



U.S.\$125,000,000

9.25 per cent. Loan Participation Notes due 2006

issued by WestLB AG on a limited recourse basis for the sole purpose of funding a loan to

OJSC Bank ZENIT

Issue Price: 100 per cent.

WestLB AG (the "Issuer") is issuing the U.S.\$125,000,000 9.25 per cent. Loan Participation Notes due 2006 (the "Notes") for the sole purpose of financing a loan (the "Loan") to OJSC Bank ZENIT ("Zenit") pursuant to a credit facility agreement dated June 10, 2003 (the "Credit Facility Agreement") between the Issuer as lender and Zenit as borrower. The Notes will be issued on June 12, 2003 and constituted by a trust deed dated June 12, 2003 (the "Trust Deed") between the Issuer and J.P. Morgan Corporate Trustee Services Limited (the "Trustee"). The Issuer will, in the Trust Deed, charge and pledge in favour of the Trustee for the benefit of the holders of the Notes as security for its payment obligations in respect of the Notes (a) its rights as lender to all payments under the Credit Facility Agreement and (b) amounts received pursuant to the Loan in an account of the Issuer, in each case other than in respect of certain rights all as more fully described under "Description of the Transaction and the Notes".

The Notes are limited recourse obligations of the Issuer. In each case where amounts are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts are due in respect of the Notes, for all amounts (if any) actually received by or for the account of the Issuer pursuant to the Credit Facility Agreement. The Issuer will have no other financial obligation under the Notes. **Accordingly, holders of the Notes are deemed to have agreed that they will rely solely and exclusively on the covenants, credit and financial standing of Zenit in respect of the financial servicing of the Notes.**

Save as otherwise expressly provided in this document and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Credit Facility Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Credit Facility Agreement or have direct recourse to Zenit except through action by the Trustee under the Charge as defined in the "Terms and Conditions of the Notes".

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

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

The Notes will be issued in bearer form in the denomination of U.S.\$1,000, each with coupons for the payment of interest attached. The Notes will initially be represented by a temporary global note (the "Temporary Global Note"), without interest coupons, which will be deposited with a common depository for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg") on or about June 12, 2003. The Temporary Global Note will be exchangeable for interests in a permanent global note (the "Permanent Global Note" and, together with the Temporary Global Note, the "Global Notes"), without interest coupons, on or after a date which is expected to be July 23, 2003 upon certification as to non-U.S. beneficial ownership. The Permanent Global Note will only be exchangeable for Notes in definitive form in the limited circumstances described under "Summary of Provisions Relating to the Notes in Global Form".

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 (as amended) (the "Securities Act"). The Notes are being offered outside the United States of America by the Managers in accordance with Regulation S 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 pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

