary, has produced consolidated financial statements in accordance with U.S. GAAP which have either been audited or reviewed by independent accountants of recognised international standing; and

"**Voting Stock**" means, in relation to any Person, Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Agreement which are not defined in this Agreement but which are defined in the Trust Deed, the Notes, the Paying Agency Agreement or the Subscription Agreement shall have the meanings assigned to such terms therein.

1.3 Interpretation

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement.

1.3.1 All references to "Clause" or "sub-Clause" are references to a Clause or sub-Clause of this Agreement.

1.3.2 The terms "hereof", "herein" and "hereunder" and other words of similar import shall mean this Agreement as a whole and not any particular part hereof.

1.3.3 Words importing the singular number include the plural and vice versa.

1.3.4 All references to "taxes" include all present or future taxes, levies, imposts and duties of any nature and the terms "tax" and "taxation" shall be construed accordingly.

1.3.5 The table of contents and the headings are for convenience only and shall not affect the construction hereof.

2 Facility

2.1 Facility

On the terms and subject to the conditions set forth herein, the Lender hereby agrees to lend the Bank and the Bank hereby agrees to borrow from the Lender U.S.$120,000,000.

2.2 Purpose

The proceeds of the Advance less the sums to be applied in accordance with sub-Clause 3.2 will be used for working capital and general corporate purposes, but the Lender shall not be concerned with the application thereof.

3 Drawdown

3.1 Drawdown

On the terms and subject to the conditions set forth herein, on the Closing Date the Lender shall make the Advance to the Bank and the Bank shall make a single drawing in the full amount of the Facility.

3.2 Expenses

In consideration of the Lender making the Advance to the Bank, the Bank hereby agrees that it shall pay to the Lender, in Same-Day Funds, an amount in respect of certain expenses as set out in a separate expenses letter dated 10 February 2004 agreed between the Bank and the Lender ("**Expenses Side Letter**") and hereby further agrees that such aggregate amount of expenses set out in the Expenses Side Letter shall be deducted from the amount of the Advance.

3.3 Disbursement

Subject to the conditions set forth herein, on the Closing Date the Lender shall transfer the amount of the Advance less the amount to be paid by the Bank pursuant to sub-Clause 3.2 above to the Bank's account, no # 890-0068-116, Swift Code: IRV TUS3N, with the Bank of New York, New York, USA in Same-Day Funds.

4 Interest

4.1 Rate of Interest

The Bank will pay interest in Dollars to the Lender on the outstanding principal amount of the Loan from time to time hereunder at the rate of 9.00 per cent. per annum (the "**Rate of Interest**").

4.2 Payment

Interest at the Rate of Interest shall accrue from day to day, starting from (and including) the Closing Date and shall be paid in arrear not later than 10.00 a.m. (New York City time) one Business Day prior to each Interest Payment Date. Interest on the Loan will cease to accrue from the due date for repayment thereof unless payment of principal is improperly withheld or refused, in which event interest will continue to accrue (before or after any judgment) at the Rate of Interest to but excluding the date on which payment in full of the principal thereof is made. The amount of interest payable in respect of the Loan for any Interest Period shall be calculated by applying the Rate of Interest to the Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for any other period, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed. For the avoidance of doubt, the amount of interest payable in respect of each Interest Period, including the last Interest Period, shall be U.S.$5,400,000.

"**Interest Period**" means each period beginning on (and including) the Closing Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date.

5 Repayment and Prepayment

5.1 Repayment

Except as otherwise provided herein, the Bank shall repay the Loan not later than 10.00 a.m. (New York City time) one Business Day prior to the Repayment Date.

5.2 Prepayment in the event of Taxes

If, as a result of the application of any amendments to, or change in, the double tax treaty between the Russian Federation and the United Kingdom or the laws or regulations of the Russian Federation or the United Kingdom or of any political sub-division thereof or any authority therein (the "**Taxing Jurisdiction**") or the enforcement of the security provided for in the Trust Deed, the Bank would thereby be required to increase the payment of principal or interest or any other payment due hereunder as provided in sub-Clauses 6.2 or 6.3, or if (for whatever reason) the Bank would have to or has been required to pay additional amounts pursuant to Clause 8, then the Bank may (without premium or penalty), upon not less than 10 days' notice to the Lender (which notice shall be irrevocable) and upon delivery to the Lender, only in respect of the requirement to increase the payment of principal or interest due or any other payment due hereunder as a result of the application of any amendments to, or change in, the laws or regulations of the Russian Federation, of an Officer's Certificate that the Bank would be required to pay such additional amounts, prepay the Loan in whole (but not in part) at any time.

5.3 Prepayment in the event of Illegality

If, at any time, the Lender reasonably determines that it is or would be unlawful or contrary to any applicable law or regulation or regulatory requirement or directive of any agency of any state or otherwise for the Lender or the Issuer to allow all or part of the Loan, the SBL Loan or the Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with this Agreement or the SBL Loan Agreement and/or to charge or receive or to be paid interest at the rate then applicable to the Loan, then upon notice by the Lender to the Bank in writing, the Bank and the Lender shall consult in good faith as to a basis which eliminates the application of such circumstances and the Lender shall exercise all reasonable endeavours in seeking alternative arrangements which will result in such elimination; provided, however, that the Lender shall be under no obligation to continue such consultation or to seek such arrangements if a basis has not been determined within 60 days of the date on which it so notified the Bank. If such a basis has not been determined within the 60 days, then upon seven Business Days' notice by the Lender to the Bank in writing, the Bank shall prepay the Loan in whole (but not in part) on the next Interest Payment Date falling after the expiry of such seven Business Days' notice or on such earlier date as the Lender shall certify to be necessary to comply with such requirements.

5.4 Reduction of Loan upon Cancellation of Notes

The Bank may from time to time deliver to the Lender Notes, having an aggregate principal value of at least U.S.$500,000, together with a request for the Lender to present such Notes to the Issuer with a request in turn for the Issuer to present such Notes to the Registrar for cancellation, and may from time to time procure the delivery to the Registrar of the Global Note with instructions to cancel a specified aggregate principal amount of Notes (being at least U.S.$500,000) represented thereby (which instructions shall be accompanied by evidence satisfactory to the Registrar that the Bank is entitled to give such instructions), whereupon the Lender shall, pursuant to sub-Clause 9.1 of the Paying Agency Agreement, request the Issuer to request in turn the Registrar to cancel such Notes (or specified aggregate principal amount of Notes represented by the Global Note). Upon any such cancellation by or on behalf of the Registrar, the principal amount of the Loan corresponding to the principal amount of such Notes shall be deemed to have been reduced as of the date of such cancellation.

5.5 Payment of Other Amounts

If the Loan is to be prepaid by the Bank pursuant to any of the provisions of sub-Clauses 5.2 or 5.3, the Bank shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to (and excluding) the date of actual payment and all other sums payable by the Bank pursuant to this Agreement. For the avoidance of doubt, if the principal amount of the Loan is reduced pursuant to the provisions of sub-Clause 5.4, then no interest shall accrue or be payable during the Interest Period in which such reduction takes place in respect of the amount by which the Loan is so reduced and the Bank shall not be entitled to any interest in respect of the cancelled Notes.

5.6 Provisions Exclusive

The Bank may not voluntarily prepay the Loan except in accordance with the express terms of this Agreement. Any amount prepaid may not be reborrowed.

5.7 Prepayment upon a Change of Control

5.7.1 The Bank shall, having been given a Change of Control Put Notice by or on behalf of the Issuer, prepay the Advance in an amount equal to the principal amount specified in the Change of Control Put Notice, together with accrued interest (if any) on such principal amount, up to and excluding the Change of Control Payment Date, on such Change of Control Payment Date.

5.7.2 Promptly, and in any event within five calendar days after a Change of Control, the Bank shall deliver to the Lender (and, following the execution of the agreements entered into in connection with the Notes, to the Trustee) a written notice copied to the Issuer and the Principal Paying Agent substantially in the form of the Schedule hereto, which notice shall be irrevocable (but may, in respect of subclause (ii), be amended), stating:

(i) that a Change of Control has occurred; and

(ii) the circumstances and relevant facts giving rise to such Change of Control, including, to the extent available, pro forma historical income, cash flow and capitalisation for the most recent U.S.GAAP Fiscal Period, each after giving effect to such Change of Control and events causing such Change of Control, and the date upon which such Change of Control is deemed to have occurred.

6 Payments

6.1 Making of Payments

All payments of principal, interest and other additional amounts to be made by the Bank under this Agreement shall be made not later than 10.00 a.m. (New York City time) one Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be) in Same-Day Funds to the Lender's account No. 25401101 with the Principal Paying Agent (the "**Account**"). Payment of such amounts by the Bank hereunder to the Account shall comprise discharge of the Bank's payment obligations hereunder in respect of such amounts. The Lender agrees with the

Bank that it will not deposit any other monies into the Account and that no withdrawals shall be made from the Account by the Lender, other than as provided for and in accordance with the Trust Deed and the Paying Agency Agreement.

6.2 No Set-Off, Counterclaim or Withholding; Gross-Up

6.2.1 All payments to be made by the Bank under this Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes. If the Bank shall be required by applicable law to make any deduction or withholding from any payment under this Agreement for or on account of any such Taxes, it shall increase the payment of principal or interest or any other payment due hereunder to such amount as may be necessary to ensure that the Lender receives a net amount in Dollars equal to the full amount which it would have received had payment not been made subject to such Taxes. The Bank shall promptly account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted and shall deliver to the Lender without undue delay evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Lender pays any amount in respect of such Taxes, penalties or interest, the Bank shall reimburse to the Lender in Dollars on demand an amount equal to such payment provided that the Lender provides to the Bank a certificate certifying the amount of such payment and supporting documents. Any such certificate, in the absence of a manifest error, shall be conclusive evidence of the amount of such payment.

6.2.2 If, following any increase in any sum payable by the Bank under this Agreement pursuant to Clause 6.2.1 or following any payment made by the Bank pursuant to Clause 8, the Lender shall receive or be granted a credit against or remission for any tax payable by it, the Lender shall, subject to the Bank having made any increased payment in accordance with Clause 6.2.1 or Clause 8 and to the extent that the Lender can do so without prejudicing the retention of the amount of such credit or remission and without prejudice to its right to obtain any other relief or allowance which may be available to it and to the conduct of its own tax affairs as it thinks fit, reimburse to the Bank such amount as the Lender shall certify to be the proportion of such credit or remission as will leave the Lender (after such reimbursement) in no worse position than it would have been had no increase been required under Clause 6.2.1 or, as the case may be, no payment has been required under Clause 8, provided that this would not oblige the Lender to disclose to the Bank any information regarding its tax affairs or computations.

6.2.3 If circumstances arise which would result in any payment to be made by the Bank pursuant to Clause 6.2, 6.3 or 8, the Lender shall notify the Bank after becoming aware of such circumstances and shall, if requested by the Bank, and at the cost of the Bank, make reasonable efforts to communicate with the relevant tax, regulatory or prudent authority and to file any document reasonably requested of it, to mitigate the effects of such circumstances; provided, however, that the Lender shall, in no circumstances, be required to take any action which, may be prejudicial to its business, operations, prospects or reputation or undertake any material expense prior to being assured to its satisfaction that it will be reimbursed therefor.

6.3 Withholding on Notes

Upon becoming so aware, the Lender shall, as soon as reasonably practical, notify the Bank that the Issuer has become obliged to make any withholding or deduction for or on account of any Taxes from any payment which the Issuer is obliged to make under or in respect of the Notes, and provide the Bank with a certificate describing in reasonable detail the basis for such withholding or deduction and setting out additional amounts required to be paid by the Bank to the Lender pursuant to this sub-Clause 6.3. The Bank agrees to pay into the Account on the date on which payment is made to the Noteholders such additional amounts as are equal to the additional amounts which the Issuer would have to pay in order that the net amounts received by the Noteholders, after such withholding or deduction, will equal the respective amounts which would

have been received by the Noteholders in the absence of such withholding or deduction; provided, however, that the Lender shall immediately upon receipt by the Issuer of any reimbursement of any sums paid pursuant to this provision, to the extent that the Noteholders are not entitled to such sums pursuant to the terms and conditions of the Notes, procure payment of such sums to the Bank (it being understood that neither the Lender, the Issuer, the Principal Paying Agent nor any Paying Agent shall have any obligation to determine whether any Noteholder is entitled to any such additional amount).

6.4 Withholding on the SBL Loan

Upon becoming so aware, the Lender shall promptly notify the Bank that the Lender has become obliged to make any withholding or deduction for or on account of any Taxes from any payment which the Lender is obliged to make under or in respect of the SBL Loan Agreement, and provide the Bank with a certificate describing in reasonable detail the basis for such withholding or deduction and setting out the amount of additional amounts which would be required to be paid in order that the net amounts received by the Issuer, after such withholding or deduction, will equal the respective amounts which would have been received by the Issuer in the absence of such withholding or deduction; whereupon the Bank and the Lender shall consult in good faith as to a basis which eliminates the application of such circumstances and the Lender shall use reasonable endeavours in seeking alternative arrangements which will result in such elimination; provided that the Lender shall be under no obligation to continue such consultation or seek such arrangements if a basis has not been determined within 60 days of the date on which the Lender notified the Bank. If such a basis has not been determined within such 60 day period, then upon seven Business Days' notice by the Lender to the Bank in writing:

(i) the Bank shall immediately prepay the Loan; or

(ii) the Bank shall pay into the Account on the date on which payment is made to the Issuer pursuant to the SBL Loan Agreement such additional amounts.

7 Conditions Precedent

7.1 Documents to be Delivered

The obligation of the Lender to make the Advance shall be subject to the receipt by the Lender on or prior to the Closing Date of an executed copy of each of the following documents, each dated the Closing Date (other than the document referred to in sub-Clause 7.1.3), in the Agreed Form.

7.1.1 Legal Opinion of Lovells, counsel to the Bank, regarding issues of Russian law;

7.1.2 Legal Opinions of Linklaters, counsel to the Lender, regarding issues of English law and Russian law, respectively.

7.1.3 A Taxation Letter from PricewaterhouseCoopers regarding certain Russian tax matters.

7.1.4 Evidence that the Persons mentioned in sub-Clause 14.10.5 hereof have agreed to receive process in the manner specified herein.

7.2 Further Conditions

The obligation of the Lender to make the Advance shall be subject to the further conditions precedent that as at the Closing Date (a) the representations and warranties made and given by the Bank in Clause 9 shall be true and accurate as if made and given on the Closing Date with respect to the facts and circumstances then existing, (b) no event shall have occurred that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Event of Default (other than those breaches of certain provisions of the Syndicated Loan which have been disclosed in writing to the Lender), (c) the Bank shall not be in breach of any of the terms, conditions and provisions of this Agreement, (d) the Subscription Agreement, Paying Agency Agreement and the Trust Deed shall have been executed and delivered and (e) the Issuer shall have received the full amount of the net subscription moneys for the Notes pursuant to the Subscription Agreement and shall have advanced such moneys to the Lender under the SBL Loan Agreement.

8 Change in Law or Banking Practices; Increase in Cost

8.1 Compensation

If by reason of any Change of Law (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or change in the interpretation or application thereof by any Person charged with the administration thereof and/or any compliance by the Lender in respect of the Loan or the Facility with any request, policy or guideline (whether or not having the force of law but, if not having the force of law, the observances of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) from or of any central or other fiscal, monetary or other authority, agency or any official of any such authority (including for the avoidance of doubt, any recommendations regarding capital adequacy standards published by the Basle Committee on Banking Regulations and Supervisory Practices at the Bank for International Settlements), in each case occurring after the date of this Agreement:

(i) the cost to the Lender of making, funding or maintaining the Loan or the Facility is increased; or

(ii) the amount of principal, interest or other amount payable to or received by the Lender hereunder is reduced; or

(iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from the Bank hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of the Loan, then subject to the following, and in each such case:

(a) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to the Bank together with a certificate describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and all relevant supporting documents evidencing the matters set out in such certificates, provided, however, that in the case of sub-Clause 8.1.3, the amount of such increased cost shall be deemed not to exceed an amount equal to the proportion thereof which is directly attributable to this Agreement;

(b) upon demand by the Lender to the Bank, the Bank, in the case of Clauses (i) and (iii) above, shall pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of Clause (ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return.

8.2 Exceptions

Clause 8.1 does not apply to the extent that any increased cost referred to in Clause 8.1(i), any reduction referred to in Clause 8.1(ii) or any additional cost or a reduction in the return referred to in Clause 8.1(iii) is:

(i) attributable to any Taxes referred to in Clause 6.2.1 or Clause 6.3;

(ii) attributable to any Taxes payable by the Lender on its overall net income, profits or gains; or

(iii) attributable to the wilful breach by the Lender of any law or regulation.

9 Representations and Warranties

9.1 The Bank's Representations and Warranties

The Bank represents and warrants to the Lender, to the intent that such representations and warranties shall form the basis of this Agreement and shall remain in full force and effect at the date hereof and shall be deemed to be repeated by the Bank on the Closing Date, that:

9.1.1 it and each of its Material Subsidiaries is duly organised and incorporated and validly existing under the laws of its respective jurisdiction of incorporation and has the power and legal right to own its property, to conduct its business as currently conducted and, in the case of the Bank only, to enter into and to perform its obligations under this Agreement and to borrow the Advance; it has taken all necessary corporate, legal and other action required to authorise the borrowing of the Advance on the terms and subject to the conditions of this Agreement and to authorise the execution and delivery of this Agreement and all other documents to be executed and delivered by it in connection with this Agreement, and the performance of this Agreement in accordance with its terms;

9.1.2 this Agreement has been duly executed and delivered by the Bank and constitutes a legal, valid and binding obligation of the Bank enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity;

9.1.3 the execution, delivery and performance of this Agreement by the Bank will not conflict with or result in any breach or violation of (i) any law or regulation or any order of any governmental, judicial or public body or authority in the Russian Federation, (ii) the constitutive documents, rules and regulations of the Bank or (iii) any agreement or other undertaking or instrument to which the Bank or any of its Material Subsidiaries is a party or which is binding upon the Bank or any of its Material Subsidiaries or any of their respective assets, nor result in the creation or imposition of any Security on any of their respective assets pursuant to the provisions of any such agreement or other undertaking or instrument in circumstances where such creation or imposition would have a Material Adverse Effect;

9.1.4 all consents, licences, notifications, authorisations or approvals of, or filings with, any governmental, judicial or public bodies or authorities of the Russian Federation (including, but not limited to, any consents required from the Central Bank of the Russian Federation) required by the Bank in connection with the execution, delivery, performance, legality, validity, enforceability, or admissibility in evidence of this Agreement have been obtained or effected and are and shall remain in full force and effect;

9.1.5 no Default under this Agreement or a default under any agreement or instrument evidencing any Indebtedness of the Bank has occurred and is continuing, and no Default or such default will occur upon the making of the Advance (except arising out of those breaches of the terms of the Syndicated Loan which have been disclosed in writing to the Lender);

9.1.6 there are no judicial, arbitral or administrative actions, proceedings or claims which have been commenced or are, to the knowledge of the Bank, threatened, against the Bank or any of its Subsidiaries, the adverse determination of which is likely to have a Material Adverse Effect;

9.1.7 except for Security of the type referred to in the definition of Permitted Liens in sub-Clause 1.1, the Bank and each of its Material Subsidiaries has good title to its property free and clear of all Security and the Bank's obligations under the Loan rank at least *pari passu* with all its other unsecured and unsubordinated Indebtedness;

9.1.8 the most recent audited consolidated financial statements of the Bank:

(i) were prepared in accordance with U.S. GAAP;

(ii) unless not required by U.S. GAAP, disclose all liabilities (contingent or otherwise) and all unrealised or anticipated losses of the Bank; and

(iii) save as disclosed therein, present fairly in all material respects the assets and liabilities as at that date and the results of operations of the Bank during the relevant financial year;

9.1.9 there has been no material adverse change since 31 December 2002 in the condition (financial or otherwise), results of business, operations or the reasonable business prospects of the Bank or the Group or in the Bank's ability to perform its obligations under this Agreement;

9.1.10 the execution, delivery and enforceability of this Agreement is not subject to any tax, duty, fee or other charge, including, without limitation, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Russian Federation or any political subdivision or taxing authority thereof or therein;

9.1.11 neither the Bank nor its property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to this Agreement;

9.1.12 the Bank is in compliance in all material respects with all applicable provisions of law;

9.1.13 there are no material strikes or other material employment disputes against the Bank which have been started or are, to the Bank's knowledge, threatened;

9.1.14 in any proceedings taken in the Russian Federation in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitration award obtained in England in relation thereto will be recognised and enforced in the Russian Federation after compliance with the applicable procedural rules and all other legal requirements in Russia;

9.1.15 subject to the performance by the relevant parties of the relevant established procedures in connection with the obtaining of an applicable withholding tax exemption for payments hereunder, no withholding in respect of any Taxes is required to be made from any payment by the Bank under this Agreement;

9.1.16 all licences, consents, examinations, clearances, filings, registrations and authorisations which are necessary to enable the Bank or any of its Material Subsidiaries to own its assets and carry on its business are in full force and effect;

9.1.17 with respect to the offer and sale of the Notes pursuant to the Subscription Agreement, (i) neither the Bank nor any of its Affiliates nor any Person acting on its or their behalf (which, for the avoidance of doubt, shall not include the Lender) has engaged or will engage in any directed selling efforts (as defined in Regulation S under the U.S. Securities Act of 1933 ("**Regulation S**")) and (ii) the Bank, its Affiliates and any Person acting on its or their behalf (which, for the avoidance of doubt, shall not include the Lender) have complied and will comply with the offering restrictions requirement of Regulation S;

9.1.18 the Bank (i) has duly complied with, and has operated, used and only permitted the use of all properties and businesses owned, leased, occupied or operated by it in compliance with, all Environmental Laws, failure to comply with which would have a Material Adverse Effect, (ii) is not aware that any property or business now owned, leased, occupied or operated by it is contaminated by or used in connection with, any Material of Environmental Concern, (iii) has not received any notice of any violation or alleged violation of any provision of any Environmental Law for which the Bank can reasonably be expected to be held responsible and which, if adversely determined, would have a Material Adverse Effect and (iv) to its knowledge, has no obligations or liabilities, contingent or absolute, relating to the use, possession, collection, storage, processing, treatment, emission, release, discharge, disposal, transfer or transport of Materials of Environmental Concern, or the remediation of any of the foregoing;

9.1.19 it is subject to civil and commercial law with respect to its obligations under this Agreement, and its execution of this Agreement constitutes, and its exercise of its rights and performance of its obligations hereunder will constitute, private and commercial acts done and performed for private and commercial purposes; and

9.1.20 it has no overdue tax liabilities which would have a Material Adverse Effect other than those which it has disclosed to the Lender prior to the date hereof or which it is contesting in good faith.

9.2 Lender's Representations and Warranties

The Lender represents and warrants to the Bank as follows:

9.2.1 The Lender is duly incorporated under the laws of and is resident for United Kingdom taxation purposes in the United Kingdom and has full power and capacity to execute the Issue Documents and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary action to approve and authorise the same.

9.2.2 The execution of the Issue Documents and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of England and Wales or any agreement or instrument to which it is a party or by which it is bound or in respect of indebtedness in relation to which it is a surety.

9.2.3 The Issue Documents constitute legal, valid and binding obligations of the Lender subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity.

9.2.4 All authorisations, consents and approvals required by the Lender and the Issuer for or in connection with the execution of the Issue Documents, and the performance by the Lender and the Issuer of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect.

9.2.5 The Lender is a bank which at the date hereof is resident in a jurisdiction which has a double tax treaty with Russia under which the payment of interest by Russian borrowers is generally able to be made without deduction or withholding of Russian income tax (upon completion of any necessary formalities required in relation thereto) (a "**Qualifying Lender**").

10 Covenants

The covenants in this Clause remain in force from the date of this Agreement for so long as any amount is outstanding under the Issue Documents.

10.1 Negative Pledge

10.1.1 The Bank shall not (and the Bank shall ensure that none of its Material Subsidiaries shall) create or permit to subsist any Security, other than Permitted Liens, over any of its assets, unless the Loan is secured equally and rateably with such Security.

Permitted Liens shall not include Security granted in respect of notes, debentures or bonds of the Bank or any of its Subsidiaries which are capable of distribution inside or outside the Russian Federation or jurisdiction of incorporation of such Subsidiary and are for the time being quoted or listed or ordinarily dealt in or traded on any stock exchange or over-the-counter or other securities market inside or outside the Russian Federation or such jurisdiction, provided that such Security shall not include Security as described in paragraph (iv) of the definition of Permitted Liens.

10.1.2 Except in the ordinary course of its Banking Business, the Bank shall not (and the Bank shall ensure that none of its Material Subsidiaries shall):

(i) sell, transfer or otherwise dispose of to any Person, except another member of the Group, any of its assets on terms whereby such assets are or may be leased to or re-acquired by the Bank or any other member of the Group;

(ii) sell, transfer or otherwise dispose of any of its receivables on recourse terms;

(iii) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or

(iv) enter into any other preferential arrangement having a similar effect,

in circumstances where the arrangement or transaction is entered into primarily as a method of raising Indebtedness or of financing the acquisition of an asset.

The provisions of this sub-Clause 10.1.2 do not apply to Permitted Liens.

10.2 Maintenance of Authorisations

The Bank shall:

10.2.1 take all necessary action to obtain, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, licences, approvals and authorisations which are at any time required to be obtained or made in the Russian Federation for the conduct of its Banking Business and the execution, delivery or performance of this Agreement or for the validity or enforceability thereof;

10.2.2 make or cause to be made all registrations, recordings and filings which are at any time required to be obtained or made in the Russian Federation for the execution, delivery or performance of this Agreement or for the validity or enforceability thereof; and

10.2.3 supply certified copies to the Lender of any consent, licence, approval, authorisation, registration, recording or filing obtained or made pursuant to sub-Clauses 10.2.1 and 10.2.2.

10.3 Mergers

Subject to sub-Clause 10.4:

10.3.1 The Bank shall not, without the prior written consent of the Lender, (i) enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms are construed by applicable Russian legislation), or (ii) participate in any other type of corporate reconstruction other than any solvent reorganisation which:

(i) involves solely a merger or amalgamation of one or more Subsidiaries of the Bank with the Bank and where the Bank is the surviving entity of such merger or amalgamation; or

(ii) involves a solvent reorganisation with the aim of increasing the efficiency of the Bank, provided that such reorganisation does not have a Material Adverse Effect.

10.3.2 The Bank shall ensure that, except as mentioned in Clause 10.3.1, no Subsidiary (A) enters into any reorganisation (whether by way of a merger, accession, division, separation or transformation as these terms are construed by applicable Russian legislation), or (B) participates in any other type of corporate reconstruction if any such reorganisation or corporate reconstruction has a Material Adverse Effect.

10.4 Disposals

The Bank shall not and shall ensure that no member of the Group shall sell, lease, transfer or otherwise dispose of, to a Person that is not a member of the Group, by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets if such sale, lease, transfer or disposal has a Material Adverse Effect.

10.5 Transactions with Affiliates

The Bank shall not, and shall not permit any Subsidiary, directly or indirectly, to conduct any business, enter into or permit to exist any transaction or series of related transactions (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "**Affiliate Transaction**") including intercompany loans unless (a) the terms of such Affiliate Transaction(s) taken either individually or in aggregate are not materially less favourable to the Bank or such Subsidiary, as the case may be, than those that could be obtained in a comparable arm's-length transaction with a Person that is not an Affiliate of the Bank or such Subsidiary; or (b) such Affiliate Transaction is made pursuant to a contract existing on the Closing Date (excluding any amendments or modifications thereof made after the Closing Date).

This sub-Clause 10.5 shall not apply to (i) compensation or employee benefit arrangements with any officer or director of the Bank or such Subsidiary arising as a result of their employment contract or (ii) transactions between the Bank and any of its Subsidiaries or between such Subsidiaries.

10.6 Maintenance of Property

The Bank will (and will procure that each of its Material Subsidiaries will) cause all property used in the conduct of its business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all such repairs, renewals, replacements, betterments and improvements thereof as are, in the judgement of the Bank or the relevant Material Subsidiary, reasonably necessary to enable the business of the Bank, or, as the case may be, the relevant Material Subsidiary, carried on in connection therewith to be properly conducted at all times.

10.7 Payment of Taxes and Other Claims

The Bank shall and shall ensure that its Subsidiaries shall pay or discharge or cause to be paid or discharged, before the same shall become overdue and without incurring penalties, (a) all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of the Bank or any Subsidiaries and (b) all lawful claims for labour, materials and supplies which, if unpaid, would by law become a Security (other than a Permitted Lien) upon the property of the Bank or any Subsidiaries; provided that none of the Bank nor any Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (a) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with U.S. GAAP or other appropriate provision has been made or (b) whose amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims, does not in the aggregate exceed U.S.$20,000,000.

10.8 Withholding Tax Exemption

The Bank shall give to the Lender all assistance it requires to ensure that, prior to the first interest payment and at the beginning of each calendar year, the Lender can provide the Bank with a tax residence certificate (to the extent required) so that the Lender can obtain relief from Russian withholding tax in respect of payments hereunder.

10.9 Maintenance of Insurance

The Bank and any Material Subsidiary shall keep those of their properties which are of an insurable nature insured with insurers, reasonably believed by the Bank or such Material Subsidiary to be of good standing, against loss or damage to the extent that property of similar character is usually so insured by corporations in the same jurisdictions similarly situated and owning like properties in the same jurisdictions.

10.10 Financial Information

10.10.1 The Bank shall deliver to the Lender, within six months after the end of each of its financial years, copies of its audited consolidated financial statements for such financial year, prepared in accordance with U.S. GAAP consistently applied with the corresponding financial statements for the preceding period.

10.10.2 The Bank shall deliver to the Lender within three months after the end of the first half-year of each of its financial years, copies of its unaudited consolidated financial statements for that half-year, prepared in accordance with U.S. GAAP consistently applied with the corresponding financial statements for the preceding period, provided that this sub-Clause 10.10.2 shall not oblige the Bank to deliver to the Lender a copy of its unaudited consolidated financial statements for the first half-year of 2002.

10.10.3 The Bank shall deliver to the Lender, without undue delay, such additional information regarding the financial position or the business of the Lender and its Subsidiaries as the Lender may reasonably request including:

(i) providing certification to the Trustee pursuant to sub-Clauses 14.2.4 and 14.2.8 of the Trust Deed;

(ii) providing to the Lender all documents dispatched by the Bank to its shareholders (or any class of them) generally or its creditors generally (but, with respect to creditors, other than in the normal course of business) at the same time as they are dispatched; and

(iii) providing to the Lender, promptly upon becoming aware of them, the details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against any member of the Group, and which, if adversely determined, are reasonably likely to have a Material Adverse Effect.

10.11 Financial Covenants

The Bank shall maintain (i) a minimum capital adequacy ratio of 12 per cent., such ratio being calculated in accordance with (a) the regulations and guidelines established from time to time by the Bank for International Settlements and (b) without prejudice to the foregoing, any additional regulations and guidelines established from time to time by the Central Bank of the Russian Federation pursuant thereto or in connection therewith; or, if higher, (ii) the minimum capital adequacy ratio required by the Central Bank of the Russian Federation.

10.12 Compliance Certificates

10.12.1 On each Interest Payment Date (other than the final Interest Payment Date that falls on the Repayment Date) or promptly upon request by the Lender (and in any event within 15 Business Days after such request), the Bank shall deliver to the Lender, written notice in the form of an Officer's Certificate stating whether any Default or Event of Default has occurred and, if it has occurred, what action the Bank is taking or proposes to take with respect thereto.

10.12.2 The Bank shall supply to the Lender, with each set of financial statements provided pursuant to sub-Clauses 10.10.1 and 10.10.2 above, an Officer's Certificate in form satisfactory to the Bank setting out (in reasonable detail) computations as to compliance with sub-Clause 10.11 as at the date as at which the relevant financial statements were drawn up.

10.13 Restricted Payments, etc.

The Bank shall not reduce its share capital or make a distribution of assets if such reduction or distribution is reasonably likely to result in a Material Adverse Effect.

10.14 Change of business

The Bank shall procure that no material change is made to the general nature of the business of the Bank or any of the Material Subsidiaries from that carried on at the date of this Agreement.

10.15 Books and Records

The Bank will, and will cause each of its Material Subsidiaries to, keep books and records which accurately reflect all of its business affairs and transactions and, while any amount is outstanding under this Agreement, permit the Lender or any of its respective representatives, at reasonable times and intervals, to visit all of its offices, to discuss its financial matters with its officers.

10.16 Accounting Matters; Financial Year

The Bank will not make or permit, or permit any of its Material Subsidiaries to make or permit, any change in its accounting policies, reporting practices or its financial year, except as required or permitted by applicable law.

10.17 Compliance with laws

The Bank shall comply in all material respects with all laws to which it may be subject, if failure so to comply would impair its ability to perform its obligations under the Issue Documents.

10.18 Ranking of Claims

The Bank shall ensure that at all times the claims of the Lender against it under this Agreement rank at least *pari passu* with the claims of all its other unsecured creditors save those whose claims are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application.

10.19 Lender Covenants

10.19.1 The Lender shall make all reasonable and timely efforts to assist the Bank to obtain relief from deduction or withholding of Russian income tax pursuant to the U.K. – Russia double tax treaty, including its obligations under sub-Clause 10.19.2. The Lender makes no representation as to the application or interpretation of any double taxation treaty between the UK and Russia.

10.19.2 The Lender shall use all its reasonable efforts, within 30 days after the reasonable request of the Bank (to the extent it is able to do so under applicable law including Russian laws) from time to time, to deliver to the Bank such duly completed application form and, if required, other forms, together with a power of attorney authorising the Bank to make the relevant filings with the Russian tax authorities and such other information as may be needed to be duly completed and delivered by the Lender to enable the Bank to apply to obtain relief from deduction or withholding of Russian tax after the date of this Agreement or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian tax has not been obtained. The application form, the power of attorney, and, if required, other forms referred to in this sub-Clause 9.2.6 shall be duly signed by the Lender and the Lender shall use all its reasonable efforts to procure the stamping and approval of the competent tax authority in the UK of such form and requisite legalisation thereof.

10.19.3 The Lender agrees promptly, upon becoming aware of such, to notify the Bank if it ceases to be a Qualifying Lender. If the Lender ceases to be a Qualifying Lender, then (save in circumstances where the Lender never was a Qualifying Lender, or has ceased to be a Qualifying Lender by reason of any Change of Law in each case taking effect after the date of this Agreement) the Bank shall not be liable to pay to the Lender under sub-Clause 6.2.1 any sum in excess of the sum it would have been obliged to pay if the Lender had not ceased to be a Qualifying Lender.

11 Events of Default

11.1 Events of Default

If one or more of the following events of default (each, an "**Event of Default**") shall occur and be continuing, the Lender shall be entitled to the remedies set forth in sub-Clause 11.3.

11.1.1 The Bank fails to pay any amount payable hereunder (in the currency and in the manner specified herein) within three Business Days' after the date on which such payment is due hereunder (or within five Business Days after the date on which such payment is due hereunder in the case where such failure is solely due to a technical or administrative difficulty which is beyond the Bank's control).

11.1.2 The Bank fails to perform or observe any covenant or agreement contained herein to be performed or observed by it and such failure, if capable of being remedied, is not remedied within fifteen days.

11.1.3 Any representation or warranty of the Bank or any statement deemed to be made by the Bank in this Agreement or any other document, certificate or notice delivered by the Bank in connection with this Agreement or the issue of the Notes, the Subscription Agreement or the Paying Agency Agreement proves to have been inaccurate, incomplete or misleading in any material respect at the time it was made or repeated or deemed to have been made or repeated.

11.1.4 Any Indebtedness of the Bank and/or any of its Material Subsidiaries is not paid when due, or any Indebtedness of the Bank and/or any of its Material Subsidiaries is declared to be or otherwise becomes due and payable prior to its specified maturity otherwise than at

the option of the Bank and/or the relevant Material Subsidiary or (provided that no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness; provided however, that the total amount of such Indebtedness which is not paid when due or becomes due and payable prior to its specified maturity is equal to or greater than U.S.$1,000,000 (or its equivalent in another currency).

11.1.5 The occurrence of any of the following events: (i) any of the Bank, or any of its Material Subsidiaries seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation commission (*likvidatsionnaya komissiya*) or a similar officer of any of the Bank, or any of its Material Subsidiaries as the case may be; (ii) the presentation or filing of a petition in respect of any of the Bank or its Material Subsidiaries in any court, arbitration court or before any agency alleging, or for, the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceedings) of any of the Bank or its Material Subsidiaries, unless such petition is demonstrated to the reasonable satisfaction of the Lender to be vexatious or frivolous; (iii) the institution of the supervision (*nablyudeniye*), financial rehabilitation (*finansovoye ozdorovlenie*), external management (*vneshneye upravleniye*), bankruptcy management (*konkursnoye proizvodstvo*) over the Bank or any of its Material Subsidiaries, (iv) the entry by the Bank or any of its Material Subsidiaries into, or the agreeing by the Bank or any of its Material Subsidiaries to enter into, amicable settlement (*mirovoe soglashenie*) with its creditors, as such terms are defined in the Federal Law of Russia No. 127-FZ "On Insolvency (Bankruptcy)" dated 26 October, 2002 (as amended or replaced from time to time); (v) the institution of the financial rehabilitation (*finansovoye ozdorovlenie*), pursuant to the request of the Central Bank, temporary administration (*vremennoye upravleniye*) or reorganisation (*reorganizatsiya*) with respect to the Bank or any of its Material Subsidiaries as such terms are defined in the Federal Law of the Russian Federation No- 40-FZ "On Insolvency (Bankruptcy) of Credit Organisations" dated 25 February, 1999 (as amended or replaced from time to time); (vi) any judicial liquidation in respect of the Bank or any of its Material Subsidiaries; and/or (vii) revocation of the general banking licence of the Bank or, if applicable, of any of its Material Subsidiaries or any event which results in the Bank requiring a special or additional licence or being unable to make payments in U.S. Dollars hereunder.

11.1.6 The Bank or any of its Material Subsidiaries is unable or admits inability to pay its debts as they fall due, suspends making payments on any of its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling any of its indebtedness; the value of the assets of any of the Bank or its Material Subsidiaries is less than its liabilities; and/or a moratorium is declared in respect of any indebtedness of any of the Bank or its Material Subsidiaries.

11.1.7 Any expropriation, attachment, sequestration, execution or distress is levied against, or an encumbrancer takes possession of or sells, the whole or any part of, the property, undertaking, revenues or assets of the Bank or any of its Material Subsidiaries and the same would have a Material Adverse Effect unless the same is being contested in good faith by the Bank or the relevant Material Subsidiary and is not removed, paid out, stayed or discharged within 30 days after the same occurs.

11.1.8 Any governmental authorisation necessary for the performance of any obligation of the Bank under this Agreement fails to be in full force and effect and, except where such failure has a Material Adverse Effect, such failure is not remedied within 30 days after its occurrence.

11.1.9 Any governmental authority or court takes any action that, in the reasonable opinion of the Lender, materially and adversely affects the condition of the Bank or the ability of the Bank to perform its obligations under this Agreement or adversely affects the validity or enforceability of this Agreement or the rights or remedies of the Lender under this Agreement.

11.1.10 The shareholders of the Bank shall have approved any plan of liquidation or dissolution of the Bank.

11.1.11 The aggregate amount of unsatisfied judgements, decrees or orders of courts or other appropriate law-enforcement bodies for the payment of money against the Bank and other Subsidiaries in the aggregate exceeds U.S.$1,000,000, or the equivalent thereof in any other currency or currencies, unless such judgment, decree or order is being contested in good faith by the Bank or any other subsidiary, as the case may be and there is a period of 30 days following the entry thereof during which such judgment, decree or order is not discharged, waived or the execution thereof stayed and such default continues for ten days after the notice specified in sub-Clause 11.2.

11.1.12 At any time it is or becomes unlawful for the Bank to perform or comply with any or all of its obligations under this Agreement or any of such obligations is not, or ceases to be, legal, valid, binding and enforceable.

11.1.13 The Bank ceases to carry on the principal business it carries on at the date hereof.

11.1.14 The Bank repudiates an Issue Document or evidences an intention to repudiate an Issue Document.

11.1.15 Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

11.2 Notice of Default

The Bank shall deliver to the Lender and the Trustee, within 30 days after the occurrence thereof, written notice in the form of an Officers' Certificate of any event which is, or with the giving of notice or the lapse of time, or both, would become, an Event of Default, its status and what action the Bank is taking or proposes to take with respect thereto.

11.3 Default Remedies

If any Event of Default shall occur and be continuing, the Lender may, by notice in writing to the Bank:

11.3.1 declare the obligations of the Lender hereunder to be terminated, whereupon such obligations shall terminate; and

11.3.2 declare all amounts payable hereunder by the Bank that would otherwise be due after the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Bank;

provided, however, that if any event of any kind referred to in sub-Clause 11.1.6 occurs, the obligations of the Lender hereunder shall immediately terminate, and all amounts payable hereunder by the Bank that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Bank.

11.4 Right of Set off

If any amount payable hereunder is not paid as and when due, the Bank authorises the Lender and each Affiliate of the Lender to proceed, to the fullest extent permitted by applicable law, without prior notice, by right of set off, banker's lien, counterclaim or otherwise, against any assets of the Bank in any currency that may at any time be in the possession of the Lender or such Affiliate, at any branch or office, to the full extent of all amounts payable to the Lender hereunder.

12 Indemnity

12.1 Indemnification

The Bank undertakes to the Lender, that if the Lender or any of its Affiliates, any director, officer or employee of the Lender or any Person controlling the Lender (each a "**relevant party**") properly incurs any loss, liability, cost, claim, charge, expense (including, without limitation, legal fees, costs and expenses), demand or damage (a "**Loss**") as a result of or in connection with the Loan, this Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the Notes and/or the Notes being outstanding (excluding any loss (i) that may arise as a result

of any withholding or deduction for or on account of tax where recovery of such loss has been made pursuant to Clause 6.2 or (ii) in respect of which indemnification has been sought under Clauses 8, 13, 14.2 and 14.6 (it being understood that the Lender may not recover twice in respect of the same loss)) the Bank shall pay to the Lender on demand an amount equal to such Loss and all costs, charges and expenses which it or any relevant party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred unless such Loss was either caused by such relevant party's negligence or wilful misconduct or arises out of a breach of the representations and warranties by the Lender contained in the Schedule to the Subscription Agreement. The Lender shall not have any duty or obligation whether as fiduciary or trustee for any relevant party or otherwise, to recover any such payment or to account to any other Person for any amounts paid to it under this sub-Clause.

For the purposes of this sub-Clause 12.1, "Loss" shall not include the following:

(i) any additional UK corporate tax payable by the Issuer consequent upon any payment of interest on the Notes being treated for such purpose as a distribution;

(ii) any additional UK corporate tax imposed on or calculated by reference to the net economic profit of the Lender; or

(iii) any stamp duty or stamp duty reserve tax liability incurred by the Issuer in connection with the issue of the Notes or the SBL Loan Agreement.

12.2 Independent Obligation

Sub-Clause 12.1 constitutes a separate and independent obligation of the Bank from its other obligations under or in connection with this Agreement or any other obligations of the Bank in connection with the issue of the Notes by the Issuer and shall not affect, or be construed to affect, any other provision of this Agreement or any such other obligations

12.3 Evidence of Loss

A certificate of the Lender setting forth the amount of losses, expenses and liabilities described in sub-Clause 12.1 and specifying in full detail the basis therefor shall be conclusive, in the absence of a manifest error, be conclusive evidence of the amount of such losses, expenses and liabilities.

12.4 Survival

The obligations of the Bank pursuant to sub-Clauses 6.2, 6.3 and 12.1 shall survive the execution and delivery of this Agreement, the drawdown of the Facility and the repayment of the Loan, in each case by the Bank.

13 Reimbursement of Expenses

The Bank hereby agrees to pay to the Lender on demand in Dollars all ongoing commissions, costs, fees and expenses (including, without limitation, enforcement costs), payable by the Lender and the Issuer under or in respect of this Agreement, the Subscription Agreement, the Paying Agency Agreement, the Trust Deed and the Trustee Side Letter. The Bank shall also pay the Lender for any indemnification or other payment obligations of the Lender and/or the Issuer under or in respect of the Paying Agency Agreement, the Trust Deed and/or the Trustee Side Letter (other than the obligation of the Issuer to make payments of principal, interest or additional amounts in respect of the Notes). Payments to the Lender referred to in this Clause 13 shall be made by the Bank at least two Business Days before the relevant payment is to be made or expense incurred.

14 General

14.1 Evidence of Debt

The entries made in the Account shall, in the absence of manifest error, constitute conclusive evidence of the existence and amounts of the Bank's obligations recorded therein.

14.2 Stamp Duties

14.2.1 The Bank shall pay all stamp, registration and documentary taxes or similar charges (if any) imposed by any Person in the Russian Federation or the United Kingdom which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure to pay such taxes or similar charges.

14.2.2 The Bank agrees that if the Lender incurs a liability to pay any stamp, registration and documentary taxes or similar charges (if any) imposed by any Person in the Russian Federation or the United Kingdom which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement, the Bank shall reimburse the Lender on demand an amount equal to such stamp or other documentary taxes or duties and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Bank to procure the payment of such taxes or similar charges.

14.3 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or the Bank, any right, power or privilege hereunder and no course of dealing between the Bank and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and not exclusive of any rights, or remedies provided by applicable law.

14.4 Notices

All notices, requests, demands or other communications to or upon the respective parties hereto shall be given or made in the English language by telex or otherwise in writing and shall be deemed to have been duly given or made at the time of delivery, if delivered by hand or courier or if sent by facsimile transmission or by airmail, to the party to which such notice, request, demand or other communication is required or permitted to be given or made under this Agreement addressed as follows:

if to the Bank:

OJSC Bank Petrocommerce
24 ul. Petrovka
Moscow 127051
Russia

Fax: +7 095 745 8662
Attention: Alexander Surin/Dmitry Stepanov

if to the Lender:

Standard Bank London Limited
Cannon Bridge House
25 Dowgate Hill
London EC4R 2SB
England

Fax: + 44 20 7815 3099/7979 3142
Attention: Head of Operations/Carl Piccolo

or to such other address or facsimile number as any party may hereafter specify in writing to the other.

14.5 Assignment

14.5.1 This Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under this Agreement. Any reference in this Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender, following the enforcement of the security and/or assignment referred to in sub-Clause 14.5.3 below, shall be references to the exercise of such rights or discretions by the Trustee (as Trustee). Notwithstanding the foregoing, the Trustee shall not be entitled to participate in any discussions between the Lender and the Bank or any agreements of the Lender or the Bank pursuant to Clause 8.

14.5.2 The Bank shall not assign or transfer all or any part of its rights or obligations hereunder to any other party.

14.5.3 Subject to the provisions of Clause 17 (*Substitution*) of the Trust Deed, the Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement except (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee) of the Lender's rights and benefits under this Agreement and (ii) the absolute assignment by the Lender to the Trustee of certain rights, interests and benefits under this Agreement, in each case, pursuant to the Trust Deed.

14.6 Currency Indemnity

Each reference in this Agreement to Dollars is of the essence. To the fullest extent permitted by law, the obligation of the Bank in respect of any amount due in Dollars under this Agreement shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in Dollars that the party entitled to receive such payment may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the Business Day immediately following the day on which such party receives such payment. If the amount in Dollars that may be so purchased for any reason falls short of the amount originally due, the Bank hereby agrees to indemnify and hold harmless the Lender against any deficiency in Dollars. Any obligation of the Bank not discharged by payment in Dollars shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided herein, shall continue in full force and effect.

14.7 Prescription

Subject to the Lender having received the principal amount thereof or interest thereon from the Bank, the Lender shall forthwith repay to the Bank the principal amount or the interest amount thereon, respectively, of any Notes upon claims thereto becoming void pursuant to Condition 11 of the Notes.

14.8 Contracts (Rights of Third Parties) Act 1999

A Person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

14.9 Choice of Law

This Agreement shall be governed by, and construed in accordance with, the laws of England.

14.10 Jurisdiction

14.10.1 For the exclusive benefit of the other party, each of the Bank and the Lender hereby irrevocably agrees that the courts of England shall have jurisdiction to settle any disputes which may arise out of or in connection with this Agreement and that accordingly any suit, action or proceeding (collectively, "**Proceedings**") arising out of or in connection with this Agreement may be brought in such courts.

14.10.2 Each of the parties irrevocably waives any objection which it may now or hereafter have to the laying of the venue of any Proceedings in any such court referred to in this Clause 14 and any claim that any such Proceedings have been brought in an inconvenient forum.

14.10.3 Nothing contained in this Agreement shall limit the right of any party to take Proceedings against another party in any other court of competent jurisdiction to the extent permitted by any applicable law, nor shall the taking of Proceedings in connection with this Agreement in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction or in any other court of competent jurisdiction in connection with this Agreement to the extent permitted by any applicable law.

14.10.4 The Bank hereby agrees that, at the option of the Lender, any controversy, claim or cause of action brought by any party against another party or arising out of or relating to this Agreement may be settled by arbitration in accordance with the Rules of the London Court of International Arbitration, which rules are deemed to be incorporated by reference into this Clause. The place of arbitration shall be London, England and the language of the arbitration shall be English. The number of arbitrators shall be three, each of whom shall be disinterested in the dispute or controversy, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions. Each party shall nominate an arbitrator, who, in turn, shall nominate the Chairman of the Tribunal. If a dispute, controversy or cause of action shall involve more than two parties, the parties thereto shall attempt to align themselves in two sides (i.e. claimant and respondent) each of which shall appoint an arbitrator as if there were only two sides to such dispute, controversy or cause of action. If such alignment and appointment shall not have occurred within twenty (20) calendar days after the initiating party serves the arbitration demand or if a Chairman has not been selected within thirty (30) calendar days of the selection of the second arbitrator, the Arbitration Court of the London Court of International Arbitration shall appoint the three arbitrators or the Chairman, as the case may be. The parties and the Arbitration Court may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. In no circumstances shall the Lender or the Bank be liable for any consequential, special or punitive damages in connection with its obligations hereunder.

Fees of the arbitration (excluding each party's preparation, travel, attorneys' fees and similar costs) shall be borne in accordance with the decision of the arbitrators. The decision of the arbitrators shall be final, binding and enforceable upon the parties and judgment upon any award rendered by the arbitrators may be entered in any court having jurisdiction thereover. In the event that the failure of a party to comply with the decision of the arbitrators requires any other party to apply to any court for enforcement of such award, the non-complying party shall be liable to the other for all costs of such litigation, including reasonable attorneys' fees.

14.10.5 The Bank irrevocably appoints Sisec Limited with its registered office at 21 Holborn Viaduct, London EC1A 3DY, England as its authorised agent for service of process in England. If for any reason such agent shall cease to be such agent for service of process, the Bank shall forthwith, on request of the Lender, appoint a new agent for service of process in England and deliver to the Lender a copy of the new agent's acceptance of that appointment within 30 days. Nothing in this Agreement shall affect the right to serve process in any manner permitted by law.

14.11 Counterparts

This Agreement may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same agreement.

14.12 Language

The language which governs the interpretation of this Agreement is the English language.

14.13 Amendments

Except as otherwise provided by its terms, this Agreement may not be varied except by an agreement in writing signed by the parties.

14.14 Partial Invalidity

The illegality, invalidity or unenforceability to any extent of any provision of this Agreement under the law of any jurisdiction shall affect its legality, validity or enforceability in such jurisdiction to such extent only and shall not affect its legality, validity or enforceability under the law of any other jurisdiction, nor the legality, validity or enforceability of any other provision.

In witness whereof, the parties hereto have caused this Agreement to be executed on the date first written above.

Schedule

Form of Change of Control Notice (Clause 5.7.2)

To: Standard Bank London Limited and J.P. Morgan Corporate Trustee Services Limited

From: OJSC "Bank Petrocommerce"

Dated: [●]

Dear Sirs

Petrocommerce – U.S.$120,000,000 Loan Agreement dated 5 February 2004 (the "Loan Agreement")

We refer to the Loan Agreement. This is a written notice for the purposes of Clause 5.7.2 of the Loan Agreement. We hereby confirm that a Change of Control has occurred.

The circumstances and relevant facts giving rise to the Change of Control are as follows:

[●]

for and on behalf of OJSC Bank Petrocommerce

Signed:	.....	.....
	[principal executive officer/ principal accounting officer/ principal financial officer] of OJSC Bank Petrocommerce	[officer] of OJSC Bank Petrocommerce

cc: JPMorgan Chase Bank, London branch as Principal Paying Agent

cc: Standard Bank London Holdings PLC as Issuer

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes, which contain summaries of certain provisions of the Trust Deed, and which will be attached to the Notes in definitive form, if any, and (subject to the provisions thereof) apply to the Global Note:

The U.S.$120,000,000 9.00 per cent. Loan Participation Notes due 2007 (the "Notes" which expression includes any further Notes issued pursuant to Condition 15 and forming a single series herewith), without coupons, of Standard Bank London Holdings PLC ("SBLH PLC") are constituted by a trust deed (the "Trust Deed", which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) dated 10 February 2004 and made between SBLH PLC, Standard Bank London Limited ("SBL") and J.P. Morgan Corporate Trustee Services Limited (the "Trustee", which expression shall include any successors) as trustee for the holders of the Notes (the "Noteholders").

SBLH PLC has authorised the creation, issue and sale of the Notes to be used for the sole purpose of financing a loan (the "SBL Loan") by SBLH PLC to SBL pursuant to a loan agreement dated 5 February 2004 (the "SBL Loan Agreement") between SBLH PLC and SBL. The proceeds from the SBL Loan will be used for the sole purpose of financing an on-loan (the "Petrocommerce Loan" and, together with the SBL Loan, the "Loans") by SBL to OJSC Bank Petrocommerce (the "Bank") pursuant to a loan agreement dated 5 February 2004 (the "Petrocommerce Loan Agreement" and, together with the SBL Loan Agreement, the "Loan Agreements") between SBL and the Bank.

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of SBLH PLC to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by SBLH PLC pursuant to the terms of the SBL Loan Agreement. SBL is obliged under the SBL Loan Agreement only to account to SBLH PLC on each date upon which such amounts of principal, interest and additional amounts (if any) are due under the SBL Loan Agreement, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by SBL from the Bank under the Petrocommerce Loan Agreement.

SBLH PLC and SBL have charged by way of first fixed charge, as security for SBLH PLC's payment obligations in respect of the Notes, in favour of the Trustee, certain of their respective rights and interests as lenders under the SBL Loan Agreement and the Petrocommerce Loan Agreement respectively (other than any rights and benefits constituting Reserved Rights as such term is defined in the Trust Deed) under the Trust Deed (the "Charge") and have assigned absolutely certain other rights under the Loan Agreements to the Trustee (the "Loan Administration Assignment" and, together with the Charge, the "Security Interests"). In certain circumstances, the Trustee can (subject to it being indemnified and/or secured to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

Payments in respect of the Notes will be made (subject to the receipt of the relevant funds from SBL under the SBL Loan Agreement) pursuant to a paying agency agreement (the "Paying Agency Agreement") dated 10 February 2004 and made between SBLH PLC, SBL, JPMorgan Chase Bank, London Branch, as the principal paying agent, paying agent and transfer agent (the "Principal Paying Agent", a "Paying Agent" and a "Transfer Agent", respectively, which expressions shall include any successors) and J.P. Morgan Bank Luxembourg S.A. as the registrar (the "Registrar", which expression shall include any successors) and as a Paying Agent and a Transfer Agent, the Bank and the Trustee.

Copies of the Trust Deed, the Loan Agreements and the Paying Agency Agreement are available for inspection at the principal office of the Trustee being, at the date hereof, at 9 Thomas More Street, London E1W 1YT, England, at the specified office of the Principal Paying Agent and at the specified office of the Paying Agent in Luxembourg.

The statements contained in these Terms and Conditions include summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Loan Agreements (the form of which are scheduled to and incorporated in the Trust Deed) and the Paying Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof.

1. Status

The sole purpose of the issue of the Notes is to finance the SBL Loan, which will be used for the sole purpose of financing the Petrocommerce Loan. The Notes constitute the obligation of SBLH PLC to apply the proceeds from the issue of the Notes to SBL by way of the SBL Loan solely for financing the Petrocommerce Loan and solely to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by SBLH PLC pursuant to the terms of the SBL Loan Agreement.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by SBLH PLC by way of principal, interest or additional amounts (if any) pursuant to the terms of the SBL Loan Agreement will be made pro rata among all Noteholders, on the date of, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the SBL Loan Agreement. SBLH PLC shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. As provided therein, neither SBL nor SBLH PLC shall be under any obligation to exercise in favour of the Noteholders any rights of set-off or of banker's lien or to combine accounts or counterclaim in respect of other transactions between SBLH PLC and the Bank or other transactions between SBLH PLC and SBL or between SBL and the Bank.