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WESTLB AG

STANDARD BANK LONDON LIMITED

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MDM FINANCIAL GROUP

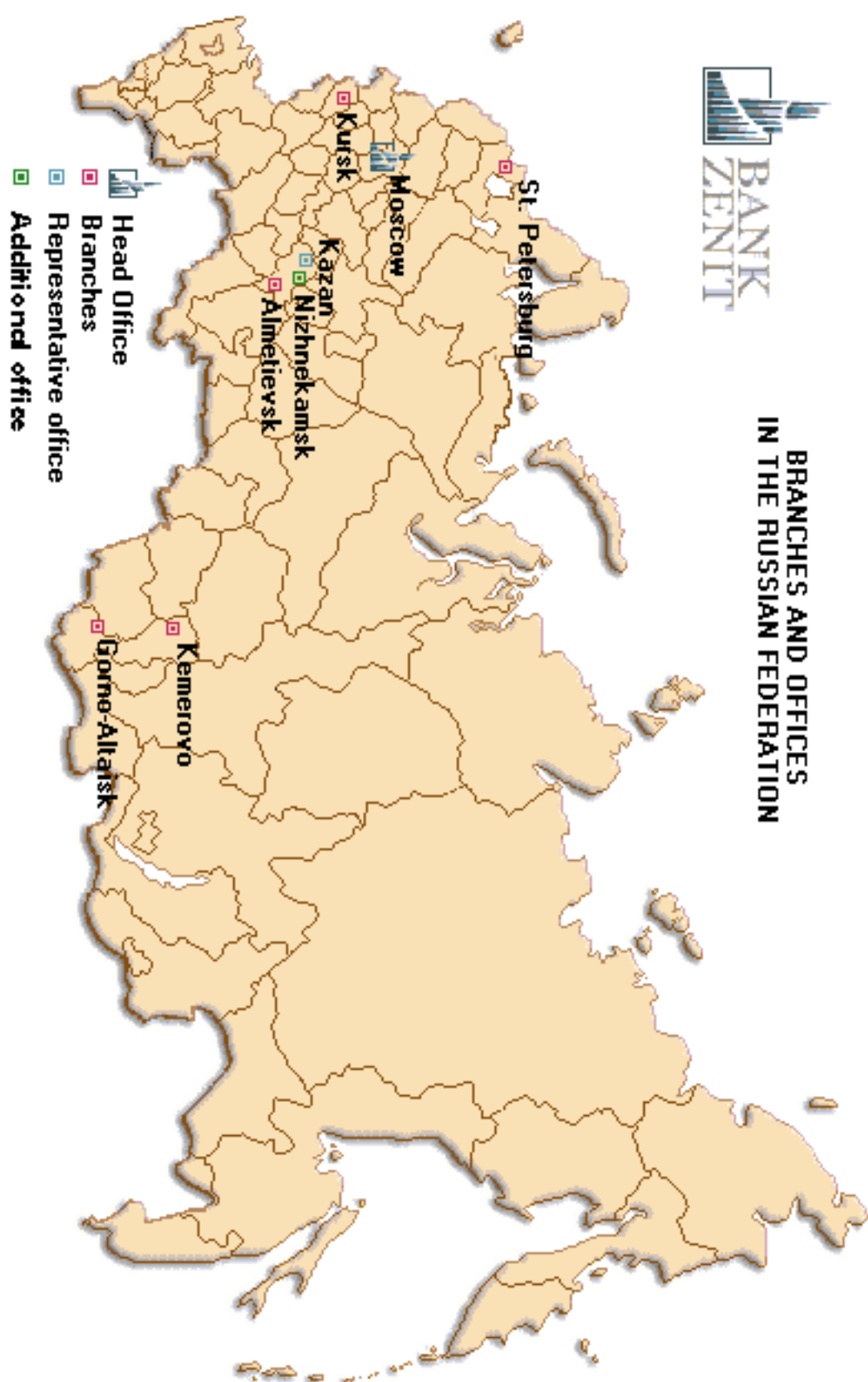
HVB CORPORATES & MARKETS

PAREX BANK

The date of this Offering Circular is June 10, 2003



BRANCHES AND OFFICES IN THE RUSSIAN FEDERATION



Zenit, having made all reasonable enquiries, confirms that: (i) this document contains all information regarding Zenit, the Credit Facility Agreement and the Notes which is (in the context of the issue of the Notes) material; (ii) such information is true and accurate in all material respects and is not misleading in any material respect; (iii) all opinions, assumptions and intentions expressed in this document on the part of Zenit are honestly held or made, have been reached after considering all relevant circumstances, are based on reasonable assumptions and are not misleading in any material respect; and (iv) this document does not omit to state any material fact necessary to make such information, opinions, assumptions or intentions not misleading. Zenit accepts responsibility for the information contained in this document other than the information in respect of the Issuer.

Zenit has derived substantially all of the information contained in this document concerning its competitors from publicly available information, including press releases and filings under various securities laws. Zenit confirms that this information has been correctly copied from its sources. However, Zenit has relied on the accuracy of this information without carrying out an independent verification. In addition, some of the information contained in this document has been derived from official data published by Russian government agencies, such as the Central Bank of the Russian Federation (the “CBR”). Zenit does not accept responsibility for the accuracy of such information. The official data published by Russian federal, regional and local governments are substantially less complete or researched than those of Western countries. Official statistics may also be compiled on different bases than those used in Western countries. Any discussion of matters relating to Russia in this document must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The veracity of some official data released by the Russian government may be questionable.

None of the Managers named under “Subscription and Sale” (the “Managers”), the Trustee and, except as specifically stated otherwise in this document, the Issuer makes any representation or warranty, express or implied, as to the accuracy or completeness of the information in this document. Each person receiving this document acknowledges that such person has not relied on the Managers, the Trustee or, except as specifically stated otherwise in this document, the Issuer or any person affiliated with the Managers, the Trustee or the Issuer, in connection with its investigation of the accuracy of such information or its investment decision. Each person contemplating making an investment in the Notes must make its own investigations and analysis of the creditworthiness of Zenit 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. The Issuer has taken all reasonable care to ensure that the information contained in this document in respect of the Issuer is true and correct in all material respects and is not misleading in any material respect, and that, in the context of the issue of the Notes, there are no other material facts the omission of which makes misleading any such information. The Issuer accepts responsibility for the information in this document relating to the Issuer.

No person is authorised to provide any information or to make any representation not contained in this document. Any such representation or information should not be relied upon as having been authorised by Zenit, the Trustee, the Issuer or the Managers. Without limitation to the generality of the foregoing, the contents of Zenit’s website do not form any part of this document.

Neither the delivery of this document nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of Zenit or the Issuer since the date of this document.

This document does not constitute an offer of, or an invitation to subscribe for, or purchase, any Notes. The distribution of this document and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on the offer, sale and delivery of Notes and on distribution of this document and other offering material relating to the Notes, see “Subscription and Sale”.

Investors in France may only participate in the issue of Notes for their own account in accordance with the conditions set out in decret No. 98-880 dated October 1, 1998. Notes may only be issued, directly or indirectly, to the public in France in accordance with articles L.411-1 and L.411-2 of the French code monetaire et financier. Persons into whose possession offering material comes must inform themselves about and observe any such restrictions. This document does not constitute, nor may be used for or in connection with, an offer to any person to whom it is unlawful to make such an offer or a solicitation by anyone not authorised so to act.

IN CONNECTION WITH THIS ISSUE, ING BANK N.V., LONDON BRANCH OR ANY PERSON ACTING FOR IT 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 AFTER THE ISSUE DATE. HOWEVER, THERE MAY BE NO OBLIGATION ON ING BANK N.V., LONDON BRANCH OR ANY AGENT OF IT TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

The Managers reserve the right to reject any offer to purchase Notes, in whole or in part, for any reason or to sell less than the aggregate principal amount of Notes offered hereby. Distribution of this document to any person other than the intended recipient is unauthorised. Each prospective purchaser of Notes, by accepting delivery of this document, agrees to the foregoing.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some statements in this document, as well as written and oral statements Zenit or its representatives make from time to time in reports, filings, news releases, conferences, teleconferences, web postings or otherwise, may be deemed to be “forward-looking statements”. Forward-looking statements include statements concerning Zenit’s plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. Zenit uses the words “anticipates”, “estimates”, “expects”, “believes”, “intends”, “plans”, “may”, “will”, “should” and any similar expressions to identify forward-looking statements. These forward-looking statements are contained in “Summary”, “Certain Risk Factors”, “Business” and other sections of this document. Zenit has based these forward-looking statements on the current views of Zenit’s management with respect to future events and financial performance. These views reflect the best judgement of Zenit’s management but involve uncertainties and are subject to certain risks, the occurrence of which could cause actual results to differ materially from those predicted in Zenit’s forward-looking statements and from past results, performance or achievements. Although Zenit believes that the estimates and the projections reflected in Zenit’s forward-looking statements are reasonable, if one or more of the risks or uncertainties materialise or occur, including those which Zenit has identified in this document, or if any of Zenit’s underlying assumptions prove to be incomplete or inaccurate, Zenit’s actual results of operations may vary from those expected, estimated or projected.