Noteholders have notice of, and have accepted, these Terms and Conditions and the contents of the Trust Deed and the Loan Agreements, and have hereby accepted that:

(a) neither SBLH PLC, SBL nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed or in paragraph (f) below, liability or obligation in respect of the performance and observance by the Bank of its obligations under the Petrocommerce Loan Agreement or the recoverability of any sum of principal or interest (or any additional amounts) due or to become due from the Bank under the Petrocommerce Loan Agreement;

(b) neither SBLH PLC, SBL nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the financial condition, creditworthiness, affairs, status or nature of the Bank;

(c) neither SBLH PLC, SBL nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Bank under or in respect of the Petrocommerce Loan Agreement;

(d) neither SBLH PLC, SBL nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying Agent, the Paying Agents, the Registrar or the Transfer Agents of their respective obligations under the Paying Agency Agreement;

(e) the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by the Bank under the Petrocommerce Loan Agreement and its covenants, credit and financial standing and upon performance by SBL of its obligations under the SBL Loan Agreement. The Bank has represented and warranted to SBL in the Petrocommerce Loan Agreement that the Petrocommerce Loan Agreement constitutes a legal, valid and binding obligation of the Bank; and

(f) SBLH PLC, SBL and the Trustee shall be entitled to rely on self-certification of the Bank as a means of monitoring whether the Bank is complying with its respective obligations under the Petrocommerce Loan Agreement and shall not otherwise be responsible for investigating any aspect of the Bank's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any other investigations which might be made by a security holder in relation to the property which is the subject of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of SBLH PLC or SBL to the assigned property

whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security; the Trustee has no responsibility for the value of such security.

Under the Trust Deed, the obligations of SBLH PLC in respect of the Notes rank *pari passu* and rateably without any preference among themselves.

In the event that the payments under the Petrocommerce Loan Agreement are made by the Bank to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, they will *pro tanto* satisfy the obligations of SBLH PLC in respect of the Notes and the obligations of SBL under the SBL Loan Agreement.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in SBL's or SBLH PLC's rights under or in respect of the Loan Agreements exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Loan Agreements or direct recourse to the Bank except through action by the Trustee pursuant to the Loan Administration Assignment granted to the Trustee in the Trust Deed. Neither SBLH PLC, SBL nor, following the enforcement of the Security Interests created in the Trust Deed, the Trustee, shall be required to take proceedings to enforce payment under the Loan Agreements unless it has been indemnified and/or secured by the Noteholders to its satisfaction.

2. Form and Denomination

The Notes are issued in fully registered form, in the denomination of U.S.$10,000 or integral multiples of U.S.$1,000 in excess thereof, without coupons.

3. Register, Title and Transfers

The Registrar will maintain a register (the "Register") in respect of the Notes in accordance with the provisions of the Paying Agency Agreement. In these Conditions the "holder" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "Noteholder" shall be construed accordingly. A Note will be issued to each Noteholder in respect of its registered holding.

The holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note) and no person shall be liable for so treating such holder.

A Note may be transferred upon surrender of the relevant Note, with the endorsed form of transfer duly completed, at the specified office of the Registrar or at the specified office of the Transfer Agent, together with such evidence as the Registrar or the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer. Where not all the Notes represented by the surrendered Note are the subject of the transfer, a new Note in respect of the balance of the Note will be issued to the transferor.

Subject to the last paragraph of this Condition 3, within five business days of the surrender of a Note in accordance with the immediately preceding paragraph above, the Registrar will register the transfer in question and deliver a new Note to each relevant holder at its specified office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, "business day" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar has its specified office.

The transfer of a Note will be effected without charge but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

4. Restrictive Covenant

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), neither SBL nor SBLH PLC will, without the prior written consent of the Trustee, agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreements and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreements, except as otherwise expressly provided in the Loan Agreements. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by SBLH PLC to the Noteholders in accordance with Condition 14.

5. Interest

On each Interest Payment Date SBLH PLC shall account to the Noteholders for an amount equivalent to amounts of interest actually received by SBLH PLC pursuant to the terms of the SBL Loan Agreement, which interest under the SBL Loan is equal to the amount actually received by SBL as interest under the Petrocommerce Loan, which interest is equal to 9.00 per cent. per annum (as set out in Clause 4 of the Petrocommerce Loan Agreement). Interest shall continue to accrue on overdue interest at the same rate per annum up to the maximum extent permitted by applicable law.

If interest is required to be calculated for any other period, it will be calculated on the basis of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

In this Condition 5, "Interest Payment Date" means, except in relation to the last Interest Payment Date, 10 February and 10 August of each year, with the first Interest Payment Date being 10 August 2004 and the last Interest Payment Date being 9 February 2007.

6. Redemption

(a) Unless previously prepaid or repaid, the Bank will be required to repay the Petrocommerce Loan on 8 February 2007 and SBL will be required to repay the SBL Loan on 8 February 2007 and, subject to such repayment, as set forth in the Petrocommerce Loan Agreement and the SBL Loan Agreement respectively, all the Notes then remaining outstanding will on 9 February 2007 be redeemed or repaid by SBLH PLC at 100 per cent. of the principal amount thereof.

(b) If the Petrocommerce Loan should become repayable (and be repaid) pursuant to the Petrocommerce Loan Agreement prior to 8 February 2007, as set forth in the Petrocommerce Loan Agreement, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at par together with accrued interest (and shall be redeemed or repaid, subject to the Petrocommerce Loan and the SBL Loan being repaid together with accrued interest in accordance with the Loan Agreements) and SBLH PLC will endeavour to give not less than eight days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14.

(c) If a Put Event (as defined below) occurs, each Noteholder shall have the option (unless, prior to giving the Put Option Exercise Notice referred to below, SBLH PLC gives notice under Condition 6(b) or redemption occurs pursuant to Condition 9) to give notice or procure that notice is given to SBL pursuant to the SBL Loan Agreement to prepay the SBL Loan in an amount specified in such notice; whereupon SBL shall give notice or procure that notice is given to the Bank pursuant to the Petrocommerce Loan Agreement to prepay the Petrocommerce Loan in an amount specified in such notice. To the extent that such payment is received by SBLH PLC under the SBL Loan Agreement, SBLH PLC shall be required to redeem each Note held by the relevant Noteholder on the Put Settlement Date (as defined

below) at its principal amount together with accrued interest (if any) to (but excluding) the Put Settlement Date and any additional amounts (if any). Such option shall operate as set out below.

Promptly upon SBLH PLC being notified pursuant to the SBL Loan Agreement that a Change of Control has occurred, SBLH PLC shall and upon the Trustee becoming so aware (SBLH PLC having failed so to do) the Trustee may, and, if so requested by the holders of at least one-quarter in principal amount of the Notes then outstanding, shall, give notice (a "Put Event Notice") to the Noteholders in accordance with Condition 14 (*Notices*) specifying the nature of the Put Event and the procedure for exercising the option contained in this Condition 6(c).

To exercise the right to require the redemption of a Note under this Condition 6(c), the Noteholder must deliver, on any Put business day falling within the period (the "Put Period") of 30 days after the Put Event Notice is given, to the specified office of any Paying Agent, a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (a "Put Option Exercise Notice"). The Paying Agent to which such Note and Put Option Exercise Notice is delivered will issue to the Noteholder concerned a non-transferable receipt. Provided that any Note that is the subject of such Put Option Exercise Notice has been delivered to the Principal Paying Agent or an Agent prior to the expiry of the Put Period, SBLH PLC shall redeem each such Note on a date which is the fifteenth Put business day immediately following the last day of the Put Period (the "Put Settlement Date"). A Put Option Exercise Notice, once given, shall be irrevocable.

In this Condition 6(c):

"Capital Stock" means, with respect to any Person, any and all shares, interests, participations, rights to purchase, warrants, options, or other equivalents (however designated) of capital stock of a corporation and any and all equivalent ownership interests in a Person other than a corporation, in each case whether now outstanding or hereafter issued;

a "Change of Control" shall be deemed to have occurred at each time (whether or not approved by the board of directors of the Bank) that any Person (other than a Permitted Holder) or Persons acting in concert (other than Permitted Holders), or any Persons acting on behalf of any such Person(s) (other than Permitted Holders), at any time is/are or become(s) (a) interested in or acquires an interest in more than 50 per cent. of the issued or allotted ordinary share capital of the Bank or (b) the beneficial owner of more than 50 per cent. of the Voting Stock of the Bank;

"Permitted Holders" means OJSC LUKOIL ("LUKOIL") or any of its Subsidiaries;

"Person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any agency or political subdivision thereof or any other entity;

"Put business day" means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in New York, London and Moscow and in the place of presentation;

"Subsidiary" of any specified Person means any corporation, partnership, joint venture, association or other business entity, whether now existing or hereafter organised or acquired, (a) in the case of a corporation, of which at least 50 per cent. of the total voting power is held by such first-named Person and/or any of its Subsidiaries and such first-named Person or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or (b) in the case of a partnership, joint venture, association, or other business/entity, with respect to which such first-named Person or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract or otherwise if in accordance with U.S. GAAP such entity would be consolidated with the first-named Person for financial statement purposes; and

"Voting Stock" means, in relation to any Person, Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

(d) The Petrocommerce Loan Agreement provides that the Bank may, among other things, from time to time deliver to SBL Notes, having an aggregate principal value of at least U.S.$500,000 together with a request for SBL to present such Notes to SBLH PLC and for SBLH PLC to present such Notes in turn to the Registrar for cancellation, whereupon SBLH PLC shall, pursuant to the Paying Agency Agreement and the SBL Loan Agreement, request the Registrar to cancel such Notes. Upon any such cancellation by or on behalf of the Registrar, the principal amount of the Petrocommerce Loan and the principal amount of the SBL Loan corresponding to the principal amount of such Notes shall be deemed to have been prepaid as of the date of such cancellation and no further payment shall be made or required to be made by SBLH PLC in respect of such Notes.

7. Payments

Payments of principal shall be made by U.S. dollar cheque drawn on, or by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City upon surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of the Transfer Agent.

Payments of interest shall be made by U.S. dollar cheque drawn on, or by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of the Transfer Agent.

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

If the due date for payments of interest or redemption is not a business day, the holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "business day" means a day on which the London Interbank Market is open for dealings between banks generally, and if on that day a payment is to be made hereunder, commercial banks generally are open for business in London, New York City and in the city where the specified office of the Principal Paying Agent is located.

Each payment in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar's specified office) on the fifteenth day before the due date for such payment.

The Paying Agency Agreement provides that SBLH PLC may at any time before the occurrence of an Event of Default (as defined in the Petrocommerce Loan Agreement) and a Relevant Event (as defined in the Trust Deed), with the prior written approval of the Trustee, vary or terminate the appointment of the Principal Paying Agent or the Paying Agent, and appoint additional or other paying agents provided that (a) so long as the Notes are listed on the Luxembourg Stock Exchange (the "Stock Exchange"), there will be a paying agent and transfer agent with a specified office in Luxembourg or such other place in accordance with the rules of the Stock Exchange and (b) if the conclusions of the ECOFIN Council meeting of 26-27 November 2000 are implemented, there will be a paying agent with a specified office in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to the European Union Directive on the taxation of savings, or any law implementing or complying with, or introduced in order to conform to, such Directive. Any such variation, termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days' and not less than 30 days' notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the Closing Date, shall be payable only as and when actually received by or for the account of SBLH PLC pursuant to the SBL Loan Agreement.

Save as directed by the Trustee at any time after the security created in the Trust Deed becomes enforceable, SBL will require the Bank to make all payments of principal, interest and any additional amounts to be made pursuant to the Petrocommerce Loan Agreement to the Principal Paying Agent for the account of SBL (the "SBL Account") and SBLH PLC will require SBL to make all payments of principal, interest and any additional amounts to be made pursuant to the SBL Loan Agreement to the Principal Paying Agent for the account of SBLH PLC (the "SBLH PLC Account"). Under the Charges, SBL will charge by way of first fixed charge, all the rights, title and interest in and to all sums of money then or in the future deposited in the SBL Account and the debts represented thereby to the Trustee for the benefit of the Noteholders and SBLH PLC will charge by way of first fixed charge, all the rights, title and interest in and to all sums of money then or in the future deposited in the SBLH PLC Account and the debts represented thereby to the Trustee for the benefit of the Noteholders.

8. Taxation

All payments in respect of the Notes by or on behalf of SBLH PLC will be made without deduction or withholding for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the United Kingdom or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes or duties is required by law.

In such event, SBLH PLC shall make such additional payments as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required. However, SBLH PLC shall only make such additional payments to the extent and at such time as SBLH PLC shall have received equivalent sums from SBL under the SBL Loan Agreement. To the extent that SBLH PLC does not receive any such equivalent sum, SBLH PLC shall account to the relevant Noteholder for an additional amount equivalent to a pro rata proportion of such additional amount (if any) as is actually received by SBLH PLC from SBL under the SBL Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to, the payment of such additional amount to SBLH PLC provided that no such additional amount will be payable:

(i) to a Noteholder who (a) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (b) is liable for such taxes or duties by reason of his having some connection with the United Kingdom other than the mere holding of such Notes or the receipt of payments in respect thereof;

(ii) in respect of a Note presented for payment of principal more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Note had been presented for payment on such thirtieth day;

(iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Union Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(iv) in respect of a Note presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.

As used herein, "Relevant Date", (i) means the date on which the equivalent payment under the SBL Loan Agreement first becomes due but (ii) if the full amount receivable by SBLH PLC has not been received by, or for the account of, SBLH PLC pursuant to the SBL Loan Agreement on or prior to such date, means the date on which such full amount shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of SBLH PLC.

Any reference herein or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

9. Enforcement

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no such Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails or neglects to do so within a reasonable period and such failure or neglect is continuing.

The Trust Deed also provides that, in the case of an Event of Default (as defined in the Petrocommerce Loan Agreement), or of a Relevant Event (as defined in the Trust Deed), the Trustee may, and shall, if requested to do so by Noteholders owning 25 per cent. in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction, declare all amounts payable under the Loan Agreements by the Bank and SBL to be due and payable (in the case of an Event of Default), or enforce the security created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event). Upon repayment of the Loans following an Event of Default and a declaration as provided herein, the Notes will be redeemed or repaid and thereupon shall cease to be outstanding.

10. Meetings of Noteholders; Modification of Notes, Trust Deed and Loan Agreements; Waiver; Substitution of SBLH PLC and/or SBL

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes or the Trust Deed. Noteholders will vote pro rata according to the principal amount of their Notes. Special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amount payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Loan Agreements. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes and the Trust Deed or, following the creation of the Security Interests, the Loan Agreements which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Noteholders. The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by SBLH PLC or SBL of the Terms and Conditions of the Notes or the Trust Deed or, following the creation of the Security Interests, by the Bank or SBL of the terms of the Loan Agreements, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreements shall not be treated as such, if in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders (as a class). Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be promptly notified to the Noteholders.

The Trust Deed contains provisions to the effect that SBLH PLC or SBL may, having obtained the consent of SBL, the Bank and the Trustee (which latter consent may be given without the consent of the Noteholders) and having complied with such reasonable requirements as the Trustee may direct in the interests of the Noteholders, substitute any entity in place of SBL as lender under the Petrocommerce Loan Agreement and obligor under the Trust Deed and/or SBLH PLC as lender under the SBL Loan Agreement, as issuer and principal obligor in respect of the Notes and as obligor under the Trust Deed, subject to the relevant provisions of the Trust Deed and the substitute lender's rights under the Petrocommerce Loan Agreement and/or the substitute lender's rights under the SBL Loan Agreement, as the case may be, being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes. In the event of any such substitution, notice shall be given to the Stock Exchange and the Noteholders in accordance with the Conditions and a supplement to the Offering Circular dated 5 February 2004 in respect of the Notes will be prepared.

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular

territory. No Noteholder is entitled to claim from SBLH PLC, SBL or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

11. Prescription

Notes will become void unless presented for payment of principal within 10 years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

12. Indemnification of Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless indemnified to its satisfaction.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreements or the security created in respect thereof or for the performance by SBLH PLC of its obligations under or in respect of the Notes and the Trust Deed, by SBL in respect of the SBL Loan Agreement or by the Bank in respect of the Petrocommerce Loan Agreement.

13. Replacement of Notes

If a Note shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and requirements of the Stock Exchange, be replaced at the specified office of the Registrar in Luxembourg or at the specified office of the Paying Agent in Luxembourg on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of SBLH PLC or the Trustee. Mutilated or defaced Notes must be surrendered before replacements will be issued.

14. Notices

All notices shall be deemed to have been duly given if (i) posted to such holders at their respective addresses as shown on the register of Noteholders maintained by the Registrar and (ii) so long as the Notes are listed on the Stock Exchange, in accordance with the rules of the Stock Exchange, published in a daily newspaper of general circulation in Europe approved by the Trustee, currently expected to be the *Luxemburger Wort*. Any such notice shall be deemed to have been given on the first date on which both conditions shall have been met.

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee in accordance with the rules of the Stock Exchange shall constitute sufficient notice to such holders for every purpose hereunder.

15. Further Issues

SBLH PLC may from time to time, without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. Such further Notes shall be issued under a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of Noteholders and the holders of Notes of other series in certain circumstances where the Trustee so decides.

16. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17. Governing Law

The Notes and the Trust Deed are governed by and shall be construed in accordance with, English law. The Issuer has submitted in the Trust Deed to the jurisdiction of the High Court of Justice in England.

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Notes will be represented by a Global Note which will be registered in the name of Chase Nominees Limited as nominee for, and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg.

The Global Note will become exchangeable in whole but not in part (free of charge to the holder), for definitive Notes ("Definitive Notes") if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) if SBLH PLC would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 (*Taxation*) which would not be suffered were the Notes in definitive form.

Whenever the Global Note is to be exchanged for Definitive Notes, Definitive Notes will be issued in an aggregate principal amount equal to the principal amount of the Global Note following delivery, by or on behalf of the registered holder of the Global Note, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver the Definitive Notes (including, without limitation, the names and addresses of the persons in whose names the Definitive Notes are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note at the specified office of the Registrar or the Transfer Agent. The exchange will be effected in accordance with the provisions of the Paying Agency Agreement, the Trust Deed and the Global Note.

In addition, the Global Note will contain a provision which modifies the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Note. The following is the text of the provision:

Notwithstanding Condition 14 (*Notices*), so long as the Global Note is held by or on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an "Alternative Clearing System"), notices to Noteholders represented by the Global Note may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System; provided, however, that, so long as the Notes are listed on the Luxembourg Stock Exchange and its rules so require, notices will also be published in a leading daily newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

TAXATION

Prospective purchasers of the Notes are advised to consult their own tax advisers as to the consequences under the tax laws of the country of which they are residents of a purchase of Notes, including but not limited to, the consequences of receipt of interest and sale or redemption of the Notes. The following is a general description of certain tax laws relating to the Notes and the Loans as in effect on the date hereof and does not purport to be a comprehensive discussion of the tax treatment of the Notes:

The Russian Federation

General

The following is a summary of certain Russian tax considerations relevant to purchase, ownership and disposition of the Notes as well as concerning taxation of payments of interest on the Loans. The summary is based on the laws of Russia in effect on the date of this Offering Circular. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal-level authorities of Russia. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there may be practical difficulties involved in claiming double tax treaty relief. Prospective investors should consult their own advisers regarding the tax consequences of investing in the Notes. No representation with respect to the Russian tax consequences to any particular holder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty. Further, the substantive provisions of Russian tax law applicable to financial instruments may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed capital markets. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates.

For the purposes of this summary, a "non-resident holder" means a physical person actually present in Russia for an aggregate period of less than 183 days in a given calendar year or a legal person or organisation in each case not organised under Russian law which holds and disposes of the Notes, otherwise than through its permanent establishment in Russia.

The Russian tax treatment of interest payments made by the Bank to SBL under the Petrocommerce Loan Agreement may affect the holders of the Notes. See below "Taxation of Interest on the Petrocommerce Loan".

Non-Resident Holders

A non-resident holder of a Note will not be subject to any Russian taxes on receipt from SBLH PLC of amounts payable in respect of principal of, or interest on, the Note subject to what is said in "Taxation of Interest on the Petrocommerce Loan".

A non-resident holder generally should not be subject to any Russian taxes in respect of purchase, ownership of the Notes or in respect of gains or other income realised on the sale or other disposition of the Notes outside Russia provided there is no income from a source within Russia.

A non-resident holder which is a legal person or organisation should not be subject to withholding tax on any gain on the disposal of the Notes even if payment is received from within Russia, although there is some residual uncertainty regarding the treatment of any part of such gain which is attributable to accrued interest on the Notes. Accrued interest may be distinguished from the total gain and taxed at a rate of 20 per cent. The separate taxation of the interest accrued may create a tax liability in relation to interest even in a situation of a capital loss on the disposal of the Notes.

A non-resident holder who is a physical person will generally be subject to tax at the rate of 30 per cent. on the gross proceeds from the disposal of the Notes less any available cost deductions (taxable base) where the proceeds of such disposal are received from a source within Russia, subject to any available double tax treaty relief. If the Notes are disposed of in Russia, the proceeds of such disposal are likely to be regarded for personal income tax purposes as income from a source within Russia. In certain circumstances, if the disposal proceeds are payable by a Russian organisation, individual entrepreneur or a Russian permanent establishment of a foreign organisation, the payer may be required to withhold this

tax. There is a risk that the taxable base may be affected by changes in the exchange rates between the currency of acquisition of the Notes, the currency of sale and roubles.

The withholding (income) tax may be reduced or eliminated by the provisions of an applicable double tax treaty, but it is not certain that advance treaty relief will be available in practice, and obtaining a subsequent refund can by extremely difficult, if not impossible.

Resident Holders

A holder of a Note who is a physical person and tax resident or a legal person which is not a non-resident in Russia is subject to all applicable Russian taxes in respect of gains from disposal of the Notes and interest received on the Notes.

Taxation of Interest on the Petrocommerce Loan

In general, payments of interest on borrowed funds by a Russian entity to a non-resident legal person are subject to Russian withholding tax at the rate of 20 per cent., absent reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on professional advice it has received, the Bank believes that payments of interest on the Petrocommerce Loan should not be subject to withholding tax under the terms of the double taxation treaty between Russia and the United Kingdom. However there can be no assurance that such relief will be obtained. If, as a result of the enforcement by the Trustee of the security granted to it by SBL by way of the security interests created in the Trust Deed, interest under the Petrocommerce Loan becomes payable to the Trustee, the benefit of the double tax treaty between Russia and the United Kingdom would cease and payments of interest may be subject to Russian withholding tax.

Prior to 1 January 2002, a claim for treaty relief from Russian withholding tax was subject to preliminary approval by the Russian tax authorities after the review of relevant contracts. As from 1 January 2002, such preliminary approval from, and contract disclosure to, the Russian tax authorities is no longer required. As a result of this new procedure, the Russian tax authorities may review the Bank's eligibility for treaty relief in greater detail during tax audits.

If the payments under the Petrocommerce Loan Agreement are subject to any withholding (as a result of which SBLH PLC would reduce payments under the Notes in the amount of such withholding), the Bank is obliged to increase payments as may be necessary so that the net payments received by SBL will not be less than the amount it would have received in the absence of such withholding. It should be noted however that gross-up provisions in contracts may not be enforceable under Russian law. In the event that the Bank fails to increase payments, such failure would constitute an Event of Default under the Petrocommerce Loan Agreement. If the Bank is obliged to increase payments, in certain circumstances it may prepay the Petrocommerce Loan in full. In such case, all outstanding Notes would be redeemable at par with accrued interest.

VAT is not applied to the rendering of financial services involving the provision of a loan in monetary form. Therefore, no VAT will be payable in Russia on interest payments.

The United Kingdom

Interest

While the Notes are and continue to be listed on a recognised stock exchange within the meaning of section 841 Income and Corporation Taxes Act 1988, payments of interest may be made without withholding or deduction for or on account of income tax.

Persons in the United Kingdom paying interest to or receiving interest on behalf of another person may be required to provide certain information to the United Kingdom Inland Revenue regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries.

If the Notes cease to be listed, interest will generally be paid under deduction of income tax at the lower rate (currently 20 per cent.) subject to any direction to the contrary from the Inland Revenue in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

The interest has a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment. Where the interest is paid without withholding or deduction, the interest will not be assessed to United Kingdom tax in the hands of holders of the Notes who are not resident in the United Kingdom, except where such persons carry on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable, in which case (subject to exemptions for interest received by certain categories of agent) tax may be levied on the United Kingdom branch or agency. In relation to accounting periods beginning on or after 1 January 2003, corporate holders of Notes not resident in the UK will be liable to UK taxation if they carry on a trade, profession or vocation through a UK permanent establishment to which the Notes are attributable.

If interest were paid under deduction of United Kingdom income tax (e.g. if the Notes lost their listing), Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.

Noteholders should note that the provisions relating to additional amounts referred to in "Terms and Conditions of the Notes" – Condition 8 – "Taxation" above would not apply if the Inland Revenue sought to assess directly the person entitled to the relevant interest to United Kingdom tax. However exemption from, or reduction of, such United Kingdom tax liability might be available under an applicable double taxation treaty.

Proposed EU Directive on the Taxation of Savings Income

The European Union has adopted a Directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required from a date not earlier than 1 January 2005 to provide to the tax authorities of other Member States details of payments of interest or other similar income paid by a person to an individual in that other Member State, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise.

Corporate Noteholders

Noteholders within the charge to United Kingdom corporation tax will be subject to tax as income on all profits and gains arising from, and from fluctuations in the value of, the Notes broadly in accordance with their statutory accounting treatment. Such Noteholders will generally be charged in each accounting period by reference to interest and any profit or loss which, in accordance with such Noteholder's authorised accounting method, is applicable to that period. Fluctuations in value relating to foreign exchange gains and losses in respect of the Notes will be brought into account as income.

Other Noteholders

A disposal of a Note by a Noteholder resident or ordinarily resident for tax purposes in the United Kingdom or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Note is attributable may give rise to a chargeable gain or allowable loss for the purposes of taxation of capital gains. In calculating any gain or loss on disposal of a Note, sterling values are compared at acquisition and transfer. Accordingly, a taxable profit can arise even where the foreign currency amount received on a disposal is less than or the same as the amount paid for the Note. Any accrued interest at the date of disposal will be taxed under the provisions of the Accrued Income Scheme, as described below.

A transfer of a Note by a holder resident or ordinarily resident for tax purposes in the United Kingdom or who carries on a trade in the United Kingdom through a branch or agency to which the Note is attributable may give rise to a charge to tax on income in respect of an amount representing interest on the Note which has accrued since the preceding interest payment date.

United Kingdom Stamp Duty and Stamp Duty Reserve Tax

No United Kingdom Stamp Duty or Stamp Duty Reserve Tax should be payable on the issue or transfer of the Notes or upon their redemption.

SUBSCRIPTION AND SALE

Standard Bank London Limited, ABN AMRO Bank N.V., Reserve Invest (Cyprus) Limited, Banco Privado Português S.A., Piraeus Bank A.E., Alpha Bank A.E. and MDM Bank (together, the "Managers") have, pursuant to the terms and conditions set forth in a subscription agreement, dated 5 February 2004 (the "Subscription Agreement") between SBLH PLC, the Bank and the Managers, jointly and severally agreed with SBLH PLC, subject to the satisfaction of certain conditions set forth therein, to subscribe and pay for the Notes at the issue price of 100 per cent. of the principal amount of the Notes. The Subscription Agreement also provides for the Managers to receive a combined management and underwriting commission and selling concession of 0.875 per cent. of the principal amount of the Notes plus accrued interest (if any). The Bank has given certain representations and warranties, covenants and indemnities to the Managers and SBLH PLC therein, including an agreement to pay certain costs in connection with the offering of the Notes and to reimburse the Managers, SBLH PLC and the Trustee for certain of their expenses in connection with the offering of the Notes. The Managers are entitled to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to payment being made to SBLH PLC.

United States

The Securities have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Securities are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Securities (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of the Securities, an offer or sale of Securities within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented and agreed that (i) it has not offered or sold and prior to the expiry of the period of six months from the payment date will not offer or sell any Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to SBLH PLC, and (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Italy

The offering of the Notes has not been cleared by CONSOB (the Italian Securities Exchange Commission) pursuant to Italian securities legislation and, accordingly, each Manager has represented and agreed that no Notes may be offered, sold or delivered, nor may copies of the Offering Circular or of any other document relating to the Notes be distributed in the Republic of Italy, except:

(i) to professional investors (*operatori qualificati*), as defined in Legislative Decree No. 58 of 24 February 1998 (the "Financial Services Act") and Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1 July 1998, as amended;

(ii) in circumstances which are excepted from the rules on solicitation of investments pursuant to Article 100 of the Financial Services Act and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999, as amended; or

(iii) to an Italian resident who submits an unsolicited offer to purchase the Notes.

The Notes will not be offered, sold or delivered, either in the primary market or in the secondary market, to individuals residing in Italy.

Any offer, sale or delivery of the Notes or distribution of copies of the Offering Circular or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must be:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act and Legislative Decree No. 385 of 1 September 1993 (the "Banking Act"), as amended; and

(b) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy pursuant to which the issue or the offer of securities in the Republic of Italy may need to be preceded and followed by an appropriate notice to be filed with the Bank of Italy depending, *inter alia*, on the aggregate value of the securities issued or offered in the Republic of Italy and their characteristics and, even when an exemption from the prior notification applies, may need to be followed by a subsequent communication reporting to the Bank of Italy the results of the issue and of the placement; and

(c) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

The Netherlands

Each Manager has represented and agreed that it has not made and will not make, any offers (or solicitations of such offers) in respect of the Notes to any individual or legal entity in the Netherlands, other than to individuals or legal entities, who or which trade or invest in securities in the conduct of a business or profession (which includes banks, firms, insurance companies, pension funds, investment institutions, central governments, large international and supranational organisations, finance companies and treasury departments of large enterprises).

Russia

Each Manager has agreed that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in Russia or to any person located within the territory of Russia unless to the extent otherwise permitted under Russian law.

Each Manager has agreed that it will, to the best of its knowledge and belief, comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or distributes material relating to the Notes.

GENERAL INFORMATION

1. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code is 018555875 and the ISIN is XS0185558755.

2. In connection with the application to list the Notes on the Luxembourg Stock Exchange, a legal notice relating to the issue of the Notes and a copy of the Charter of the Bank (together with an English translation) will be deposited with the Chief Registrar of the District Court in Luxembourg ("*Registre de Commerce et des Sociétés à Luxembourg*") prior to listing where such documents may be examined and copies obtained.

3. The Bank, SBL and SBLH PLC have obtained all necessary consents, approvals and authorisations in Russia and the United Kingdom, as the case may be, in connection with the Loans and the issue and performance of the Notes. The issuance of the Notes was authorised by SBLH PLC by a resolution of the board passed on 20 October 2003 and a resolution of the shareholders passed on 31 October 2003. The Petrocommerce Loan was authorised by the Bank by a resolution of the Bank's Council Board of Directors passed on 17 June 2003 and by a resolution of the Managing Board passed on 17 June 2003.

4. No consents, approvals, authorisations or orders of any regulatory authorities are required by SBL or SBLH PLC under the laws of the United Kingdom for the maintenance of the Loans or for the issue of the Notes.

5. There has been no significant change in the financial or trading position or prospects of the Group since 31 December 2002 and no material adverse change in the financial position or prospects of the Group since 31 December 2002.

6. Neither the Bank nor any of its subsidiaries is involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of the issue of the Notes, nor, so far as the Bank is aware, is any such litigation or arbitration pending or threatened.

7. Copies of the Trust Deed in respect of the Notes (including the form of the Global Note and definitive Notes), the Paying Agency Agreement and the Loan Agreements will be available for inspection at the specified offices of the Trustee and each Paying Agent during normal business hours, so long as any of the Notes are outstanding.

8. Copies of the following documents in English may be obtained, free of charge, during normal business hours at the specified offices of each Paying Agent (including, for so long as the Notes are listed on the Luxembourg Stock Exchange, the specified office of the Paying Agent in Luxembourg):

   (a) the audited consolidated financial statements of the Bank prepared in accordance with U.S. GAAP as at and for the years ended 31 December 2000, 2001 and 2002;

   (b) the non-audited consolidated financial statements of the Bank prepared in accordance with U.S. GAAP as at and for the six-month periods ended 30 June 2003 and 30 June 2002; and

   (c) the latest published audited year end consolidated financial statements of the Bank prepared in accordance with U.S. GAAP.

   The Bank does not publish consolidated or unconsolidated interim financial statements prepared in accordance with U.S. GAAP, nor does it publish unconsolidated annual financial statements.

9. The EU Transparency Obligations Directive is currently being finalised and may be implemented in Luxembourg in a manner that is unduly burdensome for the Bank. In particular, the Bank may be required to publish periodic disclosure reports in the EU which include financial statements prepared in accordance with, or reconciled to, International Financial Reporting Standards. In such circumstances the Bank may, subject to the provisions of the Trust Deed, decide to seek an alternative listing for the Notes on a stock exchange outside the European Union.

INDEX TO FINANCIAL STATEMENTS

OJSC Bank Petrocommerce and its subsidiaries

F-1 Independent Auditors' Report for the year ended 31 December 2002

F-2 Independent Auditors' Report for the year ended 31 December 2001

F-3 Audited Consolidated Income Statements for the years 2002, 2001 and 2000

F-4 Audited Consolidated Balance Sheets as at 31 December 2002, 2001 and 2000

F-5 Audited Consolidated Statements of Cash Flows for the years ended 31 December 2002, 2001 and 2000

F-6 Audited Consolidated Statement of Stockholders' Equity and Comprehensive Income for the years ended 31 December 2002, 2001 and 2000

F-7 Notes to, and forming a part of, the Financial Statements for the years ended 31 December 2002, 2001 and 2000

F-41 Independent Auditors' Review Report for the six months ended 30 June 2003 and 2002

F-42 Interim Unaudited Consolidated Income Statements for the six months ended 30 June 2003 and 2002

F-43 Interim Unaudited Consolidated Balance Sheet as of 30 June 2003 and 31 December 2002

F-44 Interim Unaudited Consolidated Statements of Cash Flows for the six months ended 30 June 2003 and 2002

F-45 Interim Unaudited Consolidated Statement of Stockholders' Equity and Comprehensive Income for the six months ended 30 June 2003 and 2002

F-46 Notes to, and forming part of, the Interim Unaudited Consolidated Financial Statements for the six months ended 30 June 2003 and 2002

APPENDIX A – AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK

The financial information appearing on pages F-1 to F-80 of this Offering Circular has been extracted from the audited consolidated financial statements of the Group for the three years ended, and as at, 31 December 2000, 2001 and 2002 and the interim unaudited consolidated financial statements of the Group for the six months ended, and as at, 30 June 2003 and 2002 and, accordingly, references to specific page numbers should be read in conjunction with such financial statements.

Independent Auditors' Report for the year ended 31 December 2002

To the Board of Directors of OJSC Bank Petrocommerce

We have audited the accompanying balance sheets of OJSC Bank Petrocommerce and subsidiaries (the "Group") as of 31 December 2002 and 2001 and the related statements of income, stockholders' equity and cash flows for the years then ended. These consolidated financial statements, as set out on pages 4 to 40, are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OJSC Bank Petrocommerce and its subsidiaries as of 31 December 2002 and 2001, and the results of their operations, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG Limited
Moscow, Russian Federation

17 May 2003

Independent Auditors' Report for the year ended 31 December 2001

To the Council and stockholders of OJSC Bank Petrocommerce

We have audited the accompanying balance sheets of OJSC Bank Petrocommerce and its subsidiaries (the "Group") as of 31 December 2001 and 2000 and the related statements of income, stockholders' equity and comprehensive income and cash flows for the years then ended. The financial statements, as set out on pages 4 to 41 are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 disclosure 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Group as of 31 December 2001 and 2000 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG Limited
Moscow, Russian Federation

3 June 2002

Income Statements for the years 2002, 2001 and 2000

	Notes	*2002*	*2001*	*2000*
			(U.S.$'000)	
Interest income	4	75,466	44,814	36,073
Interest expense	4	(39,600)	(24,647)	(25,674)
Net interest income before provision for loan impairment		35,866	20,167	10,399
Provision for loan impairment	5	(5,778)	(11,385)	(1,968)
Net interest income after provision for loan impairment		30,088	8,782	8,431
Fee and commission income	10	18,583	11,909	9,440
Fee and commission expense		(2,049)	(1,184)	(753)
Net income from trading securities	6	20,228	19,207	4,786
Net income from investments in available for sale and other securities	7	3,895	4,332	959
Net income from foreign exchange		6,356	1,442	4,598
Income from investments in affiliates		137	263	—
Other income		1,794	367	266
Non-interest income		48,944	36,336	19,296
General administrative expenses	8	(41,552)	(22,315)	(16,985)
Income before other provisions, income tax and minority interest		37,480	22,803	10,742
Provisions for impairment other than loan impairment	9	(469)	(428)	444
Income before income tax and minority interest		37,011	22,375	11,186
Income tax expense	11	(7,997)	(13,111)	(5,321)
Income before minority interest		29,014	9,264	5,865
Minority interest		(243)	—	—
Net income		28,771	9,264	5,865

See accompanying notes to financial statements.

Balance Sheets as at 31 December 2002, 2001 and 2000

	Notes	*2002*	*2001*	*2000*
			(U.S.$'000)	
ASSETS				
Cash		21,357	16,983	8,511
Due from the Central Bank of the Russian Federation	12	174,300	184,198	92,007
Placements with banks and other financial institutions	13	153,757	175,488	50,458
Loans to customers	14	425,573	291,522	184,647
Trading securities	15	189,172	66,151	67,351
Investments in available for sale and other securities	16	75,066	24,116	27,297
Held to maturity securities	17	1,911	—	—
Amounts receivable under reverse repurchase agreements		2,112	—	—
Goodwill		3,672	—	—
Deferred tax assets	24	1,966	1,299	1,697
Other assets	19	23,809	10,036	3,373
Property, plant and equipment	20	42,186	21,801	14,392
Total Assets		1,114,881	791,594	449,733
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits and balances from banks and other financial institutions	21	129,092	27,860	90,606
Current accounts and deposits from customers	22	603,008	522,168	274,133
Certificates of deposit and promissory notes		163,224	67,659	33,377
Deferred tax liability	24	373	—	—
Other liabilities	23	6,738	7,232	2,527
Total Liabilities		902,435	624,919	400,643
Minority Interest		2,171	2,633	—
Stockholders' Equity				
Common stock – 450,000,000 shares issued with a par value each of rouble 10 at 31 December 2002 (2001: 450,000,000 shares; 2000: 100,000,000 shares)	25	174,581	174,581	55,589
Preference stock – 500,000 shares issued with a par value each of rouble 1,000 each at 31 December 2002 (2001: 0 shares; 2000: 0 shares)	25	15,861	—	—
Treasury stock, at cost, at 31 December 2002 34,528,867 shares (2001: 33,864,755 shares; 2000: 43,826 shares)	25	(12,999)	(11,885)	(18)
Retained earnings		27,042	1,345	(6,481)
Other comprehensive income		5,790	1	—
Total Stockholders' Equity		210,275	164,042	49,090
Total Liabilities, Minority Interest and Stockholders' Equity		1,114,881	791,594	449,733

See accompanying notes to financial statements.

Statements of Cash Flows for the years ended 31 December 2002, 2001 and 2000

	Notes	*2002*	*2001*	*2000*
			(U.S.$'000)	
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before taxes		37,011	22,375	11,186
Provision for losses		6,477	126	3,723
Depreciation and amortisation		2,391	1,883	1,597
Unrealised losses		6,048	—	—
Income from investments in affiliates accounted for using the equity method		(137)	(263)	–
(Increase)/decrease in net accruals		(1,836)	645	881
Operating cash flow before changes in operating assets and liabilities		49,954	24,766	17,387
(Increase)/decrease in operating assets				
Reserve deposit with the Central Bank of the Russian Federation		(20,243)	(2,427)	(9,660)
Placements with banks and other financial institutions		33,849	(123,472)	67,329
Loans to customers		(98,122)	(96,309)	(104,847)
Trading securities		(126,263)	17,165	(67,941)
Amounts receivable under reverse repurchase agreements		(2,112)	—	—
Other operating assets		(8,584)	(5,628)	(608)
Increase/(decrease) in operating liabilities				
Deposits and balances from banks and other financial institutions		90,013	(49,753)	75,795
Current accounts and deposits from customers		42,360	201,331	22,904
Certificates of deposit and promissory notes		83,402	27,204	4,207
Amounts payable under repurchase agreements		—	—	(162)
Other operating liabilities		(2,062)	706	501
Net cash from operating activities before income taxes paid		42,192	(6,417)	4,905
Income taxes paid		(10,041)	(12,501)	(6,361)
Net cash from operations		32,151	(18,918)	(1,456)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from/(purchase of) available for sale and other securities		(41,795)	6,535	(16,249)
Proceeds from held to maturity securities		—	39	249
Acquisition of subsidiaries net of cash acquired		(10,781)	6,766	—
Purchases of fixed and intangible assets		(18,464)	(8,336)	(10,837)
Proceeds from sale of fixed and intangible assets		—	2,017	2,539
Net cash from investing activities		(71,040)	7,021	(24,298)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of common stock		—	112,325	21,574
Proceeds from issuance of preference stock		15,861	—	—
Purchase of treasury stock		(1,114)	(5,200)	—
Dividends paid		(3,067)	(1,438)	(372)
Net cash from financing activities		11,680	105,687	21,202
Net increase/(decrease) in cash and cash equivalents		(27,209)	93,790	(4,552)
Cash and cash equivalents at beginning of year		152,656	58,866	63,418
Cash and cash equivalents at end of year	31	125,447	152,656	58,866
Income taxes paid		(15,077)	(12,501)	(6,361)
Interest paid		(39,703)	(24,047)	(29,221)

See accompanying notes to financial statements.

Statement of Stockholder's Equity and Comprehensive Income
for the years ended 31 December 2002, 2001 and 2000

	Common stock	*Preferred stock*	*Retained earnings/ (accumulated losses)*	*Other comprehensive income*	*Treasury stock*	*Total*
			(U.S.$'000)			
Balance at 1 January 2000	33,997	—	(11,974)	—	—	22,023
Net income	—	—	5,865	—	—	5,865
Issuance of common stock, 59,956,174 shares	21,592	—	—	—	(18)	21,574
Dividends paid, U.S.$0.009 per share	—	—	(372)	—	—	(372)
Balance at 1 January 2001	55,589	—	(6,481)	—	(18)	49,090
Balance at 1 January 2001	55,589	—	(6,481)	—	(18)	49,090
Net income	—	—	9,264	—	—	9,264
Issuance of common stock, 330,400,000 shares	118,992	—	—	—	(6,667)	112,325
Treasury stock purchased, 14,264,755 shares	—	—	—	—	(5,200)	(5,200)
Dividends declared, U.S.$0.014 per share	—	—	(1,438)	—	—	(1,438)
Unrealised gains on available for sale securities	—	—	—	1	—	1
Balance at 31 December 2001	174,581	—	1,345	1	(11,885)	164,042
Balance at 1 January 2002	174,581	—	1,345	1	(11,885)	164,042
Issuance of preference stock, 500,000 shares	—	15,861	—	—	—	15,861
Net income	—	—	28,771	—	—	28,771
Treasury stock purchased, 664,112 shares	—	—	—	—	(1,114)	(1,114)
Dividends declared on common stock for 2001, U.S.$0.00683 per share	—	—	(3,074)	—	—	(3,074)
Unrealised gains on available for sale securities	—	—	—	5,789	—	5,789
Balance at 31 December 2002	174,581	15,861	27,042	5,790	(12,999)	210,275

Unrealised gains on available for sale securities has been shown net of deferred tax of U.S.$1,491 thousand at 31 December 2002.

See accompanying notes to financial statements.

Notes to, and forming a part of, the Financial Statements for the years ended 31 December 2002, 2001 and 2000

1 Background

(a) Organisation and operations

The principal members of the Petrocommercebank Group (the "Group") are the parent company, Petrocommercebank (the "Bank"), and its subsidiaries Komi Regional Bank Ukhtabank, JSC Petrocommerce-Ukraine Bank, JSC Stavropolpromstroybank, and JSC BC UNIBANK S.A. Other members of the Group, which principally hold financial instruments and real estate totalling U.S.$50 million and are controlled by the Group through option agreements, principally conduct operations on behalf of these entities.

A description of the operations of each of these companies is as follows:

- The Bank was established in the Russian Federation as a partnership and was granted its general banking licence on 6 September 1993. In March 2000 the Bank changed its legal status from a partnership to an open joint stock company. The principal activities of the Bank are deposit taking, lending, maintenance of customer settlements and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of the Russian Federation (the "CBR"). The Bank's head office is located in Moscow and as of 31 December 2002 it operated 14 branches, all located in the Russian Federation. The average number of persons employed by the Bank during the year was 1,413 (2001: 1,175; 2000: 1,042).

- Komi Regional Bank Ukhtabank ("Ukhtabank") was established in the Russian Federation as an open joint stock company and was granted its general banking licence in June 1997. The principal activities of Ukhtabank are deposit taking, lending and customer settlements, operations with securities and foreign exchange. The activities of the bank are regulated by the CBR. The head office of Ukhtabank is located in Ukhta, Republic of Komi of the Russian Federation. Ukhtabank has six branches located in the Russian Federation. The average number of persons employed by the bank during 2002 was 385 (2001: 352; 2000: 349). As of December 2002 Petrocommerce controlled 96.74 per cent. of the common stock of Ukhtabank (2001: 66.7 per cent.).

- JSC Petrocommerce-Ukraine Bank was initially registered by the National Bank of Ukraine under the name of Aviatekbank, as a joint stock company in September 1996. In 2002 Aviatekbank was acquired by Petrocommercebank and was renamed to JSC Petrocommerce-Ukraine Bank. The principal activity of Petrocommerce-Ukraine Bank is in providing banking services to companies operating in various industries, state authorities and individuals. These services include taking deposits, granting loans, investing in securities and transfers of payments in the Ukraine and abroad. The head office of the bank is located in Kiev and the bank has three branches throughout the Ukraine. The bank had 291 employees at the end of 2002 (2001: 155 employees).

- JSC Stavropolpromstroybank was founded as Commercial Bank STAVROPOLIE on 26 December 1990. The bank has been operating as an open joint stock company since 27 July 1992 and was acquired by Petrocommercebank in 2002. The principal activities of the bank are deposit taking, lending, customer settlements and operations with securities and foreign exchange. The activities of the bank are regulated by the Central Bank of the Russian Federation (the "CBR"). The bank's head office is located in Stavropol and as of 31 December 2002 it operated 11 branches, all located in the Russian Federation. The average number of persons employed by the bank during the year was 591 employees.

- JSC BC UNIBANK S.A. was founded in the Republic of Moldova on 19 January 1993. Unibank was acquired by Petrocommercebank in 2002. The Bank holds a class B licence, granting it the right to perform all types of banking activity except trust services. The Bank's main activities are deposit taking, lending, customer settlements and operations with securities. As at 31 December 2002, the Bank had five branches in Moldova. The average number of persons employed by the bank during the year was 163 employees.

(b) Russian Business Environment

The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks which do not typically exist in other markets. The accompanying financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

(b) Reporting currency and translation into U.S. dollars

As the Russian economy is considered to be hyperinflationary under Statement of Financial Accounting Standard 52 Foreign Currency Translation, the Group has elected to use the US dollar as the functional and reporting currency for financial statement purposes.

The translation of the rouble financial statements into U.S. dollars has been performed in accordance with the provisions of SFAS 52 Foreign Currency Translations. Monetary assets and liabilities denominated in roubles at the balance sheet date are translated to U.S. dollars at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in roubles, which are stated at historical cost, are translated to U.S. dollars at the foreign exchange rate ruling at the date of the transaction. Income statement transactions in foreign currencies are translated to U.S. dollars at the foreign exchange rate ruling at the date of the transaction.

The closing rate of exchange ruling at 31 December 2002, 2001 and 2000 was U.S.$1 to 31.78 roubles, U.S.$1 to 30.14 roubles and U.S.$1 to 28.16 roubles, respectively.

(c) Convertibility of the rouble

The Russian rouble is not a convertible currency outside the Russian Federation and, accordingly, any conversion of Russian rouble amounts to U.S. dollars should not be construed as a representation that Russian rouble amounts have been, could be, or will be in the future, convertible into U.S. dollars at the exchange rate shown, or at any other exchange rate.

(d) Going concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group's assets, as well as the future operation of the Group, may be significantly affected by the current and future economic environment (refer note 1 (b)) and the Group's ongoing relationship with OIL LUKOIL COMPANY GROUP (refer note 30). The accompanying financial statements do not include any adjustments should the Group be unable to continue as a going concern.

(e) Basis of consolidation

The consolidated financial statements include the financial statements of all entities in which the Bank holds a controlling financial interest. All significant intercompany transactions have been eliminated on consolidation.

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. These accounting policies have been consistently applied.

(a) Use of estimates

Management of the Group has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(b) Interest income and interest expense

Interest income and expense are recognised when earned or incurred, on an accruals basis.

(c) Provisions for loan impairment

The recoverable amount of originated loans and advances is calculated as the present value of the expected future cash flows, discounted at the loan's original effective interest rate. Short-term balances are not discounted.

Loans and advances are presented net of specific and general provisions for uncollectibility. Specific provisions are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts. General provisions are maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the provisions account are recognised in the income statement. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly.

(d) Cash and cash equivalents

The Group considers cash and nostro accounts with the CBR to be cash and cash equivalents. The minimum reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its withdrawability.

(e) Interest bearing liabilities

Interest-bearing liabilities are recognised initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings.

(f) Investments in marketable debt and equity securities

Marketable debt and equity securities consist of investments in debt and equity securities where the Group does not exert control or significant influence over the investee. The Group classifies marketable debt and equity securities in one of three categories: trading, available for sale, or held to maturity. The specific identification method is used for determining the cost basis of all such securities upon their sale or redemption.

(i) Trading securities

Trading securities are bought and held principally for the purpose of selling them in the near term. Trading securities are recorded at their fair value. Unrealised holding gains and losses on trading securities are included in the income statement.

(ii) Held to maturity securities

Held to maturity securities are those securities, which the Group has the ability and intent to hold until maturity. Held to maturity securities are recorded at amortised cost, adjusted for the amortisation or accretion of premiums or discounts.

Premiums and discounts are amortised to the income statement over the life of the related security held to maturity, as an adjustment to yield using the effective interest method.

(iii) Available for sale securities

All marketable securities not included in trading or held to maturity are classified as available for sale.

Available for sale securities are recorded at their fair value. Unrealised holding gains and losses, net of the related tax effect, are included in the financial statements as a separate component of accumulated other comprehensive income until realised.

(iv) Recoverable amount

The recoverable amount of the Group's trading securities is their fair value.

A decline in the fair value of any held to maturity or available for sale security below cost that is deemed to be other than temporary results in a reduction of the carrying amount to fair value. The impairment is charged to the consolidated income statement and a new cost basis for the security is established.

(g) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase are retained within the trading or available-for-sale securities portfolios and accounted for accordingly. Liability accounts are used to record the obligation to repurchase. The difference between the sale and repurchase price represents interest expense and is recognised in the income statement over the term of the repurchase agreement.

Securities held under reverse repurchase agreements are recorded as receivables. The difference between the purchase and sale price represents interest income and is recognised in the income statement over the term of the reverse repurchase agreement. The receivables due under reverse repurchase agreements have been shown net of provision for impairment.

(h) Investments in affiliated companies

Affiliated companies are those enterprises in which the Group has significant influence, but not control, over the enterprise's financial and operating policies.

All material investments in affiliated companies are accounted for using the equity method of accounting and the financial statements include the Group's share of the total recognised gains and losses of affiliates from the date that significant influence effectively commences until the date that significant influence effectively ceases.

(i) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as capital leases. Plant and equipment acquired by way of capital lease is stated at an amount equal to the lower of its fair value or the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Payments for operating leases, under which the Group does not assume substantially all the risks and rewards of ownership, are expensed as lease payments are incurred.

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Plant and equipment under capital leases and leasehold improvements are amortised on a straight-line basis over the shorter of the lease term or estimated useful life of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings, land and leasehold improvements	50 to 100 years
Furniture and equipment	4 to 10 years
Intangible assets	2 to 5 years

(j) Goodwill

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is assessed for impairment in accordance with SFAS No. 142 *Goodwill and Other Intangible Assets*.

(k) Impairment

The Group accounts for long lived assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*. In 2001 and 2000 the Group accounted for long lived assets and certain identifiable assents, including goodwill, in accordance with SFAS No. 121 *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed of*.

Under these standards the carrying value of the asset is considered to be impaired when the anticipated undiscounted future cash flow from such asset is separately identifiable, and is less than the carrying value.

In that event, an impairment loss is recognised based on the amount by which the carrying value exceeds the fair market value of the asset. Impairment losses are recognised in the income statement. Fair market value is determined primarily using anticipated cash flows discounted at a rate commensurate with the risk involved.

(l) Stockholders' equity

(i) Treasury stock

When shares are repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from total equity.

(ii) Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the CBR and other Russian legislation. Dividends are recognised as a liability in the period in which they are declared.

(m) Income taxes

Income taxes are accounted for under the asset and liability method in accordance with SFAS No. 109 Accounting for Income Taxes. Deferred tax assets and liabilities are recognised for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates in recognised in income in the period that includes the enactment date.

(n) Comparative information

Comparative information has been reclassified to conform to changes in presentation in the current year.

4 Interest income and interest expense

Interest income comprises:

	2002	2001	2000
		(U.S.$'000)	
Placements with banks and other financial institutions	11,111	6,529	9,891
Securities	8,684	4,665	7,938
Loans to customers	55,671	33,620	18,244
	75,466	44,814	36,073
Interest expense comprises:			
Deposits and balances from banks and other financial institutions	2,900	3,189	1,191
Current accounts and deposits from customers, certificates of deposit and promissory notes	36,700	21,458	24,483
	39,600	24,647	25,674

5 Provision for loan impairment

Provision for loan impairment comprises:

	2002	2001	2000
		(U.S.$'000)	
Provision for loans to customers	5,762	9,992	2,847
Provision for placements with banks and other financial institutions	16	1,393	(879)
	5,778	11,385	1,968

6 Net income from trading securities

Net income from trading securities comprises:

	2002	2001	2000
		(U.S.$'000)	
Realised gain on trading securities	17,899	10,948	8,623
Unrealised gain on trading securities	2,329	8,259	(3,837)
	20,228	19,207	4,786

7 Net income from investments in available for sale and other securities

Net income from investments in available for sale and other securities comprises:

	2002	2001	2000
		(U.S.$'000)	
Realised gain from investments in available for sale and other securities	4,125	4,472	780
Provision for impairment on investments in available for sale and other securities	(230)	(140)	179
	3,895	4,332	959

8 General administrative expenses

General administrative expenses comprise:

	2002	2001	2000
		(U.S.$'000)	
Employee compensation	18,558	8,859	6,377
Communications and information services	3,471	2,427	1,810
Advertising and marketing	3,374	508	347
Revenue based taxes	2,597	3,054	2,897
Depreciation and amortisation	2,391	1,883	1,597
Payroll related taxes	2,641	1,899	785
Occupancy	1,324	1,018	426
Security	1,174	601	446
Repairs and maintenance	579	621	419
Travel expenses	332	304	476
Professional services	220	78	87
Office supplies	130	118	613
Other	4,761	945	705
	41,552	22,315	16,985

9 Provision for impairment other than loan impairment

Provision for impairment other than loan impairment:

	2002	2001	2000
		(U.S.$'000)	
Provision for off-balance sheet credit exposure	1,000	(92)	(195)
Provision for other assets	(509)	559	—
Provision for held to maturity securities	(22)	(39)	(249)
	469	428	(444)

10 Fee and commission income

	2002	2001	2000
		(U.S.$'000)	
Commissions on settlement transactions	9,439	6,935	6,680
Commissions on cash collection and other cash operations	5,809	3,116	1,553
Commissions on guarantees issued	844	250	240
Commissions on other operations	2,491	1,608	967
	18,583	11,909	9,440

11 Income tax expense

	2002	2001	2000
		(U.S.$'000)	
Current tax expense			
Current year	(10,041)	(12,639)	(5,727)
Deferred tax benefit/(expense)			
Effect of reduction in tax rate	—	(750)	—
Origination and reversal of timing differences	2,044	278	406
Total income tax expense	(7,997)	(13,111)	(5,321)

The Group's applicable tax rate is 24 per cent., (2001 – 43 per cent.; 2000 – 38 per cent.)

Reconciliation of effective tax rate:

	2002	*per cent.*	*2001*	*per cent*	*2000*	*per cent*
	(U.S.$'000)		*(U.S.$'000)*		*(U.S.$'000)*	
Income before income tax	37,011		22,375		11,186	
Income tax using the applicable tax rate	8,883	24.0	9,621	43.0	4,251	38.0
Non-deductible costs and non-taxable income	32	—	4,057	18.1	2,574	23.0
Effect of income taxed at lower tax rates	(918)	(2.4)	(567)	(2.5)	(1,504)	(13.4)
Income tax expense	7,997	21.6	13,111	58.6	5,321	47.6

The Group's tax rate for deferred tax is 24 per cent. (2001 – 24 per cent.; 2000 – 43 per cent.)

12 Due from the Central Bank of the Russian Federation

	2002	*2001*	*2000*
		(U.S.$'000)	
Minimum reserve deposit	70,210	47,858	41,652
Nostro accounts	104,090	135,673	50,355
Accumulated account for share issue	—	667	—
	174,300	184,198	92,007

The minimum reserve deposit is a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the CBR and whose withdrawability is restricted. The nostro balances represent balances with the CBR related to settlement activity and were available for withdrawal at year end.

13 Placements with banks and other financial institutions

	2002	*2001*	*2000*
		(U.S.$'000)	
Nostro accounts	24,131	73,761	3,780
Deposits	132,311	103,724	47,261
Provision for impairment	(2,685)	(1,997)	(583)
	153,757	175,488	50,458

Analysis of movements in the provision for impairment

	2002	*2001*	*2000*
		(U.S.$'000)	
Balance at the beginning of the year	(1,997)	(583)	(1,462)
Acquisition of subsidiaries	(672)	(21)	—
Balance at the end of the year	2,685	1,997	583
Net charge to income statement	16	1,393	(879)

14 Loans to customers

	2002	2001	2000
		(U.S.$'000)	
Gross loans to customers	453,066	310,689	191,611
Provision for impairment	(27,493)	(19,167)	(6,964)
	425,573	291,522	184,647

Analysis of movements in the provision for impairment

	2002	2001	2000
		(U.S.$'000)	
Balance at the beginning of the year	(19,167)	(6,964)	(4,117)
Acquisition of subsidiaries	(2,666)	(2,211)	—
Write-offs	102	—	—
Balance at the end of the year	27,493	19,167	6,964
Net charge to income statement	5,762	9,992	2,847

Industry and geographical analysis of the loan portfolio

Loans and advances to customers are issued primarily to customers located within the Russian Federation who operate in the following economic sectors (gross of provision for impairment):

	2002	2001	2000
		(U.S.$'000)	
Loans to individuals	20,125	8,741	4,542
Loans to legal entities			
Oil exploration and refinery	98,668	89,823	48,869
Trade	72,300	59,882	38,445
Building and construction	59,649	3,007	—
Manufacturing	50,337	51,240	18,408
Transportation	25,738	11,880	2,905
Agriculture, forestry and timber	16,520	19,863	1,527
Food	16,407	—	—
Municipal government	28,720	8,631	—
Finance	11,686	17,008	39,786
Chemistry	10,636	—	—
Power generation	4,562	14,665	—
Other	37,718	25,949	24,629
Mining/metallurgy	—	—	12,500
	453,066	310,689	191,611

Significant credit exposures

As of 31 December 2002, the Bank had loan exposures to the OIL COMPANY LUKOIL GROUP totalling U.S.$143,642 thousand (2001: U.S.$ 86,804 thousand; 2000: U.S.$30,686 thousand). Refer note 30.

Loan maturities

The maturity of the Bank's loan portfolio is presented in note 34, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio. Due to the short-term nature of the credits issued by the Group, it is likely that many of the Group's credits will be

prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification indicated based on contractual terms.

15 Trading securities

	2002	*2001*	*2000*
		(U.S.$'000)	
Transneft common stock	74,092	—	—
LUKOIL ADRs	38,592	50,594	—
Russian Government OFZ bonds	20,409	14,917	35,623
Russian corporate bonds	16,647	—	—
Russian Government Eurobonds	12,338	—	13,851
Regional government bonds	12,192	331	1,777
LUKOIL common stock	8,582	150	14,530
Other equity securities traded on the Russian Trading System	6,211	143	1,561
Other bonds	109	—	—
Russian Government Ministry of Finance bonds	—	16	9
	189,172	66,151	67,351

The Group has pledged LUKOIL ADRs of U.S.$10,756 thousand, corporate bonds of U.S.$14,357 thousand and regional government bonds of U.S.$6,233 thousand as collateral for short-term deposits taken by the Group.

16 Investments in available for sale and other securities

	2002	2001	2000
		(U.S.$'000)	
Available for sale securities:			
LUKOIL ADRs	28,310	—	—
Russian Government Eurobonds	17,581	989	—
Municipal and other bonds	9,587	2,178	178
Promissory notes of OAO GAZPROM and Gazprombank	5,229	11,405	24,502
Equity securities	1,890	2,028	—
Russian Government Ministry of Finance Bonds	23	—	—
Other promissory notes	12,060	4,619	—
LUKOIL common stock	—	93	—
	74,680	21,312	24,680
Other securities:			
Investments in affiliated companies	522	563	43
Investments in unconsolidated subsidiaries	271	164	140
Other securities	50		2,521
Investments in Petrocommerce Bank-Ukraine accounted for under the equity method	—	2,304	—
	843	3,031	2,704
Total investments in available for sale and other securities	75,523	24,343	27,384
Provision for impairment	(457)	(227)	(87)
	75,066	24,116	27,297

Analysis of movements in the provision for impairment

	2002	2001	2000
		(U.S.$'000)	
Balance at the beginning of the year	(227)	(87)	(266)
Balance at the end of the year	457	227	87
Charge to income statement	230	140	(179)

As at 31 December 2002 unconsolidated subsidiaries are comprised of:

Name	*Country of Incorporation*	*Main Activity*	*Provision*	*Per cent. Controlled*	*Carrying Value U.S.$'000*
Nafta (It) Spa	Italy	Financial services	—	99	81
PetrocommerceInvest Consulting – Austria	Austria	Financial Services	—	100	76
Eurosib	Russia	Consulting services	—	62	23
Bank MB	Russia	Financial services	87	51.5	—
Salon Elegance on Petrovka	Russia	Tailoring	—	70	—
Centurion-Saratov	Russia	Security services	—	100	4
			87		184

As at 31 December 2001 unconsolidated subsidiaries are comprised of:

Name	*Country of Incorporation*	*Main Activity*	*Provision*	*Per cent. Controlled*	*Carrying Value U.S.$ '000*
PetrocommerceInvest Consulting – Austria ..	Austria	Financial Services	—	100	75
Bank MB.....	Russia	Financial services	87	51.5	—
Salon Elegance on Petrovka	Russia	Tailoring	—	70	—
Centurion-Saratov.....	Russia	Security services	—	100	2
			87		77

As at 31 December 2000 unconsolidated subsidiaries are comprised of:

Name	*Country of Incorporation*	*Main Activity*	*Provision*	*Per cent. Controlled*	*Carrying Value U.S.$ '000*
PetrocommerceInvest Consulting	Russia	Financial Services	—	100	53
Bank MB.....	Russia	Financial services	87	51.5	—
			87		53

The cost of the Bank's investment in Bank MB has been fully provided for as the CBR has removed Bank MB's banking licence and it is currently under bankruptcy proceedings.

The above entities have not been consolidated in these financial statements, as management considers that the impact of consolidation would not be material.

As at 31 December 2002 affiliated companies are comprised of:

Name	*Country of Incorporation*	*Main Activity*	*Provision*	*Per cent. Controlled*	*Carrying Value U.S.$'000*
LUKOIL Electronic Clearing House.....	Russia	Financial services	—	33	24
LUKOIL Intercard.....	Russia	Financial Services	—	48	452
Investment Centre of Komi Republic.....	Russia	Financial services	—	25	32
SIM-LUKOIL S.R.L.....	Moldova	Security services	—	40	14
			—		522

The Group has not equity accounted for the affiliated companies noted above as management considers that the impact on the financial statements of equity accounting would not be material.

As at 31 December 2001 affiliated companies are comprised of:

Name	*Country of Incorporation*	*Main Activity*	*Provision*	*Per cent. Controlled*	*Carrying Value U.S.$ '000*
LUKOIL Electronic Clearing House	Russia	Financial services	—	33	24
LUPECAR	Russia	Financial Services	—	50	19
LUKOIL Intercard	Russia	Financial Services	—	48	452
Eurosib	Russia	Consulting Services	—	50	23
Investment Centre of Komi Republic	Russia	Financial services	—	49	33
Timangeology	Russia	Geology	—	25	12
					563

As at 31 December 2000 affiliated companies are comprised of:

Name	*Country of Incorporation*	*Main Activity*	*Provision*	*Per cent. Controlled*	*Carrying Value U.S.$'000*
LUKOIL Electronic Clearing House	Russia	Clearing activities	—	33	24
LUKOIL -Petrocommerce Card	Russia	Clearing activities	—	50	19
					43

The Group has not equity accounted for the affiliated companies noted above as management considers that the impact on the financial statements of equity accounting would not be material.

17 Held to maturity securities

	2002	*2001*	*2000*
		(U.S.$'000)	
Short-term treasury bills of the Government of Moldova and Russian regional bonds	1,911	22	61
Provision for impairment	—	(22)	(61)
	1,911	—	—

Analysis of movements in the provision for impairment

	2002	*2001*	*2000*
		(U.S.$'000)	
Balance at the beginning of the year	(22)	(61)	(310)
Balance at the end of the year	—	22	61
Charge to Income Statement	(22)	(39)	(249)

18 Acquisitions

During 2002, the Group acquired 100 per cent. of the outstanding common stock of JSC BC UNIBANK S.A., 90.76 per cent. of the outstanding common stock of JSC Petrocommerce-Ukraine Bank and 71.66 per cent. of the outstanding common stock of JSC Stavropolpromstroybank. Presented below are summarised balance sheets which display the approximated fair values of assets and liabilities of these companies at the date the Group obtained control of these companies:

	JSC BC UNIBANK S.A.	*JSC Petrocommerce-Ukraine Bank*	*JSC Stavropolprom stroybank*
Financial assets	16,777	32,313	19,391
Financial liabilities	(12,832)	(30,062)	(18,968)
Net financial assets	3,945	2,251	423
Property, plant and equipment	1,887	2,345	3,135
Other assets	489	1,210	568
Other liabilities	(280)	(470)	(183)
Minority interest	—	(493)	(1,381)
Net assets	6,041	4,843	2,562

In December, 2001 the Bank acquired a controlling interest in Ukhtabank through ownership of 66.7 per cent. of the common stock of Ukhtabank. The fair value of assets acquired and liabilities assumed are as follows:

	Ukhtabank
Financial assets	61,560
Financial liabilities	(58,407)
Net financial assets	3,153
Property, plant and equipment	4,331
Other assets	603
Other liabilities	(179)
Minority interest	(2,633)
Net assets	5,275

19 Other assets

	2002	*2001*	*2000*
		(U.S.$'000)	
Prepayments for fixed assets	9,805	5,632	—
Tax prepayments	5,363	802	269
Materials and supplies	3,581	423	1,121
Accrued interest receivable	2,784	1,053	577
Settlements with suppliers and customers	—	1,647	971
Other receivables	2,476	1,188	435
Provision for other assets	(200)	(709)	—
	23,809	10,036	3,373

20 Property, plant and equipment

	Land and buildings	*Plant and Equipment*	*Construction in progress*	*Leasehold assets*	*Intangible assets*	*Total*
			(U.S.$'000)			
Cost						
At January 1, 2000	2,481	3,944	2,389	—	402	9,216
Additions	375	2,298	6,257	1,446	708	11,084
Disposals	(1,793)	(648)	(988)	—	(28)	(3,457)
At December 31, 2000	1,063	5,594	7,658	1,446	1,082	16,843
Additions	4,002	1,079	2,695	2,484	560	10,820
Disposals	(882)	(724)	(720)	—	(2)	(2,328)
Transfers	6,752	—	(6,752)	—	—	—
Acquisition of subsidiaries	484	279	—	—	29	792
At December 31, 2001	11,419	6,228	2,881	3,930	1,669	26,127
Additions	1,943	3,414	12,844	34	229	18,464
Disposals	(501)	(509)	(2,128)	(178)	(130)	(3,446)
Transfers	374	—	(374)	—	—	—
Acquisition of subsidiaries	4,954	2,272	8	—	133	7,367
At December 31, 2002	18,189	11,405	13,231	3,786	1,901	48,512
Depreciation						
At January 1, 2000	(87)	(1,301)	—	—	(137)	(1,525)
Depreciation charge for the year	(1)	(1,216)	—	(317)	(63)	(1,597)
Disposals during the year	80	590	—	—	1	671
At December 31, 2000	(8)	(1,927)	—	(317)	(199)	(2,451)
Depreciation charge for the year	(120)	(698)	—	(786)	(279)	(1,883)
Disposals during the year	11	299	—	—	1	311
Acquisition of subsidiaries	(63)	(222)	—	—	(18)	(303)
At December 31, 2001	(180)	(2,548)	—	(1,103)	(495)	(4,326)
Depreciation/ amortisation charge for the year	(194)	(1,002)	—	(790)	(405)	(2,391)
Disposals during the year	39	160	—	76	116	391
At December 31, 2002	(335)	(3,390)	—	(1,817)	(784)	(6,326)
Net book value						
At December 31, 1999	2,394	2,643	2,389	—	265	7,691
At December 31, 2000	1,055	3,667	7,658	1,129	883	14,392
At December 31, 2001	11,239	3,680	2,881	2,827	1,174	21,801
At December 31, 2002	17,854	8,015	13,231	1,969	1,117	42,186

21 Deposits and balances from banks and other financial institutions

	2002	2001	2000
		(U.S.$'000)	
Vostro accounts	14,318	10,847	87,889
Term deposits	114,774	17,013	2,717
	129,092	27,860	90,606

Concentration of deposits and balances from banks and other financial institutions

As of 31 December 2002 one bank maintained a deposit with the Group which individually comprised more than 10 per cent. of deposits and balances from banks and other financial institutions. The gross value of this deposit as of 31 December 2002 was U.S.$37,754 thousand (2001: nil; 2000: nil).

22 Current accounts and deposits from customers

	2002	2001	2000
		(U.S.$'000)	
Demand deposits	385,059	409,127	183,057
Term deposits	217,949	113,041	91,076
	603,008	522,168	274,133

As of 31 December 2002, the Group maintained customer deposit balances of U.S.$3,559 thousand (2001: U.S.$12,371 thousand; 2000: U.S.$18,769) which were blocked by the Group as collateral for loans and off-balance sheet credit instruments granted by the Group.

Concentrations of current accounts and customer deposits

As of 31 December 2002, OIL COMPANY LUKOIL GROUP (2001, OIL COMPANY LUKOIL GROUP) maintained deposits with the Group, which comprised more than 10 per cent. of current accounts and deposits from customers. The gross value of these deposits as of 31 December 2002 was U.S.$125,868 thousand (2001: U.S.$115,385 thousand; 2000 U.S.$152,163 thousand). The Fund of Social Insurance of Russian Federation also maintained deposits with the Group, which individually comprised more than 10 per cent. of current accounts and deposits from customers. The gross value of this deposit as of 31 December 2002 was U.S.$95,257 thousand (2001: U.S.$165,902 thousand; 2000: nil).

23 Other liabilities

	2002	2001	2000
		(U.S.$'000)	
Accrued interest payable	1,697	1,802	1,108
Settlements with suppliers and customers	1,326	458	5
Liabilities under capital leases	1,451	2,734	1,129
Provision for off-balance sheet credit exposures	1,000	—	92
Income taxes payable	298	773	123
Revenue taxes payable	55	—	42
Dividends payable	8	—	—
Amounts payable in respect of investment in Petrocommerce Bank-Ukraine	—	1,074	—
Other	903	391	28
	6,738	7,232	2,527

Analysis of movements in the provision for off-balance sheet credit exposures

	2002	2001	2000
		(U.S.$'000)	
Balance at the beginning of the year	—	(92)	(287)
Balance at the end of the year	1,000	—	92
Net movement in provision during the year	1,000	(92)	(195)

24 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets			Liabilities			Net		
	2002	2001	2000	2002	2001	2000	2002	2001	2000
				(U.S.$'000)					
Placements with banks and other financial institutions	520	—	—	—	—	—	520	—	—
Loans to customers	3,622	3,412	1,465	(55)	—	—	3,567	3,412	1,465
Trading securities	3	—	(203)	(484)	(2,084)	—	(481)	(2,084)	(203)
Investments in available for sale and other securities	—	—	—	(1,833)	(262)	—	(1,833)	(262)	—
Held to maturity securities	—	5	—	—	—	—	—	5	—
Property, plant and equipment	287	—	—	(923)	—	—	(636)	—	—
Other assets	279	656	705	(101)	—	—	178	656	705
Current accounts and deposits from customers	—	—	—	(236)	—	—	(236)	—	—
Certificates of deposit and promissory notes	100	—	—	—	(55)	(92)	100	(55)	(92)
Other liabilities	692	—	—	—	(373)	(178)	692	(373)	(178)
Net tax assets/ (liabilities) before valuation allowance	5,503	4,073	1,967	(3,632)	(2,774)	(270)	1,871	1,299	1,697
Valuation allowance							(278)	—	—
Net tax assets							1,593	1,299	1,697

Balance sheet classifications of deferred taxes are as follows:

	2002	2001	2000
		(U.S.$'000)	
Deferred tax assets	2,244	1,299	1,697
Valuation allowance	(278)	—	—
Net deferred tax asset	1,966	1,299	1,697
Deferred tax liability	(373)	—	—
	1,593	1,299	1,697

Movement in temporary differences during the year

	1 January 2001	*Recognised in income*	*Acquisition of subsidiaries*	*1 January 2002*	*Recognised in income*	*Recognised in equity*	*Acquisition of subsidiaries*	*31 December 2002*
				U.S.$'000				
Placements with banks and other financial institutions	—	—	—	—	482	—	38	520
Loans to customers	1,465	1,771	176	3,412	(307)	—	462	3,567
Trading securities	(203)	(1,866)	(15)	(2,084)	1,600	—	3	(481)
Investments in available for sale and other securities	—	(192)	(70)	(262)	181	(1,491)	(261)	(1,833)
Held to maturity securities	—	5	—	5	(5)	—	—	—
Property, plant and equipment	—	—	—	—	(441)	—	(195)	(636)
Other assets	705	(49)	—	656	(388)	—	(90)	178
Current accounts and deposits from customers	—	—	—	—	(236)	—	—	(236)
Certificates of deposits and promissory notes	(92)	37	—	(55)	155	—	—	100
Other liabilities	(178)	(178)	(17)	(373)	1,003	—	62	692
	1,697	(472)	74	1,299	2,044	(1,491)	19	1,871

In order to fully realise the deferred tax asset, the Bank will need to generate future taxable income of approximately U.S.$8,192 thousand. Taxable income for the years ended 31 December 2002, 2001 and 2000 was U.S.$40,034 thousand, U.S.$30,712 thousand and U.S.$19,029 thousand respectively. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, the management of the Bank considers that the deferred tax asset of U.S.$1,996 thousand will be realised.

The amount of the deferred tax asset considered realisable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

25 Stockholders equity

Common and preference stock

Share capital of the Bank as at 31 December 2002 comprises 450,000 thousand common stock shares with par value of RUR 10 per share and 500 thousand preference stock shares with par value of RUR 1,000 per share.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

The minimum dividend to be received by holders of preference stock shares is not stipulated by the Charter of the Bank. The amount of dividend is determined and approved annually at the Bank's annual general meeting. The preference shares do not carry the right to vote unless no dividend is declared at the Bank's annual general meeting, in which case they are entitled to one vote per share.

Additionally, the holders of preference stock shares gain voting rights at general meetings in the event that the agenda of the meeting includes discussions of:

- reorganisation or liquidation of the Bank, or
- amendments to the Charter, if the amendments restrict the rights of holders of preferred shares.

In the event of liquidation, holders of preference shares have the right to receive either a distribution of the remaining net assets of the Bank which is equivalent to their percentage holding in the Bank (calculated as a proportion of the total number of ordinary and preference shares in issue), or to receive cash and cash equivalents equal to 70 per cent. of the nominal value of the shares. The decision as to which method of distribution will take place is based on the decision of the voting stockholders.

Dividends

The Bank declared dividends totalling U.S.$3,074 thousand in respect of the year ended 31 December 2001, during April 2002. The Bank declared dividends in the amount of 3.91111 per cent. per common share and 28.80001004 per cent. per preference share totalling U.S.$10,379 thousand for the year ended 31 December 2002 during May 2003.

Treasury stock

Treasury stock comprises the cost of the Bank's common stock shares held by the Group. At the balance sheet date the Bank held 34,528,867 of its own common stock shares (2001: 33,864,755 shares; 2000: 43,826 shares).

26 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Group's operations. The major risks faced by the Group are those related to credit exposures, liquidity and movements in interest rates and foreign exchange rates. These risks are managed in the following manner:

(i) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group.

The Group has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee which actively monitors the Group's credit risk.

The Group's credit policy is reviewed and approved by the Board of Directors.

(ii) Interest rate risk

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Group's management. These limits restrict the potential effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities.

The Group's interest rate policy is reviewed and approved by the Board of Directors.

See note 33 "Average effective interest rates".

(iii) Liquidity risk

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due.

The Group's liquidity policy is reviewed and approved by the Board of Directors.

See note 34 "Maturity analysis".

(iv) Foreign exchange rate risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currencies risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

The Group's foreign currency policy is reviewed and approved by the Board of Directors.

See note 35 "Currency analysis".

27 Off-balance sheet credit commitments

Guarantees and letters of credit

The Group issues guarantees and letters of credit on behalf of its customers. These instruments bear a credit risk similar to that of loans granted. The contractual amounts outstanding are as follows and are shown based on the contractual maturity of the instrument:

	2002	*2001*	*2000*
		(U.S.$'000)	
Guarantees issued maturing in:			
2001	—	—	4,624
2002	—	6,247	—
2003	35,593	3	—
After 2003	785	—	—
Import letters of credit maturing in:			
2001	—	—	19,023
2002	—	12,179	—
2003	5,143	—	—
Confirmed export letters of credit maturing in:			
2001	—	—	429
2002	—	175	—
2003	929	—	—

The total outstanding contractual amount of guarantee and letter of credit does not necessarily represent future cash requirements, as many of these commitments may expire or terminate without being funded.

The contractual maturity of the above instruments is the latest date that the Group may be called to honour its obligation under the instrument.

Undrawn loan commitments

At 31 December 2002, the Group had the following undrawn loan commitments:

2002	*2001*	*2000*
	(U.S.$'000)	
97,750	10,426	3,753

The above undrawn loan commitments include only those loan commitments that are not fully cancellable at the Group's discretion. The total outstanding contractual amount of commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments may expire or terminate without being funded.

28 Obligations under capital and operating leases

	Capital Leases			*Operating leases*		
	2002	*2001*	*2000*	*2002*	*2001*	*2000*
			(U.S.$'000)			
Future minimum lease payments:						
2001	—	—	640	—	—	829
2002	—	1,918	497	—	1,062	483
2003	1,291	1,344	187	1,271	233	422
2004	551	598	16	894	262	422
2005	44	38	—	445	299	—
2006	—	—	—	503	337	—
2007	—	—	—	289	—	—
Remainder	—	—	—	54	—	537
Total minimum lease payments	1,886	3,898	1,340	3,456	2,193	2,693
Less: amount representing interest	(435)	(1,164)	(211)			
Present value of net minimum lease obligations	1,451	2,734	1,129			

The Group leases a number of computers and other equipment under capital leases. The leases typically run for an initial period of five years. None of the leases include contingent rentals.

During 2002 U.S.$1,324 thousand (2001: U.S.$1,018 thousand; 2000: U.S.$426 thousand) was recognised as an expense in the income statement in respect of operating leases.

29 Contingencies

(i) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Group property or relating to the Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(ii) Litigation

The Bank management is unaware of any significant actual, pending or threatened claims against the Bank.

(iii) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by numerous taxes and frequently changing legislation, which may be applied retroactively and is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in the Russian Federation substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

30 Related party transactions

The Group is substantially owned by members of the OIL COMPANY LUKOIL GROUP. A significant proportion of its transactions are with the OIL COMPANY LUKOIL GROUP, and as of 31 December 2002 a significant portion of its funding is from and its credit exposures are to, members of the OIL COMPANY LUKOIL GROUP.

The outstanding balances and the average interest rates thereon as of 31 December 2002, 2001 and 2000 with members of the OIL COMPANY LUKOIL GROUP are as follows:

	2002	*Average Interest Rate*	*2001*	*Average Interest Rate*	*2000*	*Average Interest Rate*
	(U.S.$'000)		*(U.S.$'000)*		*(U.S.$'000)*	
Loans to customers						
Loans to directors and senior management of members of OIL COMPANY LUKOIL GROUP	105	14.2%	356	15.5%	526	10%
Loans to the members of OIL COMPANY LUKOIL GROUP	143,642	13.9%	86,804	14.2%	30,686	15%
Loans to affiliated companies other than OIL COMPANY LUKOIL GROUP	—	—	—	—	18,457	12%
Trading securities						
Shares of members of the OIL COMPANY LUKOIL GROUP	47,174	—	50,744	—	14,530	—
Investments in available for sale and other securities						
Shares of the members of the OIL COMPANY LUKOIL GROUP	29,168	—	811	—	183	—
Current accounts and deposits from customers						
Current accounts and deposits from members of the OIL COMPANY LUKOIL GROUP	125,868	5.9%	115,385	0.4%	152,163	0.6%
Placements with banks and other financial institutions						
Placements with banks and other financial institutions of the OIL COMPANY LUKOIL GROUP	76	—	—	—	—	—
Promissory notes issued						
Promissory notes issued to members of the OIL COMPANY LUKOIL GROUP	23,933	4.0%	14,734	3.2%	6,548	4.7%
Commitments and contingencies						
Undrawn loan commitments to the members of the OIL COMPANY LUKOIL GROUP	47,434	—	4,063	—	825	—
Guarantees and letters of credit issued on behalf of the members of the OIL COMPANY LUKOIL GROUP	30,232	—	8,917	—	18,115	—

Amounts included in the consolidated income statements for the years ended 31 December 2002, 2001 and 2000 in relation to transactions with OIL COMPANY LUKOIL GROUP are as follows:

	2002	*2001*	*2000*
		(U.S.$'000)	
Interest income	13,757	6,947	2,493
Interest expense	(2,141)	(2,372)	(2,791)
Net interest income	11,616	4,575	(298)
Fee and commission income	8,585	8,301	3,992
Fee and commission expense	(80)	—	(54)
Net income from foreign exchange	4,474	4,250	3,302
Non-interest income	12,979	12,551	7,240
Realised gains from LUKOIL shares	14,625	1,778	—
Unrealised gains from LUKOIL shares	7,426	8,204	(1,979)

31 Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flow is composed of the following items:

	2002	*2001*	*2000*
		(U.S.$'000)	
Cash	21,357	16,983	8,511
Due from Central Bank – nostro accounts	104,090	135,673	50,355
	125,447	152,656	58,866

32 Fair value of financial instruments

SFAS No. 107, "*Disclosures about Fair Value of Financial Instruments*" requires that for all financial instruments, an enterprise should disclose information about fair value.

The fair value of financial instruments may be determined by one of several generally accepted methods, including quoted market prices (if the instruments are traded in an active and liquid market), or, in markets where there is infrequent activity, with reference to the current market value of other instruments with similar characteristics to those being valued or discounted cash flow analysis using "a discount rate commensurate with the risks involved" (indicator interest rates). In cases where it is not practicable to determine, within the constraints of timeliness or cost, the fair value of a financial asset with sufficient reliability that fact should be disclosed.

The Group has performed an assessment of its financial instruments, as required by SFAS No. 107, to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

The following table presents the carrying amounts and estimated fair values of the Group's financial instruments at 31 December 2002, 2001 and 2000, for which fair value could be determined within the constraints of timeliness and cost. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

	2002		*2001*		*2000*	
	Book Value	*Fair Value*	*Book Value*	*Fair Value*	*Book Value*	*Fair Value*
			(U.S.$'000)			
Cash	21,357	21,357	16,983	16,983	8,511	8,511
Due from the Central Bank of the Russian Federation	174,300	174,300	184,198	183,096	92,007	90,591
Placements with banks and other financial institutions	153,757	153,757	175,488	175,488	50,458	50,458
Amounts receivable under reverse repurchase agreements	2,112	2,112	—	—	—	—
Trading securities	189,172	189,172	66,151	66,151	67,351	67,351
Deposits and balances from banks and other financial institutions	129,092	129,092	27,860	27,860	90,606	90,606

Based on its assessment of whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability for those financials instruments not listed in the table above, the Group has concluded that due to the lack of liquidity and published "indicator interest rates" in the Russian markets, and the fact that many of its transactions are with related parties and of a very specialised nature, it is not possible to determine the fair value of loans to customers, current accounts and deposits to customers, certificates of deposit and promissory notes, investments in available for sale and other securities and held to maturity securities.

33 Average effective interest rates

The table below displays the Group's interest bearing assets and liabilities as at 31 December 2002, 2001 and 2000 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2002	Average Interest Rate	2001	Average Interest Rate	2000	Average Interest Rate
	(U.S.$'000)		(U.S.$'000)		(U.S.$'000)	
Interest Bearing Assets						
Due from Central Bank of Russian Federation						
— minimum reserve deposit and nostro account	174,300	0%	184,198	0%	92,007	0%
Placements with banks and other financial institutions						
Nostro						
— roubles	3,004	0.21%	7,846	0.5%	1,766	0.6%
— other currencies	20,238	0.76%	65,070	1.5%	1,949	1.5%
Term deposits						
— roubles	49,675	2.76%	5,573	23.6%	3,913	6.4%
— other currencies	80,840	3.05%	96,999	2.9%	42,830	3.3%
Loans to customers						
— roubles	258,630	18.6%	210,623	17.6%	110,155	15%
— other currencies	166,943	13.6%	80,899	13.6%	74,492	14%
Trading securities						
— roubles	49,248	16.7%	15,248	16.1%	37,400	21%
— other currencies	12,447	9.1%	16	14.1%	13,860	13%
Investments in available for sale and other securities						
— roubles	25,360	20.0%	18,062	26.8%	24,680	25%
— other currencies	18,750	10.3%	989	15.6%	—	—
Held to maturity securities						
— roubles	—	—	—	—	—	—
— other currencies	1,911	5.98%	—	—	—	—

Interest Bearing Liabilities

Deposits and balances from banks and other financial institutions

	2002	Average Interest Rate	2001	Average Interest Rate	2000	Average Interest Rate
	(U.S.$'000)		(U.S.$'000)		(U.S.$'000)	
Vostro						
— roubles	11,209	0.86%	6,455	0.3%	83,877	0.6%
— other currencies	3,109	0.17%	4,392	1.5%	4,012	1.5%
Term deposits						
— roubles	75,918	10.0%	4,313	31.2%	2,362	24%
— other currencies	38,856	6.5%	12,700	10.5%	355	6.3%
Current accounts and deposits from customers						
— roubles	366,456	4.2%	384,182	1.2%	146,437	1%
— other currencies	236,552	5.2%	137,986	3.2%	127,696	3%
Certificates of deposit and promissory notes						
— roubles	105,114	12.4%	58,173	9.7%	15,922	12%
— other currencies	58,110	5.5%	9,486	5.0%	17,455	6%

34 Maturity analysis

The following tables show assets and liabilities by remaining contractual maturity dates as at 31 December 2002. Due to the fact that substantially all the financial instruments of by the Group are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

	Less than 1 month	*1 to 3 months*	*3 to 6 months*	*6 months to 1 year*	*More than 1 year*	*No maturity*	*Total*
				(U.S.$'000)			
Assets							
Cash	21,357	—	—	—	—	—	21,357
Due from the Central Bank of the Russian Federation	104,090	—	—	—	—	70,210	174,300
Placements with banks and other financial institutions	138,816	10,919	474	1,929	—	1,619	153,757
Loans to customers	78,183	62,864	50,668	108,513	125,345	—	425,573
Trading securities	1,634	1,224	3,500	740	54,596	127,478	189,172
Investments in available for sale and other securities	4,952	4,260	5,856	6,200	22,861	30,937	75,066
Held to maturity securities	—	1,218	401	292	—	—	1,911
Amounts receivable under reverse repurchase agreements	2,112	—	—	—	—	—	2,112
Goodwill	—	—	—	—	—	3,672	3,672
Deferred tax assets	—	—	—	—	1,966	—	1,966
Other assets	4,477	143	1	7,179	12,009	—	23,809
Property, plant and equipment	—	—	—	—	—	42,186	42,186
Total Assets	355,621	80,628	60,900	124,853	216,777	276,102	1,114,881
Liabilities							
Deposits and balances from banks and other financial institutions	44,121	64,471	—	20,500	—	—	129,092
Current accounts and deposits from customers	425,649	51,445	87,365	10,780	27,769	—	603,008
Certificates of deposit and promissory notes	45,935	59,293	46,116	5,025	6,855	—	163,224
Deferred tax liability	—	—	—	—	373	—	373
Other liabilities	3,431	—	1,000	—	2,307	—	6,738
Total Liabilities	519,136	175,209	134,481	36,305	37,304	—	902,435
Net position as at 31 December 2002	(163,515)	(94,581)	(73,581)	88,548	179,473	276,102	212,446
Net position as at 31 December 2001	(119,880)	40,587	33,584	52,090	32,013	128,281	166,675

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2001. Due to the fact that substantially all the financial instruments of the Group are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

	Less than 1 month	*1 to 3 months*	*3 to 6 months*	*6 months to 1 year*	*More than 1 year*	*No maturity*	*Total*
				(U.S.$'000)			
Assets							
Cash	16,983	—	—	—	—	—	16,983
Due from the Central Bank of the Russian Federation	140,119	—	—	—	—	44,079	184,198
Placements with banks and other financial institutions	146,870	7,636	5,675	4,417	10,890	—	175,488
Loans to customers	68,518	62,861	61,692	70,493	23,241	4,717	291,522
Trading securities	—	27	1,201	2,985	11,051	50,887	66,151
Available for sale securities	427	5,174	4,355	6,266	2,829	5,065	24,116
Held to maturity securities	—	—	—	—	—	—	—
Deferred tax assets	—	—	—	—	—	1,299	1,299
Other assets	4,643	—	2,713	1,415	795	470	10,036
Property, plant and equipment	—	—	—	—	—	21,801	21,801
Total Assets	377,560	75,698	75,636	85,576	48,806	128,318	791,594
Liabilities							
Deposits and balances from banks and other financial institutions	16,510	1,350	—	—	10,000	—	27,860
Current accounts and deposits from customers	450,497	21,356	25,185	23,067	2,063	—	522,168
Certificates of deposit and promissory notes	27,046	12,405	16,867	7,998	3,343	—	67,659
Other liabilities	3,387	—	—	2,421	1,387	37	7,232
Total Liabilities	497,440	35,111	42,052	33,486	16,793	37	624,919
Net position as at 31 December 2001	(119,880)	40,587	33,584	52,090	32,013	128,281	166,675
Net position as at 31 December 2000	(185,570)	9,900	40,987	52,982	52,195	78,596	49,090

The following table shows banking assets and liabilities by remaining contractual maturity dates as at 31 December, 2000. Due to the fact that substantially all the financial instruments of by the Bank are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

	Less than 1 month	*1 to 3 months*	*3 to 6 months*	*6 months to 1 year*	*More than 1 year*	*No maturity*	*Total*
				(U.S.$'000)			
Banking Assets							
Cash	8,511	—	—	—	—	—	8,511
Due from the Central Bank of the Russian Federation	50,355	—	—	—	—	41,652	92,007
Placements with banks and other financial institutions	32,533	78	5,514	11,343	—	990	50,458
Loans to customers	60,168	45,537	43,719	28,486	6,737	—	184,647
Trading securities	—	888	889	3,090	46,393	16,091	67,351
Available for sale securities	138	2,020	2,074	20,246	203	2,520	27,201
Held to maturity securities	—	—	—	—	—	—	—
Investments in unconsolidated subsidiaries and associates	—	—	—	—	—	96	96
Deferred tax assets	—	—	—	—	—	1,697	1,697
Total banking assets	151,705	48,523	52,196	63,165	53,333	63,046	431,968
Banking Liabilities							
Deposits and balances from banks and other financial institutions	90,605	—	—	—	—	1	90,606
Current accounts and deposits from customers	239,109	23,784	6,871	4,181	188	—	274,133
Certificates of deposit and promissory notes	7,248	14,839	4,338	6,002	950	—	33,377
Deferred tax liabilities	—	—	—	—	—	—	—
Total banking liabilities	336,962	38,623	11,209	10,183	1,138	1	398,116
Net position as at 31 December 2000	(185,257)	9,900	40,987	52,982	52,195	63,045	33,852
Net position as at 31 December 1999	2,365	(16,301)	(3,441)	(2,837)	4,961	27,984	12,730

35 Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2002:

	Roubles	*Other currencies*	*Total*
		(U.S.$'000)	
Assets			
Cash	13,550	7,807	21,357
Due from the Central Bank of the Russian Federation	174,300	—	174,300
Placements with banks and other financial institutions	52,679	101,078	153,757
Loans to customers	258,630	166,943	425,573
Trading securities	138,073	51,099	189,172
Investments in available for sale and other securities	27,145	47,921	75,066
Held to maturity securities	—	1,911	1,911
Amounts receivable under reverse repurchase agreements	—	2,112	2,112
Goodwill	3,672	—	3,672
Deferred tax assets	1,966	—	1,966
Other assets	19,577	4,232	23,809
Property, plant and equipment	37,954	4,232	42,186
Total Assets	727,546	387,335	1,114,881
Liabilities			
Deposits and balances from banks and other financial institutions	87,127	41,965	129,092
Current accounts and deposits from customers	366,456	236,552	603,008
Certificates of deposit and promissory notes	105,114	58,110	163,224
Deferred tax liability	114	259	373
Other liabilities	5,269	1,469	6,738
Total Liabilities	564,080	338,355	902,435
Net Position as of 31 December 2002	163,466	48,980	212,446
Net Position as of 31 December 2001	29,536	137,139	166,675

The following table shows the currency structure of assets and liabilities at 31 December 2001:

	Roubles	*Other currencies*	*Total*
		(U.S.$'000)	
Assets			
Cash	10,645	6,338	16,983
Due from the Central Bank of the Russian Federation	184,198	—	184,198
Placements with banks and other financial institutions	13,419	162,069	175,488
Loans to customers	210,623	80,899	291,522
Trading securities	15,541	50,610	66,151
Available for sale securities	20,747	3,369	24,116
Held to maturity securities	—	—	—
Deferred tax assets	1,299	—	1,299
Other assets	9,696	340	10,036
Property, plant and equipment	21,801	—	21,801
Total Assets	487,969	303,625	791,594
Liabilities			
Deposits and balances from banks and other financial institutions	10,768	17,092	27,860
Current accounts and deposits from customers	384,182	137,986	522,168
Certificates of deposit and promissory notes	58,173	9,486	67,659
Other liabilities	5,310	1,922	7,232
Total Liabilities	458,433	166,486	624,919
Net Position as of 31 December 2001	29,536	137,139	166,675
Net Position as of 31 December 2000	60,641	(11,551)	49,090

The following table shows the currency structure of assets and liabilities at 31 December, 2000:

	Rubles	*Other currencies*	*Total*
		(U.S.$'000)	
Banking Assets			
Cash	5,492	3,019	8,511
Due from the Central Bank of the Russian Federation	92,007	—	92,007
Placements with banks and other financial institutions	5,679	44,779	50,458
Loans to customers	110,155	74,492	184,647
Trading securities	51,526	15,825	67,351
Available for sale securities	27,201	—	27,201
Held to maturity securities	—	—	—
Investments in unconsolidated subsidiaries and associates	96	—	96
Deferred tax assets	1,697	—	1,697
Total Banking Assets	293,853	138,115	431,968
Banking Liabilities			
Deposits and balances from banks and other financial institutions	86,239	4,367	90,606
Current accounts and deposits from customers	146,437	127,696	274,133
Certificates of deposit and promissory notes	15,922	17,455	33,377
Total Banking Liabilities	248,598	149,518	398,116
Net Position as of 31 December 2000	45,255	(11,403)	33,852
Net Position as of 31 December 1999	14,771	(2,041)	12,730

36 Concentration of assets liabilities

The geographical concentration of assets and liabilities as at 31 December 2002 was as follows:

	Government of the Russian Federation	*Other Russian Entities*[1]	*Other Non-OECD*	*OECD*	*Total*
			(U.S.$'000)		
Assets					
Cash	13,550	—	1,174	6,633	21,357
Due from the Central Bank of the Russian Federation	174,300	—	—	—	174,300
Placements with banks and other financial institutions	—	62,099	8,608	83,050	153,757
Loans to customers	—	378,080	35,803	11,690	425,573
Trading securities	32,746	156,258	168	—	189,172
Investments in available for sale and other securities	17,604	55,454	1,850	158	75,066
Held to maturity securities	—	—	1,911	—	1,911
Amounts receivable under reverse repurchase agreements	—	2,112	—	—	2,112
Goodwill	—	3,672	—	—	3,672
Deferred tax assets	1,966	—	—	—	1,966
Other assets	5,327	11,782	6,700	—	23,809
Property, plant and equipment	—	37,954	4,232	—	42,186
Total Assets	245,493	707,411	60,446	101,531	1,114,881
Liabilities					
Deposits and balances from banks and other financial institutions	—	104,308	11,688	13,096	129,092
Current accounts and deposits from customers	91	526,080	40,776	36,061	603,008
Certificates of deposit and promissory notes	—	110,928	51,496	800	163,224
Deferred tax liabilities	114	—	259	—	373
Other liabilities	97	6,020	621	—	6,738
Total Liabilities	302	747,336	104,840	49,957	902,435
Net position as of 31 December 2002	245,191	(39,925)	(44,394)	51,574	212,446
Net position as of 31 December 2001	51,635	(34,080)	(13,719)	162,839	166,675

Note:

(1) Includes all entities domiciled in The Russian Federation, including the Russian subsidiaries of foreign entities.

The geographical concentration fo assets and liabilities as at 31 December 2001 was as follows:

	Government of the Russian Federation	*Other Russian Entities*[1]	*Other Non-OECD*	*OECD*	*Total*
			(U.S.$'000)		
Assets					
Cash	10,645	—	—	6,338	16,983
Due from the Central Bank of the Russian Federation	184,198	—	—	—	184,198
Placements with banks and other financial institutions	—	16,014	5,804	153,670	175,488
Loans to customers	6,321	275,843	5,919	3,439	291,522
Trading securities	15,264	50,887	—	—	66,151
Available for sale securities	1,502	20,234	2,304	76	24,116
Held to maturity securities	—	—	—	—	—
Deferred tax assets	1,299	—	—	—	1,299
Other assets	802	9,188	3	43	10,036
Property, plant and equipment	—	21,801	—	—	21,801
Total Assets	220,031	393,967	14,030	163,566	791,594
Liabilities					
Deposits and balances from banks and other financial institutions	—	24,106	3,754	—	27,860
Current accounts and deposits from customers	167,577	337,550	16,314	727	522,168
Certificates of deposit and promissory notes	—	61,052	6,607	—	67,659
Other liabilities	819	5,339	1,074	—	7,232
Total Liabilities	168,396	428,047	27,749	727	624,919
Net position as of 31 December 2001	51,635	(34,080)	(13,719)	162,839	166,675
Net position as of 31 December 2000	89,255	(88,636)	(10,222)	58,693	49,090

Note:

(1) Includes all entities domiciled in the Russian Federation including subsidiaries of foreign entities.

The geographical concentration of assets and liabilities as at 31 December, 2000 was as follows:

	Government of the Russian Federation	*Other Russian Entities*[1]	*Other Non-OECD*	*OECD*	*Total*
			(U.S.$'000)		
Banking assets					
Cash	5,492	—	—	3,019	8,511
Due from the Central Bank of the Russian Federation	92,007	—	—	—	92,007
Placements with banks and other financial institutions	—	6,505	51	43,902	50,458
Loans to customers	4,296	150,139	17,860	12,352	184,647
Trading securities	51,260	16,091	—	—	67,351
Available for sale securities	—	27,201	—	—	27,201
Held to maturity securities	—	—	—	—	—
Investments in unconsolidated subsidiaries and affiliated companies	—	96	—	—	96
Deferred tax assets	1,697	—	—	—	1,697
Total banking assets	154,752	200,032	17,911	59,273	431,968
Banking liabilities					
Deposits and balances from banks and other financial institutions	—	90,282	324	—	90,606
Current accounts and deposits from customers	65,602	196,841	11,060	630	274,133
Certificates of deposit and promissory notes	—	16,628	16,749	—	33,377
Deferred tax liabilities	—	—	—	—	—
Total banking liabilities	65,602	303,751	28,133	630	398,116
Net position as of 31 December 2000	89,150	(103,719)	(10,222)	58,643	33,852
Net position as of 31 December 1999	85,109	(147,466)	(4,268)	79,355	12,730

Note:

(1) Includes all entities domiciled in the Russian Federation, including the Russian subsidiaries of foreign entities.

Independent Auditors' Review Report

To the Board of Directors of OJSC Bank Petrocommerce

We have reviewed the accompanying consolidated balance sheet of OJSC Bank Petrocommerce and its subsidiaries as of 30 June, 2003 and the related consolidated statements of income, changes in stockholders' equity and comprehensive income, and cash flows for the six-month periods ended 30 June 2003 and 2002. These consolidated financial statements are the responsibility of the management of OJSC Bank Petrocommerce.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

KPMG Limited
Moscow, Russian Federation

6 October 2003

Income Statements for the 6 months ended 30 June 2003 and 2002

	Notes	*6 months ended 30 June 2003 (unaudited)*	*6 months ended 30 June 2002 (unaudited)*
		U.S. $ thousands	
Interest income	4	49,506	39,606
Interest expense	4	(36,136)	(24,185)
Net interest income before provision for loan impairment		13,370	15,421
Provision for loan impairment	5	(7,459)	(93)
Net interest income after provision for loan impairment		5,911	15,328
Fee and commission income	10	13,491	8,829
Fee and commission expense		(1,860)	(896)
Net income from trading securities	6	27,973	10,807
Net income from investments in available for sale and other securities	7	2,968	2,917
Net income from foreign exchange		4,863	1,075
Income from affiliates		—	165
Other income		1,930	1,637
Non-interest income		49,365	24,534
General administrative expenses	8	(27,048)	(16,679)
Income before other provisions, income tax and minority interest		28,228	23,183
Recovery of provision for impairment other than loan impairment	9	70	94
Income before income tax and minority interest		28,298	23,277
Income tax expense	11	(5,884)	(3,955)
Income before minority interest		22,414	19,322
Minority interest		99	(132)
Net income		22,513	19,190

See accompanying notes to financial statements.

Balance sheets as of 30 June 2003 and 31 December 2002

	Notes	*30 June 2003 (unaudited)*	*31 December 2002*
		(U.S.$ thousands)	
ASSETS			
Cash		28,027	21,357
Due from the Central Bank of the Russian Federation	12	221,077	174,300
Placements with banks and other financial institutions	13	102,136	153,757
Loans to customers	14	566,128	425,573
Trading securities	15	208,575	189,172
Investments in available for sale and other securities	16	144,222	75,066
Held to maturity securities	17	1,829	1,911
Amounts receivable under reverse repurchase agreements	18	30,880	2,112
Goodwill		3,566	3,672
Deferred tax assets	24	433	1,966
Other assets	19	64,968	23,809
Property, plant and equipment	20	40,188	42,186
Total Assets		1,412,029	1,114,881
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deposits and balances from banks and other financial institutions	21	55,585	129,092
Current accounts and deposits from customers	22	809,818	603,008
Certificates of deposit and promissory notes		246,587	163,224
Bonds issued	23	35,407	—
Deferred tax liability	25	6,924	373
Other liabilities	24	16,210	6,738
Total Liabilities		1,170,531	902,435
Minority Interest		1,808	2,171
Stockholders' Equity			
Common stock – 450,000,000 shares issued with a par value each of ruble 10 at June 30, 2003 (31 December 2002: 450,000,000 shares)	26	174,581	174,581
Preference stock – 500,000 shares issued with a par value each of ruble 1,000 each at June 30, 2003 (31 December 2002: 500,000 shares)	26	15,861	15,861
Treasury stock, at cost, at June 30, 2003 34,610,061 shares (31 December 2002: 34,528,867 shares)	26	(13,032)	(12,999)
Retained earnings		39,751	27,042
Accumulated other comprehensive income	27	22,529	5,790
Total Stockholders' Equity		239,690	210,275
Total Liabilities, Minority Interest and Stockholders' Equity		1,412,029	1,114,881

See accompanying notes to financial statements.

Statements of Cash Flows for the 6 months ended 30 June 2003 and 2002

	Notes	*6 months ended 30 June 2003 (unaudited)*	*6 months ended 30 June 2002 (unaudited)*
		(U.S.$ thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income		22,513	19,190
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for losses		7,389	(1)
Depreciation and amortisation		1,510	1,139
Unrealised (gains)/losses		(17,596)	1,108
Income from investments in affiliates accounted for using the equity method		—	(165)
Change in net accruals		1,603	3,404
Deferred taxation		4,569	2,152
Minority interest		(99)	132
Foreign exchange		(2,315)	—
Operating cash flow before changes in operating assets and liabilities		17,574	26,959
(Increase)/decrease in operating assets			
Reserve deposit with the Central Bank of the Russian Federation		(25,571)	(11,557)
Placements with banks and other financial institutions		57,847	(5,165)
Loans to customers		(125,403)	(3,695)
Trading securities		9,018	27,598
Amounts receivable under reverse repurchase agreements		(27,519)	—
Other operating assets		(32,807)	(5,663)
Increase/(decrease) in operating liabilities			
Deposits and balances from banks and other financial institutions		(77,775)	(5,309)
Current accounts and deposits from customers		174,154	15,989
Certificates of deposit, promissory notes		73,891	(17,946)
Bonds issued		32,753	—
Other operating liabilities		552	14,269
Net cash from operating activities		76,714	35,480
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of available for sale and other securities		(52,613)	(39,173)
Proceeds from held to maturity securities		168	—
Acquisition of subsidiaries net of cash acquired		521	780
Purchases of fixed and intangible assets		(4,201)	(7,622)
Net cash from investing activities		(56,125)	(46,015)
CASH FLOWS FROM FINANCING ACTIVITIES			
Sale of treasury stock		33	18
Dividends paid		(3,027)	(3,074)
Net cash from financing activities		(2,994)	(3,056)
Net increase/(decrease) in cash and cash equivalents		17,595	(13,591)
Foreign currency translation effect		6,303	—
Cash and cash equivalents at beginning of year		125,447	152,656
Cash and cash equivalents at end of year	33	149,345	139,065
Supplementary information			
Income taxes paid		4,916	5,694
Interest paid		34,295	20,707

See accompanying notes to financial statements.

Statements of Stockholders' Equity and Comprehensive Income for the 6 months ended 30 June 2003 and 2002

	Common stock	*Preferred stock*	*Retained earnings*	*Accumulated other comprehen-sive income*	*Treasury stock*	*Total*
			(U.S.$ thousands)			
Balance at 1 January 2002	174,581	—	1,345	1	(11,885)	164,042
Net income	—	—	19,190	—		19,190
Net change in unrealised gain in marketable securities net of tax effect of USD 2,559 thousand	—	—	—	8,090	—	8,090
Comprehensive income						27,280
Treasury stock sold, 17,452 shares	—	—	—	—	18	18
Dividends declared on common stock for 2001, 0.00683 USD per share	—	—	(3,074)	—	—	(3,074)
Balance at 30 June 2002	174,581	—	17,461	8,091	(11,867)	188,266
Balance at 1 January 2003	174,581	15,861	27,042	5,790	(12,999)	210,275
Net income	—	—	22,513	—	—	22,513
Net change in unrealised gain in marketable securities net of tax effect of USD 2,934 thousand	—	—	—	8,191	—	8,191
Cumulative translation adjustment net of deferred tax USD 581 thousand	—	—	—	8,548	—	8,548
Comprehensive income						39,252
Treasury stock purchased, 81,194 shares	—	—	—	—	(33)	(33)
Dividends declared on common stock for 2002, 0.01251095 USD per share	—	—	(5,198)	—	—	(5,198)
Dividends declared on preference stock for 2002, 9.213 USD per share	—	—	(4,606)	—	—	(4,606)
Balance at 30 June 2003	174,581	15,861	39,751	22,529	(13,032)	239,690

See accompanying notes to financial statements.

Notes to the financial statements for the six months ended 30 June 2003 and 2002

1. Background

(a) Organisation and operations

The operating companies of the Petrocommercebank Group (the "Group") are the parent company, Petrocommercebank (the "Bank"), and its subsidiaries Komi Regional Bank Ukhtabank, JSC Petrocommerce-Ukraine Bank, JSC Stavropolpromstroybank, and JSC BC UNIBANK S.A. Other members of the Group, which principally hold financial instruments and real estate totalling USD 104 million and are controlled by the Group through option agreements, principally conduct operations on behalf of these entities.

A description of the operations of principal operating companies is as follows:

- The Bank was established in the Russian Federation as a partnership and was granted its general banking licence on 6 September, 1993. In March 2000 the Bank changed its legal status from a partnership to an open joint stock company. The principal activities of the Bank are deposit taking, lending, maintenance of customer settlements and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of the Russian Federation ("the CBR"). The Bank's head office is located in Moscow and as of 31 December 2002 it operated 14 branches, all located in the Russian Federation. The average number of persons employed by the Bank during the first six months of 2003 was 1,607 (during the first six months of 2002: 1,400).
- Komi Regional Bank Ukhtabank ("Ukhtabank") was established in the Russian Federation as an open joint stock company and was granted its general banking licence in June 1997. The principal activities of Ukhtabank are deposit taking, lending and customer settlements, operations with securities and foreign exchange. The activities of the bank are regulated by the CBR. The head office of Ukhtabank is located in Ukhta, Republic of Komi of the Russian Federation. Ukhtabank has six branches located in the Russian Federation. The average number of persons employed by the bank during the first six months of 2003 was 392 (the first six months of 2002: 369). As of 30 June 2003 Petrocommerce controlled 96.74% of the common stock of Ukhtabank (30 June 2002: 66.7%).
- JSC Petrocommerce-Ukraine Bank was initially registered by the National Bank of Ukraine under the name of Aviatekbank, as a Joint-Stock Company in September 1996. In December 2002 Aviatekbank was acquired by Petrocommercebank and was renamed to JSC Petrocommerce-Ukraine Bank. As of 30 June 2003 Petrocommerce controlled 90.82% of the common stock of Petrocommerce-Ukraine (30 June 2002: 49.55%). The principal activity of Petrocommerce-Ukraine Bank is in providing banking services to companies operating in various industries, state authorities and individuals. These services include taking deposits, granting loans, investing in securities and transfers of payments in Ukraine and abroad. The head office of the bank is located in Kiev and the bank has three branches throughout Ukraine. The average number of persons employed by the bank during the first six months of 2003 was 343.
- JSC Stavropolpromstroybank was founded as Commercial Bank STAVROPOLIE on 26 December 1990. The bank has been operating as an open joint-stock company since 27 July 1992 and Petrocommercebank acquired 64.9% of the bank in May 2002. As of 30 June 2003 Petrocommerce controlled 77.27% of the common stock of Stavropolpromstroybank (30 June 2002: 64.97%). The principal activities of the bank are deposit taking, lending, customer settlements and operations with securities and foreign exchange. The activities of the bank are regulated by the Central Bank of the Russian Federation ("the CBR"). The bank's head office is located in Stavropol and as of 30 June 2003 it operated 11 branches, all located in the Russian Federation. The average number of persons employed by the bank during the first 6 months of 2003 was 595.
- JSC BC UNIBANK S.A. was founded in the Republic of Moldova on 19 January 1993. Petrocommercebank acquired 100% of the bank in December 2002. The Bank holds a class B licence, granting it the right to perform all types of banking activity except trust services. The

Bank's main activities are deposit taking, lending, customer settlements and operations with securities. The Bank had five branches in Moldova. The average number of persons employed by the bank during the first six months of 2003 was 177.

(b) Russian Business Environment

The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks which do not typically exist in other markets. The accompanying financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). These principles have been consistently applied except for the change in measurement currency, which occurred due to the change of the status of the Russian economy to a non-hyperinflationary economy (refer to note 2(b)).

(b) Reporting currency and translation into US dollars

Prior to 2003 Russian economy was considered to be hyperinflationary under Statement of Financial Accounting Standard 52 *Foreign Currency Translation*, the Group elected to use the US Dollar as the functional and reporting currency for financial statement purposes.

During this period the translation of the ruble financial statements into US dollars was performed in accordance with the provisions of SFAS 52 *Foreign Currency Translation*. Monetary assets and liabilities denominated in rubles at the balance sheet date were translated to US dollars at the exchange rate ruling at that date. Foreign exchange differences arising on translation were recognised in the income statement. Non-monetary assets and liabilities denominated in rubles, which are stated at historical cost, were translated to US dollars at the foreign exchange rate ruling at the date of the transaction. Income statement transactions in foreign currencies were translated to US dollars at the foreign exchange rate ruling at the date of the transaction.

Starting 1 January 2003 the Russian economy was no longer considered to be hyperinflationary under Statement of Financial Accounting Standard 52 *Foreign Currency Translation*. Accordingly the Group has conducted an assessment of its operations and determined the Russian Ruble to be its functional currency. Management of the Group have elected to use US Dollar as the reporting currency for these financial statements.

As a result of the change in the functional currency to the ruble, the carrying values of all non-monetary assets and equity items were translated and fixed in Russian Ruble at the rates effective at the date of transition to the Russian Ruble as the functional currency, 1 January 2003, and all subsequent additions to non-monetary assets and equity, accounted for using Russian Ruble as the functional currency.

Further translation from functional to reporting currency was conducted as follows:

- all assets and liabilities are translated from the functional to the reporting currency at the exchange rate effective at the reporting date;
- equity items are translated from functional to reporting currency at the historical exchange rates. Translation adjustments arising from translation of equity are included in Accumulated Other Comprehensive Income in accordance with SFAS 52;
- income statement transactions are translated from functional to reporting currency at the approximate rates, ruling at the dates of the transactions. Translation adjustments arising from translation of equity are included in Accumulated Other Comprehensive Income in accordance with SFAS 52.

The closing rate of exchange effective at 30 June 2003 and 2002 was 1 USD to 30.3483 Rubles and 1 USD to 31.4471 Rubles, respectively.

(c) Convertibility of the ruble

The Russian Ruble is not a convertible currency outside the Russian Federation and, accordingly, the translation of Russian Ruble amounts to US dollars should not be construed as a representation that Russian Ruble amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rate shown, or at any other exchange rate.

(d) Going concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group's assets, as well as the future operation of the Group, may be significantly affected by the current and future economic environment (refer note 1 (b)) and the Group's ongoing relationship with OIL LUKOIL COMPANY GROUP (refer note 32). The accompanying financial statements do not include any adjustments should the Group be unable to continue as a going concern.

(e) Basis of consolidation

The consolidated financial statements include the financial statements of all material entities in which the Bank holds a controlling financial interest. All significant intercompany transactions have been eliminated on consolidation.

3. Significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements.

(a) Use of estimates

Management of the Group has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(b) Interest income and interest expense

Interest income and expense are recognised on an accrual basis. Interest on non-performing assets is not accrued. Non-performing assets are those assets in respect of which management believes that the contractual interest or principal due will not be collected. Interest due on loans of this nature is recorded in the profit and loss statement when received.

(c) Provisions for loan impairment

The provision for loan impairment represents management's estimate of probable losses inherit in the portfolio and is estimated based on previous experience and considering the credit standing of the underlying customers, late payments of interest or penalties and the realisable value of any collateral. The estimate of the provision considers all available evidence including the present value of expected future cash discounted at the loan's original interest rate. Additions to the allowance are made through a charge to the income statement. When a loan is know to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off to the provision for loan impairment included in the balance sheet.

(d) Cash and cash equivalents

The Group considers cash and nostro accounts with the CBR to be cash and cash equivalents. The minimum reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its withdrawability.

(e) Interest bearing liabilities

Interest-bearing liabilities are recognised initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings.

(f) Investments in marketable debt and equity securities

Marketable debt and equity securities consist of investments in debt and equity securities where the Group does not exert control or significant influence over the investee. The Group classifies marketable debt and equity securities in one of three categories: trading, available for sale, or held to maturity. The specific identification method is used for determining the cost basis of all such securities upon their sale or redemption.

(i) Trading securities

Trading securities are bought and held principally for the purpose of selling them in the near term. Trading securities are recorded at their fair value. Unrealised holding gains and losses on trading securities are included in the income statement.

(ii) Held to maturity securities

Held to maturity securities are those securities, which the Group has the ability and intent to hold until maturity. Held to maturity securities are recorded at amortised cost, adjusted for the amortization or accretion of premiums or discounts.

Premiums and discounts are amortized to the income statement over the life of the related security held to maturity, as an adjustment to yield using the effective interest method.

(iii) Available for sale securities

All marketable securities not included in trading or held to maturity are classified as available for sale. Available for sale securities are recorded at their fair value. Unrealised holding gains and losses, net of the related tax effect, are included in the financial statements as a separate component of accumulated other comprehensive income until realized.

(iv) Recoverable amount

The recoverable amount of the Group's trading securities is their fair value. A decline in the fair value of any held to maturity or available for sale security below cost that is deemed to be other than temporary results in a reduction of the carrying amount to fair value. The impairment is charged to the consolidated income statement and a new cost basis for the security is established.

(g) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase are retained within the trading or available-for-sale securities portfolios and accounted for accordingly. Liability accounts are used to record the obligation to repurchase. The difference between the sale and repurchase price represents interest expense and is recognised in the income statement over the term of the repurchase agreement.

Securities held under reverse repurchase agreements are recorded as receivables. The difference between the purchase and sale price represents interest income and is recognised in the income statement over the term of the reverse repurchase agreement. The receivables due under reverse repurchase agreements have been shown net of provision for impairment.

(h) Investments in affiliated companies

Affiliated companies are those enterprises in which the Group has significant influence, but not control, over the enterprise's financial and operating policies.

All material investments in affiliated companies are accounted for using the equity method of accounting and the financial statements include the Group's share of the total recognised gains and losses of affiliates from the date that significant influence effectively commences until the date that significant influence effectively ceases.

(i) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as capital leases. Plant and equipment acquired by way of capital lease is stated at an amount equal to the lower of its fair value or the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Payments for operating leases, under which the Group does not assume substantially all the risks and rewards of ownership, are expensed as lease payments are incurred.

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Plant and equipment under capital leases and leasehold improvements are amortised on a straight-line basis over the shorter of the lease term or estimated useful life of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings and land	50 to 100 years
Furniture and equipment	4 to 10 years
Leasehold assets	3 to 5 years
Intangible assets	2 to 5 years

(j) Goodwill

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is assessed for impairment in accordance with SFAS No. 142 *Goodwill and Other Intangible Assets.*

(k) Impairment

The Group accounts for long-lived assets in accordance with Statement of Financial Accounting Standards No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*.

Under these standards the carrying value of the asset is considered to be impaired when the anticipated undiscounted future cash flow from such asset is separately identifiable, and is less than the carrying value.

In that event, an impairment loss is recognised based on the amount by which the carrying value exceeds the fair market value of the asset. Impairment losses are recognised in the income statement. Fair market value is determined primarily using anticipated cash flows discounted at a rate commensurate with the risk involved.

(l) Stockholders' equity

(i) Treasury stock

When shares are repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from total equity.

(ii) Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the CBR and other Russian legislation. Dividends are recognised as a liability in the period in which they are declared.

(m) Income taxes

Income taxes are accounted for under the asset and liability method in accordance with SFAS No. 109 *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognised for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in income in the period that includes the enactment date.

4. Interest income and interest expense

Interest income comprises:

	6 months ended 30 June 2003 (unaudited)	*6 months ended 30 June 2002 (unaudited)*
	(U.S.$ thousands)	
Loans to customers	38,765	27,555
Securities	8,073	4,685
Placements with banks and other financial institutions	2,182	7,366
Amounts receivable under reverse repurchase agreements	486	—
	49,506	39,606
Interest expense comprises:		
Current accounts and deposits from customers, certificates of deposit and promissory notes	32,895	22,264
Deposits and balances from banks and other financial institutions	1,856	1,921
Bonds issued	1,385	—
	36,136	24,185

5. Provision for loan impairment

Provision for loan impairment comprises:

	6 months ended 30 June 2003 (unaudited)	*6 months ended 30 June 2002 (unaudited)*
	(U.S.$ thousands)	
Provision for loans to customers	(7,770)	(57)
(Provision for)/recovery of provision for placements with banks and other financial institutions	311	(36)
	(7,459)	(93)

6. Net income from trading securities

Net income from trading securities comprises:

	6 months ended 30 June 2003 (unaudited)	*6 months ended 30 June 2002 (unaudited)*
	(U.S.$ thousands)	
Realised gain on trading securities	10,377	11,915
Unrealised gain/(loss) on trading securities	17,596	(1,108)
	27,973	10,807

7. Net income from investments in available for sale and other securities

Net income from investments in available for sale and other securities comprises:

	6 months ended 30 June 2003 (unaudited)	*6 months ended 30 June 2002 (unaudited)*
	(U.S.$ thousands)	
Realised gain from investments in available for sale and other securities	2,968	2,917

8. General administrative expenses

General administrative expenses comprise:

	6 months ended 30 June 2003 (unaudited)	*6 months ended 30 June 2002 (unaudited)*
	(U.S.$ thousands)	
Employee compensation	12,004	5,940
Payroll related taxes	2,640	1,609
Repairs and maintenance	2,061	1,161
Non-income based taxes	1,518	1,808
Depreciation and amortisation	1,510	1,139
Advertising and marketing	1,306	2,030
Occupancy	1,048	635
Security	1,000	455
Communications and information services	914	506
Charity	335	—
Travel expenses	199	162
Professional services	140	363
Office supplies	74	179
Other	2,299	692
	27,048	16,679

9. Recovery of provision for impairment other than loan impairment

Recovery of provision for impairment other than loan impairment:

	6 months ended 30 June 2003 (unaudited)	*6 months ended 30 June 2002 (unaudited)*
	(U.S.$ thousands)	
Recovery of provision for off-balance sheet credit exposures	144	—
Provision for other assets	(38)	(46)
(Provision for)/ recovery of provision for other securities	(36)	140
	70	94

10. Fee and commission income

	6 months ended 30 June 2003 (unaudited)	*6 months ended 30 June 2002 (unaudited)*
	(U.S.$ thousands)	
Commissions on settlement transactions	7,707	5,137
Commissions on cash collection and other cash operations	3,384	2,569
Commissions on guarantees issued	361	216
Commissions on other operations	2,039	907
	13,491	8,829

11. Income tax expense

	6 months ended 30 June 2003 (unaudited)	*6 months ended 30 June 2002 (unaudited)*
	(U.S.$ thousands)	
Current tax expense		
Current year	(1,315)	(6,107)
Deferred tax (expense)/benefit		
Origination and reversal of timing differences	(3,965)	2,572
Valuation allowance	(604)	(420)
Income tax expense	(5,884)	(3,955)

The Group's applicable tax rate is 24%, (2002 – 24%)

Reconciliation of effective tax rate:

	6 months ended 30 June 2003 (unaudited)	*%*	*6 months ended 30 June 2002 (unaudited)*	*%*
	(U.S.$ thousands)			
Income before income tax	28,298		23,277	
Income tax using the applicable tax rate	6,792	24.0	5,586	24.0
Change in valuation allowance	604	2.13	420	1.8
Non-deductible costs and non-taxable income and effect of income taxed at lower tax rates	(1,512)	(5.34)	(2,051)	(8.81)
Income tax expense	5,884	20.79	3,955	16.99

12. Due from the Central Bank of the Russian Federation

	30 June 2003 (unaudited)	*31 December 2002*
	(U.S.$ thousands)	
Minimum reserve deposit	99,759	70,210
Nostro accounts	121,318	104,090
	221,077	174,300

The minimum reserve deposit is a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the CBR and whose withdrawability is restricted. The nostro balances represent balances with the CBR related to settlement activity and were available for withdrawal at year end.

13. Placements with banks and other financial institutions

	30 June 2003 (unaudited)	*31 December 2002*
	(U.S.$ thousands)	
Nostro accounts	57,206	24,131
Deposits	46,768	132,311
Provision for impairment	(1,838)	(2,685)
	102,136	153,757

Analysis of movements in the provision for impairment

	30 June 2003 (unaudited)	*31 December 2002*
	(U.S.$ thousands)	
Balance at the beginning of the year	(2,685)	(1,997)
Acquisition of subsidiary	—	(672)
Write-off	536	—
Balance at the end of the year	1,838	2,685
(Recovery in)/net charge to income statement	(311)	16

Significant Credit Exposures

As of 30 June 2003 the Group maintained a deposit with one bank, which individually comprised more than 10% of total placements with banks and other financial institutions. The gross value of this deposit as of 30 June 2003 was USD 17,830 thousand.

14. Loans to customers

	30 June 2003 (unaudited)	*31 December 2002*
	(U.S.$ thousands)	
Gross loans to customers	601,391	453,066
Provision for impairment	(35,263)	(27,493)
	566,128	425,573

Impaired loans

	30 June 2003 (unaudited)	*31 December 2002*
	(U.S.$ thousands)	
Impaired loans including non-accrual loans	21,138	38,796
Provision for impairment	(7,924)	(9,167)
	13,214	29,629
Non-accrual loans	2,433	1,701
Provision for impairment	(2,433)	(1,701)
	—	—

	6 months ended 30 June 2003 (unaudited)	*6 months ended 30 June 2002*
	(U.S.$ thousands)	
Average amount of impaired loans	29,967	7,367

Analysis of movements in the provision for impairment

	30 June 2003 (unaudited)	*31 December 2002*
	(U.S.$ thousands)	
Balance at the beginning of the year	(27,493)	(19,167)
Acquisition of subsidiaries	—	(2,666)
Write-offs	—	102
Balance at the end of the year	35,263	27,493
Net charge to income statement	7,770	5,762

Industry and geographical analysis of the loan portfolio

Loans and advances to customers are issued primarily to customers located within the Russian Federation who operate in the following economic sectors (gross of provision for impairment):

	30 June 2003 (unaudited)	*31 December 2002*
	(U.S.$ thousands)	
Loans to individuals	24,603	20,125
Loans to legal entities		
Trade	132,310	72,300
Manufacturing	92,856	50,337
Building and construction	51,632	59,649
Oil exploration and refining	46,099	98,668
Power generation	42,084	4,562
Transportation	41,690	25,738
Food	39,944	16,407
Agriculture, forestry and timber	23,659	16,520
Municipal government	19,448	28,720
Finance	18,360	11,686
Chemistry	14,024	10,636
Other	54,682	37,718
	601,391	453,066

Significant Credit Exposures

As of 30 June 2003, the Bank had loan exposures to or guaranteed by the OIL COMPANY LUKOIL GROUP totalling USD 153,642 thousand (31 December 2002: USD 148,253 thousand).

Loan Maturities

The maturity of the Bank's loan portfolio is presented in note 37, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio. Due to the short-term nature of the credits issued by the Group, it is likely that many of the Group's credits will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification indicated based on contractual terms.

15. Trading securities

	30 June 2003 (unaudited)	*31 December 2002*
	(U.S.$ thousands)	
Russian corporate bonds	80,042	16,647
LUKOIL ADRs	51,548	38,592
Transneft preferred stock	24,177	74,092
Regional government bonds	21,246	12,192
Russian government OFZ bonds	18,425	20,409
LUKOIL common stock	2,851	8,582
Other bonds	482	109
Russian Government Eurobonds	340	12,338
Other listed equity securities (traded in the Russian Trading System)	9,464	6,211
	208,575	189,172

16. Investments in available for sale and other securities

Available for sale securities

	Amortised cost	*Gross unrealized holding gains*	*Gross unrealized holding losses*	*Fair value*
		(U.S.$ thousands)		
At 30 June 2003 (unaudited)				
Promissory notes	63,363	—	(371)	62,992
LUKOIL ADRs	32,206	18,216	—	50,422
Corporate bonds	17,621	139	—	17,760
Municipal and other bonds	6,641	412	—	7,053
Russian Government Eurobonds	83	—	—	83
	119,914	18,767	(371)	138,310
At 31 December 2002				
LUKOIL ADRs	21,515	6,795	—	28,310
Russian Government Eurobonds	17,472	160	(51)	17,581
Promissory notes	16,828	499	(38)	17,289
Municipal and other bonds	9,331	256	—	9,587
Equity securities	49	2	—	51
Russian Government Ministry of Finance Bonds	28	—	(5)	23
	65,223	7,712	(94)	72,841

	30 June 2003 (unaudited)	31 December 2002
	(U.S.$ thousands)	
Other securities		
Investments in unconsolidated subsidiaries	679	271
Non-traded equities	5,228	1,839
Investments in affiliated companies	498	522
Other securities	—	50
	6,405	2,682
Total investments in available for sale and other securities	144,715	75,523
Provision for impairment	(493)	(457)
	144,222	75,066

Analysis of movements in the provision for impairment

	30 June 2003 (unaudited)	31 December 2002
	(U.S.$ thousands)	
Balance at the beginning of the year	(457)	(227)
Balance at the end of the year	493	457
Net charge to income statement	36	230

Unconsolidated subsidiaries as of 30 June 2003 are comprised of:

Name	*Country of Incorporation*	*Main Activity*	*Provision*	*% Controlled*	*Carrying value at 30 June 2003 (unaudited)*
					(U.S.$ thousands)
Presista Enterprises Limited	Cyprus	Real Estate	385	100%	—
Nafta (It) Spa	Italy	Financial services	—	99%	81
LUKOIL Electronic Clearing House	Russia	Financial services	—	67%	46
PetrocommerceInvest Consulting – Austria	Austria	Financial Services	—	100%	76
Bank MB	Russia	Financial services	87	51.5%	—
Salon Elegance on Petrovka	Russia	Tailoring	—	70%	—
Centurion-Saratov	Russia	Security services	—	100%	4
			472		207

The cost of the Bank's investments in Bank MB has been fully provided for as the CBR has removed Bank MB's banking licence and it is currently under bankruptcy proceedings. The above entities

have not been consolidated as management considers that the impact of consolidation would not be material.

Affiliated companies as of 30 June 2003 are comprised of:

Name	*Country of Incorporation*	*Main Activity*	*Provision*	*% Controlled*	*Carrying value at 30 June 2003 (unaudited)*
					(U.S.$ thousands)
LUKOIL Intercard	Russia	Financial Services	—	48%	452
Investment Centre of Komi Republic	Russia	Financial services	—	49%	32
SIM-LUKOIL S.R.L.	Moldova	Security services	—	40%	14
			—		498

The Group has not equity accounted for the affiliated companies noted above as management considers that the impact on the financial statements of equity accounting would not be material.

Unconsolidated subsidiaries as of 31 December 2002 are comprised of:

Name	*Country of Incorporation*	*Main Activity*	*Provision*	*% Controlled*	*Carrying Value*
					(U.S.$ thousands)
Nafta (It) Spa	Italy	Financial services	—	99%	81
PetrocommerceInvest Consulting – Austria	Austria	Financial Services	—	100%	76
Eurosib	Russia	Consulting services	—	62%	23
Bank MB	Russia	Financial services	87	51.5%	—
Salon Elegance on Petrovka..	Russia	Tailoring	—	70%	—
Centurion-Saratov	Russia	Security services	—	100%	4
			87		184

The above entities have not been consolidated as management considers that the impact of consolidation would not be material.

Affiliated companies as of 31 December 2002 are comprised of:

Name	*Country of Incorporation*	*Main Activity*	*Provision*	*% Controlled*	*Carrying Value*
					(U.S.$ thousands)
LUKOIL Electronic Clearing House	Russia	Financial services	—	33%	24
LUKOIL Intercard	Russia	Financial Services	—	48%	452
Investment Centre of Komi Republic	Russia	Financial services	—	49%	32
SIM-LUKOIL S.R.L.	Moldova	Security services	—	40%	14
			—		522

The Group has not equity accounted for the affiliated companies noted above as management considers that the impact on the financial statements of equity accounting would not be material.

17. Held to maturity securities

	30 June 2003 (unaudited)	*31 December 2002*
	(U.S.$ thousands)	
Short-term treasury bills of the Government of Moldova and other bonds	1,829	1,911

Analysis of movements in the provision for impairment

	30 June 2003	*31 December 2002 (unaudited)*
	(U.S.$ thousands)	
Balance at the beginning of the year	—	(22)
Balance at the end of the year	—	—
Net recovery in income statement	—	(22)

18. Amounts receivable under reverse repurchase agreements

	30 June 2003 (unaudited)	*31 December 2002*
	(U.S.$ thousands)	
Amounts receivable from banks and other financial institutions	30,880	2,112
Provision for impairment	—	—
	30,880	2,112

Collateral

As of 30 June 2003 and 31 December 2002 amounts receivable under reverse repurchase agreements were collateralised by the following securities:

	Fair value 30 June 2003 (unaudited)	*Fair value 31 December 2002*
	(U.S.$ thousands)	
Corporate shares	7,975	—
Corporate bonds	14,925	—
Municipal bonds	10,104	—
Russian Government Eurobonds	—	2,650
	33,004	2,650

19. Other assets

	30 June 2003 (unaudited)	*31 December 2002*
	(U.S.$ thousands)	
Prepayments for fixed assets	11,900	9,805
Prepaid rent	8,072	—
Receivables for securities sold	14,876	—
Settlements with suppliers and customers	7,985	—
Tax prepayments	6,230	5,363
Income tax prepayments	5,471	—
Accrued interest receivable	4,371	2,784
VAT	752	—
Materials and supplies	530	3,581
Other receivables	5,019	2,476
Provision for other assets	(238)	(200)
	64,968	23,809

Analysis of movements in the provision for other assets

	30 June 2003 (unaudited)	*31 December 2002*
	(U.S.$ thousands)	
Balance at the beginning of the year	(200)	(709)
Balance at the end of the year	238	200
Net charge to/(recovery in) income statement	38	(509)

20. Property, plant and equipment

	Land and buildings	*Furniture and Equipment*	*Construction in progress*	*Leasehold assets*	*Intangible assets*	*Total*
			(U.S.$ thousands)			
Cost						
At 1 January, 2003	18,189	11,405	13,231	3,786	1,901	48,512
Additions	228	2,803	1,170	—	—	4,201
Disposals	—	(330)	(6,251)	(710)	—	(7,291)
Transfers	1,012	—	(1,012)	—	—	—
Translation adjustment	861	540	626	179	90	2,296
At 30 June, 2003	20,290	14,418	7,764	3,255	1,991	47,718
Depreciation						
At 1 January, 2003	(335)	(3,390)	—	(1,817)	(784)	(6,326)
Depreciation/amortization charge for the year	(171)	(726)	—	(396)	(217)	(1,510)
Disposals during the year	—	210	—	395	—	605
Translation adjustment	(16)	(160)	—	(86)	(37)	(299)
At 30 June, 2003	(522)	(4,066)	—	(1,904)	(1,038)	(7,530)
Net book value						
At 1 January, 2003	17,854	8,015	13,231	1,969	1,117	42,186
At 30 June, 2003	19,768	10,352	7,764	1,351	953	40,188

21. Deposits and balances from banks and other financial institutions

	30 June 2003 (unaudited)	*31 December 2002*
	(U.S.$ thousands)	
Vostro accounts	11,549	14,318
Term deposits	44,036	114,774
	55,585	129,092

Concentration of deposits and balances from banks and other financial institutions

As of 30 June 2003 one bank maintained a deposit with the Group which individually comprised more than 10% of deposits and balances from banks and other financial institutions. The gross value of this deposit as of June 30, 2003 was USD 8,238 thousand (December 31, 2002: USD 37,754 thousand).

22. Current accounts and deposits from customers

	30 June 2003 (unaudited)	*31 December 2002*
	(U.S.$ thousands)	
Demand deposits	544,236	385,059
Term deposits	265,582	217,949
	809,818	603,008

As of 30 June 2003, the Group maintained customer deposit balances of USD 5,161 thousand (31 December 2002: USD 3,559 thousand) which were blocked by the Group as collateral for loans and off-balance sheet credit instruments granted by the Group.

Concentrations of current accounts and customer deposits

As of 30 June 2003, OIL COMPANY LUKOIL GROUP maintained deposits with the Group, which comprised more than 10% of current accounts and deposits from customers. The gross value of these deposits as of 30 June 2003 was USD 84,834 thousand (31 December 2002: USD 125,868 thousand). The Fund of Social Insurance of Russian Federation also maintained deposits with the Group, which individually comprised more than 10% of current accounts and deposits from customers. The gross value of these deposits as of 30 June 2003 was USD 166,282 thousand (31 December 2002: USD 95,257 thousand).

23. Bonds issued

In March 2003 the Bank issued bonds denominated in Russian rubles with nominal value of 1 billion rubles (USD 31,850 thousand) with a 7.5% coupon payable semi-annually. The bonds were issued with a premium of 35 million rubles. The effective interest rate of the bonds is 13.6% per annum. The Bank has made a public offer to purchase all bonds at 18 March 2004 at 101.25% of the nominal value. No bond holders have accepted this offer at 30 June 2003.

	30 June 2003 (unaudited)	*31 December 2002*
	(U.S.$ thousands)	
Nominal value	32,951	—
Accrued coupon	1,385	—
Unamortised premium	1,071	—
	35,407	—

24. Other liabilities

	30 June 2003 (unaudited)	*31 December 2002*
	(U.S.$ thousands)	
Dividends payable	6,712	8
Accrued interest payable	3,538	1,697
Income taxes payable	2,168	298
Liabilities under capital leases	948	1,451
Settlements with suppliers and customers	482	1,326
Non-income based taxes payable	254	55
Provision for off-balance sheet credit exposures	—	1,000
Other	2,108	903
	16,210	6,738

Analysis of movements in the provision for off-balance sheet credit exposures

	30 June 2003 (unaudited)	*31 December 2002*
	(U.S.$ thousands)	
Balance at the beginning of the year	(1,000)	—
Write-offs	856	—
Balance at the end of the year	—	1,000
(Recovery in) / net charge to income statement	(144)	1,000

25. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		*Liabilities*		*Net*	
	30 June 2003 (unaudited)	*31 December 2002*	*30 June 2003 (unaudited)*	*31 December 2002*	*30 June 2003 (unaudited)*	*31 December 2002*
			(U.S.$ thousands)			
Placements with banks and other financial institutions	477	520	—	—	477	520
Loans to customers	4,628	3,622	—	(55)	4,628	3,567
Trading securities	—	3	(4,802)	(484)	(4,802)	(481)
Investments in available for sale and other securities	7	—	(4,549)	(1,833)	(4,542)	(1,833)
Held to maturity securities	4	—	—	—	4	—
Property, plant and equipment	204	287	(2,356)	(923)	(2,152)	(636)
Other assets	354	279	—	(101)	354	178
Current accounts and deposits from customers	—	—	(378)	(236)	(378)	(236)
Certificates of deposit and promissory notes	408	100	(91)	—	317	100
Bonds issued	257	—	—	—	257	—
Other liabilities	228	692	—	—	228	692
Net tax assets/(liabilities) before valuation allowance	6,567	5,503	(12,176)	(3,632)	(5,609)	1,871
Valuation allowance					(882)	(278)
Net deferred tax (liability)/asset					(6,491)	1,593

Balance sheet classifications of deferred taxes are as follows:

	30 June 2003	*31 December 2002*
	(U.S.$ thousands)	
Deferred tax assets	1,315	2,244
Valuation allowance	(882)	(278)
Net deferred tax asset	433	1,966
Deferred tax liability	(6,924)	(373)
Deferred tax (liability)/asset	(6,491)	1,593

Movement in temporary differences

	31 December 2002	*Recognised in income (unaudited)*	*Recognised in equity (unaudited)*	*30 June 2003 (unaudited)*
		(U.S.$ thousands)		
Placements with banks and other financial institutions	520	(43)	—	477
Loans to customers	3,567	1,061	—	4,628
Trading securities	(481)	(4,321)	—	(4,802)
Investments in available for sale and other securities	(1,833)	225	(2,934)	(4,542)
Amounts receivable under reverse repurchase agreements	—	4	—	4
Property, plant and equipment	(636)	(935)	(581)	(2,152)
Other assets	178	176	—	354
Current accounts and deposits from customers	(236)	(142)	—	(378)
Certificates of deposits and promissory notes	100	217	—	317
Bonds issued	—	257	—	257
Other liabilities	692	(464)	—	228
	1,871	(3,965)	(3,515)	(5,609)
Valuation allowance	(278)	(604)	—	(882)
	1,593	(4,569)	(3,515)	(6,491)

	31 December 2001	*Recognised in income (unaudited)*	*Recognised in equity (unaudited)*	*30 June 2002 (unaudited)*
		(U.S.$ thousands)		
Placements with banks and other financial institutions	—	641	—	641
Loans to customers	3,412	(1,033)	—	2,379
Trading securities	(2,084)	2,218	—	134
Investments in available for sale and other securities	(262)	153	(2,559)	(2,668)
Held to maturity securities	5	—	—	5
Property, plant and equipment	—	(703)	—	(703)
Other assets	656	(412)	—	244
Certificates of deposits and promissory notes	(55)	142	—	87
Bonds issued	—	—	—	—
Other liabilities	(373)	1,566	—	1,193
	1,299	2,572	(2,559)	1,312
Valuation allowance	—	(420)	—	(420)
	1,299	2,152	(2,559)	892

26. Stockholders' equity

Common and preference stock

Share capital of the Bank as at 30 June 2003 and 31 December 2002 comprises 450,000 thousand common stock shares with par value of 10 RUR per share and 500 thousand preference stock shares with par value of 1,000 RUR per share.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

The minimum dividend to be received by holders of preference stock shares is not stipulated by the Charter of the Bank. The amount of dividend is determined and approved annually at the Bank's annual general meeting. The preference shares do not carry the right to vote unless no dividend is declared at the Bank's annual general meeting, in which case they are entitled to one vote per share.

Additionally, the holders of preference stock shares gain voting rights at general meetings in the event that the agenda of the meeting includes discussions of:

- reorganisation or liquidation of the Bank, or
- amendments to the Charter, if the amendments restrict the rights of holders of preferred shares.

In the event of liquidation, holders of preference shares have the right to receive either a distribution of the remaining net assets of the Bank which is equivalent to their percentage holding in the Bank (calculated as a proportion of the total number of ordinary and preference shares in issue), or to receive cash and cash equivalents equal to 70% of the nominal value of the shares. The decision as to which method of distribution will take place is based on the decision of the voting stockholders.

Dividends

The Bank declared dividends in the amount of 3.9% per common share and 28.8% per preference share totalling USD 9,803 thousand for the year ended 31 December 2002 during May 2003.

Treasury stock

Treasury stock comprises the cost of the Bank's common stock shares held by the Group. At the balance sheet date the Bank held 34,610,061 of its own common stock shares (31 December 2002: 34,528,867 shares).

27. Accumulated other comprehensive income

	Cumulative translation adjustment (unaudited)	*Unrealised holding gains on available for sale securities (unaudited)*	*Accumulated other comprehensive income (unaudited)*
Balance at 1 January 2002	—	1	1
Current period change	—	8,090	8,090
Balance at 30 June 2002	—	8,091	8,091
Balance at 1 January 2003	—	5,790	5,790
Current period change	8,548	8,191	16,739
Balance at 30 June 2003	8,548	13,981	22,529

	30 June 2003 Before tax amount (unaudited)	*30 June 2003 Tax effect (unaudited)*	*30 June 2003 Net of tax amount (unaudited)*
Cumulative translation adjustment	9,129	(581)	8,548
Unrealised holding gains on available for sale securities:			
Gross unrealised holding gains	21,364	(5,137)	16,227
Less: reclassification adjustments for gains realised in net income	(2,968)	722	(2,246)
Net unrealised holding gains on available for sale securities	18,396	(4,415)	13,981
	27,525	(4,996)	22,529

	30 June 2002 Before tax amount (unaudited)	*30 June 2002 Tax effect (unaudited)*	*30 June 2002 Net of tax amount (unaudited)*
Unrealised holding gains on available for sale securities:			
Unrealised holding gains arising during the period	13,567	(3,259)	10,308
Less: reclassification adjustments for gains realised in net income	(2,917)	700	(2,217)
Net unrealised holding gains on available for sale securities	10,650	(2,559)	8,091
	10,650	(2,559)	8,091

28. Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Group's operations. The major risks faced by the Group are those related to credit exposures, liquidity and movements in interest rates and foreign exchange rates. These risks are managed in the following manner:

(i) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group.

The Group has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee which actively monitors the Group's credit risk.

The Group's credit policy is reviewed and approved by the Board of Directors.

(ii) Interest rate risk

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Group's management. These limits restrict the potential effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities.

The Group's interest rate policy is reviewed and approved by the Board of Directors.

See note 36 "Average effective interest rates".

(iii) Liquidity risk

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due.

The Group's liquidity policy is reviewed and approved by the Board of Directors.

See note 37 "Maturity analysis".

(iv) Foreign exchange rate risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currencies risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

The Group's foreign currency policy is reviewed and approved by the Board of Directors.

See note 38 "Currency analysis".

29. Off-balance sheet credit commitments

Guarantees and letters of credit

The Group issues guarantees and letters of credit on behalf of its customers. These instruments bear a credit risk similar to that of loans granted. The contractual amounts outstanding are as follows and are shown based on the contractual maturity of the instrument:

	30 June 2003 (unaudited)	*31 December 2002*
	(U.S.$ thousands)	
Guarantees issued maturing in:		
2003	11,655	35,593
2004	13,125	785
After 2004	15,888	—
Import letters of credit maturing in:		
2003	25,656	5,143
2004	492	—
Confirmed export letters of credit maturing in:		
2003	5,016	929

The total outstanding contractual amount of guarantee and letter of credit do not necessarily represent future cash requirements, as many of these commitments may expire or terminate without being funded. The contractual maturity of the above instruments is the latest date that the Group may be called to honour its obligation under the instrument.

Undrawn loan commitments

At 30 June 2003 and 31 December 2002 the Group had the following undrawn loan commitments:

	30 June 2003 (unaudited)	*31 December 2002*
	(U.S.$ thousands)	
Undrawn loan commitment	193,866	97,750

The above undrawn loan commitments include only those loan commitments that are not fully cancellable at the Group's discretion. The total outstanding contractual amount of commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments may expire or terminate without being funded.

30. Obligations under capital and operating leases

	Capital Leases		*Operating leases*	
	30 June 2003	*31 December 2002 (unaudited)*	*30 June 2003 (unaudited)*	*31 December 2002*
	(U.S.$ thousands)			
Future minimum lease payments:				
Remainder 2003	612	1,291	1,094	1,271
2004	577	551	1,057	894
2005	46	44	717	445
2006	—	—	439	503
2007	—	—	325	289
2008	—	—	280	54
Remainder	—	—	128	—
Total minimum lease payments	1,235	1,886	4,040	3,456
Less: amount representing interest	(287)	(435)		
Present value of net minimum lease obligations	948	1,451		

The Group leases a number of computers and other equipment under capital leases. The leases typically run for an initial period of five years. None of the leases include contingent rentals.

During six months ended 30 June 2003, USD 1,048 thousand (six months ended 30 June 2002: USD 635 thousand) was recognised as an expense in the income statement in respect of operating leases.

31. Contingencies

(i) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Group property or relating to the Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(ii) Litigation

The Bank management is unaware of any significant actual, pending or threatened claims against the Bank.

(iii) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by numerous taxes and frequently changing legislation, which may be applied retroactively and is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in the Russian Federation substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

32. Related party transactions

The Group is substantially owned by members of the OIL COMPANY LUKOIL GROUP. A significant proportion of its transactions are with the OIL COMPANY LUKOIL GROUP, and as of 30 June 2003 and 31 December 2002 a significant portion of its funding is from and its credit exposures are to, members of the OIL COMPANY LUKOIL GROUP.

The outstanding balances and the average interest rates thereon as of 30 June 2003 and 31 December 2002 with members of the OIL COMPANY LUKOIL GROUP are as follows:

	30 June 2003 (unaudited)	*Average Interest Rate (unaudited)*	*31 December 2002*	*Average Interest Rate*
	(U.S.$ thousands)			
Placements with banks and other financial institutions				
Placements with banks and other financial institutions of the OIL COMPANY LUKOIL GROUP	1,979	5.08%	76	—
Loans to customers				
Loans to directors and senior management of members of OIL COMPANY LUKOIL GROUP	356	9.9%	105	14.2%
Loans to the members of OIL COMPANY LUKOIL GROUP	129,258	13.5%	143,642	13.9%
Loans guaranteed by members of OIL COMPANY LUKOIL GROUP	24,384	20.7%	4,611	23.5%
Trading securities				
Shares of members of the OIL COMPANY LUKOIL GROUP	54,399	n/a	47,174	n/a
Investments in available for sale and other securities				
Shares of the members of the OIL COMPANY LUKOIL GROUP	51,321	n/a	29,168	n/a
Deposits and balances from banks and other financial institutions				
Deposits and balances from banks and other financial institutions of the OIL COMPANY LUKOIL GROUP	224	0.5%	—	—
Current accounts and deposits from customers				
Current accounts and deposits from members of the OIL COMPANY LUKOIL GROUP	84,834	1.39%	125,868	5.9%
Promissory notes issued				
Promissory notes issued to members of the OIL COMPANY LUKOIL GROUP	19,939	0.12%	23,933	4.0%
Commitments and contingencies				
Undrawn loan commitments to the members of the OIL COMPANY LUKOIL GROUP	90,983	n/a	47,434	n/a
Guarantees and letters of credit issued on behalf of the members of the OIL COMPANY LUKOIL GROUP	39,021	n/a	30,232	n/a

Amounts included in the consolidated income statements and accumulated other comprehensive income for the years ended 30 June 2003 and 2002 in relation to transactions with OIL COMPANY LUKOIL GROUP are as follows:

	30 June 2003 (unaudited)	*30 June 2002 (unaudited)*
	(U.S.$ thousands)	
Income Statement Amounts		
Interest income	7,954	5,835
Interest expense	(1,152)	(522)
Net interest income	6,802	5,313
Fee and commission income	4,984	3,439
Fee and commission expense	(57)	(35)
Net income from foreign exchange	719	1,454
Non-interest income	5,646	4,858
Realised gains from LUKOIL available for sale securities	—	2,843
Gains from trading securities	10,429	10,347
Total gains from LUKOIL shares in income statement	10,429	13,190
Other Comprehensive Income Amounts		
Gains from available for sale securities (net of deferred taxes)	7,268	7,349
Total unrealised gains from LUKOIL shares included in other comprehensive income	7,268	7,349

33. Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flow is composed of the following items:

	30 June 2003 (unaudited)	*30 June 2002 (unaudited)*
	(U.S.$ thousands)	
Cash	28,027	18,367
Due from Central Bank – nostro accounts	121,318	120,698
	149,345	139,065

34. Fair value of financial instruments

SFAS No. 107, "*Disclosures about Fair Value of Financial Instruments*" requires that for all financial instruments, an enterprise should disclose information about fair value.

The fair value of financial instruments may be determined by one of several generally accepted methods, including quoted market prices (if the instruments are traded in an active and liquid market), or, in markets where there is infrequent activity, with reference to the current market value of other instruments with similar characteristics to those being valued or discounted cash flow analysis using "a discount rate commensurate with the risks involved" (indicator interest rates). In cases where it is not practicable to determine, within the constraints of timeliness or cost, the fair value of a financial asset with sufficient reliability that fact should be disclosed.

The Group has performed an assessment of its financial instruments, as required by SFAS No. 107, to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

The following table presents the carrying amounts and estimated fair values of the Group's financial instruments at 30 June 2003 and 31 December 2002, for which fair value could be determined within the constraints of timeliness and cost. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or settlement of liabilities.

	30 June 2003 Book Value (unaudited)	*30 June 2003 Fair Value (unaudited)*	*31 December 2002 Book Value*	*31 December 2002 Fair Value*
		(U.S.$ thousands)		
Cash	28,027	28,027	21,357	21,357
Due from the Central Bank of the Russian Federation	221,077	221,077	174,300	174,300
Placements with banks and other financial institutions	102,136	102,136	153,757	153,757
Amounts receivable under reverse repurchase agreements	30,880	30,880	2,112	2,112
Trading securities	208,575	208,575	189,172	189,172
Investments in available for sale securities	138,310	138,310	74,680	74,680
Deposits and balances from banks and other financial institutions	55,585	55,585	129,092	129,092

Based on its assessment of whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability for those financials instruments not listed in the table above, the Group has concluded that due to the lack of liquidity and published "indicator interest rates" in the Russian markets, and the fact that many of its transactions are with related parties and of a very specialised nature, it is not possible to determine the fair value of loans to customers, current accounts and deposits to customers, certificates of deposit and promissory notes, bonds issued, investments in held to maturity and other securities.

35. Foreign currency contracts

The table below summarises, by major currency, the contractual amounts of the Group's forward exchange contracts outstanding at 30 June 2003 and 31 December 2002 with details of the contracted exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the balance sheet date. These contracts are primarily held for short term income generation purposes.

	Weighted average contracted exchange rates		*Notional amount*	
	30 June 2003 (unaudited)	*31 December 2002*	*30 June 2003 (unaudited)*	*31 December 2002*
	(U.S.$ thousands)			
Buy USD sell EUR				
Less than three months	0.876	—	14,163	—
Between three months and six months	0.853	—	22,927	—
Sell USD buy EUR				
Less than three months	0.874	—	22,418	—
Between three months and six months	0.855	—	23,444	—
Buy EUR sell RUR				
Less than three months	34.685	—	1,258	—
Between three months and six months	—	—	—	
Sell EUR buy RUR				
Less than three months	34.715	—	1,773	—
Between three months and six months	—	—	—	
Buy USD sell LEI				
Less than three months	14.148	—	250	—
Between three months and six months	—	—	—	—
Sell USD buy LEI				
Less than three months	—	—	—	—
Between three months and six months	14.148	14.148	4,340	4,340
Buy USD sell RUR				
Less than three months	30.256	31.816	222,500	66,500
Between three months and six months	—	—	—	—
Sell USD buy RUR				
Less than three months	30.357	31.888	382,081	102,332
Between three months and six months	—	—	—	—

36. Average effective interest rates

The table below displays the Group's interest bearing assets and liabilities as at 30 June 2003 and 31 December 2002 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	30 June 2003 (unaudited)	*Average Interest Rate (unaudited)*	*31 December 2002*	*Average Interest Rate*
	(U.S.$ thousands)			
Interest Bearing Assets				
Placements with banks and other financial institutions				
Nostro				
— roubles	35,150	0.2%	3,004	0.21%
— other currencies	20,993	1.4%	20,238	0.76%
Term deposits				
— roubles	20,419	5.1%	49,675	2.76%
— other currencies	25,574	1.0%	80,840	3.05%

	30 June 2003 (unaudited)	Average Interest Rate (unaudited)	31 December 2002	Average Interest Rate
		(U.S.$ thousands)		
Loans to customers				
— roubles	294,010	17.4%	258,630	18.6%
— other currencies	272,118	12.8%	166,943	13.6%
Trading securities				
— roubles	120,157	8.8%	49,248	16.7%
— other currencies	378	7.6%	12,447	9.1%
Investments in available for sale and other securities				
— roubles	79,265	10.7%	25,360	20.0%
— other currencies	8,602	9.3%	18,750	10.3%
Held to maturity securities				
— other currencies	1,829	16.4%	1,911	5.98%
Amounts receivables under reverse repurchase agreements				
— roubles	30,880	7%	—	—
— other currencies	—	—	2,112	3.75%
Interest Bearing Liabilities				
Deposits and balances from banks and other financial institutions				
Vostro				
— roubles	6,726	0.2%	11,209	0.86%
— other currencies	4,823	0.1%	3,109	0.17%
Term deposits				
— roubles	11,106	1.2%	75,918	10.0%
— other currencies	32,930	5.4%	38,856	6.5%
Current accounts and deposits from customers				
— roubles	565,936	6.7%	366,456	7.3%
— other currencies	243,882	5.3%	236,552	5.2%
Certificates of deposit and promissory notes				
— roubles	238,059	7.69%	105,114	12.4%
— other currencies	8,528	3.68%	58,110	5.5%
Bonds issued				
— roubles	35,407	13.6%	—	—

37. Maturity analysis

The following tables shows assets and liabilities by remaining contractual maturity dates as at 30 June 2003 and 31 December 2002 respectively

	Less than 1 month	*1 to 3 months*	*3 to 6 months*	*6 months to 1 year*	*More than 1 year*	*No maturity*	*Total*
				(U.S.$ thousands)			
Assets							
Cash	28,027	—	—	—	—	—	28,027
Due from the Central Bank of the Russian Federation	121,318	—	—	—	—	99,759	221,077
Placements with banks and other financial institutions	95,676	423	27	3,229	—	2,781	102,136
Loans to customers	53,359	36,167	133,740	146,409	196,453	—	566,128
Trading securities	—	370	164	15,287	104,714	88,040	208,575
Investments in available for sale and other securities	11,945	5,638	37,409	11,616	21,259	56,355	144,222
Held to maturity securities	323	808	451	247	—	—	1,829
Amounts receivable under reverse repurchase agreements	30,880	—	—	—	—	—	30,880
Goodwill	—	—	—	—	—	3,566	3,566
Deferred tax asset	—	—	—	—	433	—	433
Other assets	28,461	7,346	162	12,200	16,269	530	64,968
Property, plant and equipment	—	—	—	—	—	40,188	40,188
Total Assets	369,989	50,752	171,953	188,988	339,128	291,219	1,412,029
Liabilities							
Deposits and balances from banks and other financial institutions	29,112	—	20,000	4,473	2,000	—	55,585
Current accounts and deposits from customers	571,561	86,165	37,131	74,898	40,063	—	809,818
Certificates of deposit and promissory notes	50,257	77,249	19,688	95,795	3,598	—	246,587
Bonds issued	—	1,385	—	—	34,022	—	35,407
Deferred tax liability	—	—	—	—	6,924	—	6,924
Other liabilities	11,405	104	114	3,396	1,191	—	16,210
Total Liabilities	662,335	164,903	76,933	178,562	87,798	—	1,170,531
Net position as at 30 June 2003	(292,346)	(114,151)	95,020	10,426	251,330	291,219	241,498

	Less than 1 month	*1 to 3 months*	*3 to 6 months*	*6 months to 1 year*	*More than 1 year*	*No maturity*	*Total*
				(U.S.$ thousands)			
Assets							
Cash	21,357	—	—	—	—	—	21,357
Due from the Central Bank of the Russian Federation	104,090	—	—	—	—	70,210	174,300
Placements with banks and other financial institutions	138,816	10,919	474	1,929	—	1,619	153,757
Loans to customers	78,183	62,864	50,668	108,513	125,345	—	425,573
Trading securities	1,634	1,224	3,500	740	54,596	127,478	189,172
Investments in available for sale and other securities	4,952	4,260	5,856	6,200	22,861	30,937	75,066
Held to maturity securities	—	1,218	401	292	—	—	1,911
Amounts receivable under reverse repurchase agreements	2,112	—	—	—	—	—	2,112
Goodwill	—	—	—	—	—	3,672	3,672
Deferred tax assets	—	—	—	—	1,966	—	1,966
Other assets	4,477	143	1	7,179	12,009	—	23,809
Property, plant and equipment	—	—	—	—	—	42,186	42,186
Total Assets	355,621	80,628	60,900	124,853	216,777	276,102	1,114,881
Liabilities							
Deposits and balances from banks and other financial institutions	44,121	64,471	—	20,500	—	—	129,092
Current accounts and deposits from customers	425,649	51,445	87,365	10,780	27,769	—	603,008
Certificates of deposit and promissory notes	45,935	59,293	46,116	5,025	6,855	—	163,224
Deferred tax liability	—	—	—	—	373	—	373
Other liabilities	3,431	—	1,000	—	2,307	—	6,738
Total Liabilities	519,136	175,209	134,481	36,305	37,304	—	902,435
Net position as at 31 December 2002	(163,515)	(94,581)	(73,581)	88,548	179,473	276,102	212,446

38. Currency analysis

The following table shows the currency structure of assets and liabilities at 30 June 2003:

	Rubles	*Other currencies*	*Total*
	(U.S.$ thousands)		
Assets			
Cash	14,923	13,104	28,027
Due from the Central Bank of the Russian Federation	221,077	—	221,077
Placements with banks and other financial institutions	55,569	46,567	102,136
Loans to customers	294,010	272,118	566,128
Trading securities	156,649	51,926	208,575
Investments in available for sale and other securities	84,893	59,329	144,222
Held to maturity securities	—	1,829	1,829
Amounts receivable under reverse repurchase agreements	30,880	—	30,880
Goodwill	3,566	—	3,566
Deferred tax assets	433	—	433
Other assets	43,439	21,529	64,968
Property, plant and equipment	35,883	4,305	40,188
Total Assets	941,322	470,707	1,412,029
Liabilities			
Deposits and balances from banks and other financial institutions	17,831	37,754	55,585
Current accounts and deposits from customers	565,936	243,882	809,818
Certificates of deposit and promissory notes	238,059	8,528	246,587
Bonds issued	35,407	—	35,407
Deferred tax liability	6,924	—	6,924
Other liabilities	11,960	4,250	16,210
Total Liabilities	876,117	294,414	1,170,531
On balance sheet position as of 30 June 2003	65,205	176,293	241,498
Off balance sheet position as of 30 June 2003	160,096	(160,096)	—
Net on and off balance sheet position as of 30 June 2003	225,301	16,197	241,498

The following table shows the currency structure of assets and liabilities at 31 December 2002:

	Rubles	*Other currencies*	*Total*
	(U.S.$ thousands)		
Assets			
Cash	13,550	7,807	21,357
Due from the Central Bank of the Russian Federation	174,300	—	174,300
Placements with banks and other financial institutions	52,679	101,078	153,757
Loans to customers	258,630	166,943	425,573
Trading securities	138,073	51,099	189,172
Investments in available for sale and other securities	27,145	47,921	75,066
Held to maturity securities	—	1,911	1,911
Amounts receivable under reverse repurchase agreements	—	2,112	2,112
Goodwill	3,672	—	3,672
Deferred tax assets	1,966	—	1,966
Other assets	19,577	4,232	23,809
Property, plant and equipment	37,954	4,232	42,186
Total Assets	727,546	387,335	1,114,881
Liabilities			
Deposits and balances from banks and other financial institutions	87,127	41,965	129,092
Current accounts and deposits from customers	366,456	236,552	603,008
Certificates of deposit and promissory notes	105,114	58,110	163,224
Deferred tax liability	114	259	373
Other liabilities	5,269	1,469	6,738
Total Liabilities	564,080	338,355	902,435
On balance sheet position as of 31 December 2002	163,466	48,980	212,446
Off balance sheet position as of 31 December 2002	35,832	(35,832)	—
Net position as of 31 December 2002	199,298	13,148	212,446

39. Concentration of assets liabilities

The geographical concentration of assets and liabilities as at 30 June 2003 and 31 December 2002 was as follows:

	Government of the Russian Federation	*Other Russian Entities*[1]	*Other Non-OECD*	*OECD*	*Total*
			(U.S.$ thousands)		
Assets					
Cash	14,923	—	1,876	11,228	28,027
Due from the Central Bank of the Russian Federation	221,077	—	—	—	221,077
Placements with banks and other financial institutions	—	58,931	14,092	29,113	102,136
Loans to customers	—	491,864	51,046	23,218	566,128
Trading securities	18,765	189,773	—	37	208,575
Investments in available for sale and other securities	83	138,823	1,578	3,738	144,222
Held to maturity securities	—	—	1,829	—	1,829
Amounts receivable under reverse repurchase agreements	—	30,880	—	—	30,880
Goodwill	—	3,566	—	—	3,566
Deferred tax assets	433	—	—	—	433
Other assets	7,359	52,935	4,674	—	64,968
Property, plant and equipment	—	35,883	4,305	—	40,188
Total Assets	262,640	1,002,655	79,400	67,334	1,412,029
Liabilities					
Deposits and balances from banks and other financial institutions	—	22,737	17,624	15,224	55,585
Current accounts and deposits from customers	—	759,504	45,557	4,757	809,818
Certificates of deposit and promissory notes	—	245,695	—	892	246,587
Bonds issued	—	35,407	—	—	35,407
Deferred tax liabilities	6,924	—	—	—	6,924
Other liabilities	2,307	12,131	1,772	—	16,210
Total Liabilities	9,231	1,075,474	64,953	20,873	1,170,531
Net position as of 30 June 2003	253,409	(72,819)	14,447	46,461	241,498

(1) Includes all entities domiciled in The Russian Federation, including the Russian subsidiaries of foreign entities.

	Government of the Russian Federation	*Other Russian Entities*[1]	*Other Non—OECD*	*OECD*	*Total*
			(U.S.$ thousands)		
Assets					
Cash	13,550	—	1,174	6,633	21,357
Due from the Central Bank of the Russian Federation	174,300	—	—	—	174,300
Placements with banks and other financial institutions	—	62,099	8,608	83,050	153,757
Loans to customers	—	378,080	35,803	11,690	425,573
Trading securities	32,746	156,258	168	—	189,172
Investments in available for sale and other securities	17,604	55,454	1,850	158	75,066
Held to maturity securities	—	—	1,911	—	1,911
Amounts receivable under reverse repurchase agreements	—	2,112	—	—	2,112
Goodwill	—	3,672	—	—	3,672
Deferred tax assets	1,966	—	—	—	1,966
Other assets	5,327	11,782	6,700	—	23,809
Property, plant and equipment	—	37,954	4,232	—	42,186
Total Assets	245,493	707,411	60,446	101,531	1,114,881
Liabilities					
Deposits and balances from banks and other financial institutions	—	104,308	11,688	13,096	129,092
Current accounts and deposits from customers	91	526,080	40,776	36,061	603,008
Certificates of deposit and promissory notes	—	110,928	51,496	800	163,224
Deferred tax liabilities	114	—	259	—	373
Other liabilities	97	6,020	621	—	6,738
Total Liabilities	302	747,336	104,840	49,957	902,435
Net position as of 31 December 2002	245,191	(39,925)	(44,394)	51,574	212,446

(1) Includes all entities domiciled in The Russian Federation, including the Russian subsidiaries of foreign entities.

THE BANK

OJSC Bank Petrocommerce
24, ul. Petrovka
Moscow 127051
Russian Federation

SBLH PLC

as Issuer of the Notes

Standard Bank London Holdings PLC
Cannon Bridge House
25 Dowgate Hill
London EC4R 2SB
England

SBL

as lender under the Petrocommerce Loan

Standard Bank London Limited
Cannon Bridge House
25 Dowgate Hill
London EC4R 2SB
England

LEGAL ADVISERS

To SBLH PLC and SBL

as to English law

Linklaters
One Silk Street
London EC2Y 8HQ
England

To The Bank

as to English and Russian law

Lovells (Moscow)
5th Floor Usadba Centre
22 Voznesensky Pereulok
103009 Moscow
Russian Federation

To the Managers and the Trustee

as to English law

Linklaters
One Silk Street
London EC2Y 8HQ
England

as to Russian law

Linklaters CIS
Paveletskaya sq. 2
bld. 2
Moscow 115054
Russian Federation

TRUSTEE

J.P. Morgan Corporate Trustee Services Limited
9 Thomas More Street
London E1W 1YT
England

PRINCIPAL PAYING AGENT AND TRANSFER AGENT

JPMorgan Chase Bank, London Branch
Trinity Tower
9 Thomas More Street
London E1W 1YT
England

REGISTRAR, PAYING AGENT, TRANSFER AGENT AND LISTING AGENT

J.P. Morgan Bank Luxembourg S.A.
5 rue Plaetis
L-2338 Luxembourg

INDEPENDENT AUDITORS

KPMG
11 Gogolevsky Boulevard
119019 Moscow
Russian Federation

imprima de bussy — C89040