LIMITATION ON ENFORCEABILITY OF JUDGMENTS

All but one of the directors and executive officers of Zenit named in this document reside outside the United Kingdom. The greater portion of their assets and of Zenit's assets are located outside the United Kingdom, principally in the Russian Federation.

As a result, the Issuer or the Trustee, acting on behalf of Noteholders, may not be able to effect service of process in the United Kingdom on Zenit or on its officers and all but one of its directors. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any provisions of the Credit Facility Agreement or have direct recourse to Zenit except through action by the Trustee. Neither the Issuer nor the Trustee will be required to enter into proceedings to enforce payment under the Credit Facility Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

Similarly, the Issuer or the Trustee may not be able to obtain or enforce English court judgments against Zenit or its officers or directors. Judgments rendered by a court in any jurisdiction outside the Russian Federation 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 the Russian Federation and the country where the judgment is rendered. No such treaty for the reciprocal enforcement of foreign court judgments in civil and commercial matters exists between the United Kingdom and the Russian Federation. In addition, Russian courts have limited experience in the enforcement of foreign court judgments. The limitations described above, including the possible need to re-litigate in the Russian Federation a judgment obtained elsewhere, may significantly delay the enforcement of such judgment or deprive the Issuer or the Trustee of effective legal recourse for claims related to the investment in the Notes.

The Credit Facility Agreement provides that if any dispute or difference arises from or in connection with the Credit Facility Agreement the Issuer may elect, by notice in writing to Zenit to settle the claim by arbitration in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law, also known as UNCITRAL. The seat of any such arbitration will be London, England. The United Kingdom and the Russian Federation are parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Consequently, an arbitral award from an arbitral tribunal in the United Kingdom should generally be recognised and enforced in the Russian Federation on the basis of the rules of the New York Convention. See "Certain Risk Factors – Risks relating to the Russian Federation – Risks Relating to the Russian Legal System and Russian Legislation – Foreign judgments may not be enforceable against Zenit".

PRESENTATION OF FINANCIAL INFORMATION

Presentation of Financial Information

The financial information of Zenit set forth herein has, unless otherwise indicated, been derived from its audited financial statements (the “IFRS Financial Statements”) as set forth on pages F-1 through F-36 of this document as at and for the years ended December 31, 2002, 2001 and 2000, in each case prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (the “IFRS”).

The ruble is the measurement currency for the IFRS Financial Statements. The IFRS Financial Statements as at December 31, 2002, 2001 and 2000 have been restated in accordance with International Accounting Standard (“IAS”) 29 “Financial Reporting in Hyperinflationary Economies” in terms of the purchasing power of the ruble at December 31, 2002. IFRS Financial Statements and financial information included elsewhere in this document have, unless otherwise noted, been presented in U.S. dollars by translating assets, liabilities, equity, income and expense items for all financial statements amounts presented at the official rate of the CBR at December 31, 2002 of RUR31.78 to U.S.\$1.00. The U.S. dollar amounts should not be construed as a representation that the ruble amounts have been or could be 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”, “USD”, “U.S.\$” or “\$” means the lawful currency of the United States;
- “RUR”, “Russian Ruble” or “ruble” means the lawful currency of the Russian Federation; and
- “euro” 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 February 7, 1992.

Corresponding figures

To facilitate comparability, where necessary, corresponding figures as presented in this document have been reclassified to conform with changes in presentation in the IFRS Financial Statements as at and for the year ended December 31, 2002. These reclassifications are purely presentational in nature and have had no impact on the previously reported net profit or total shareholders’ equity for any of the periods presented.

Rounding

Some numerical figures included in this document 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.

Auditors

Zenit’s IFRS Financial Statements as at and for the year ended December 31, 2002 included in this document have been audited by Ernst & Young (CIS) Limited, independent auditors, who have expressed an unqualified opinion on those statements, as stated in their report appearing herein. Zenit’s IFRS Financial Statements as at and for the years ended December 31, 2001 and December 31, 2000 have been audited by ZAO PricewaterhouseCoopers, independent auditors, who have expressed an unqualified opinion on the IFRS Financial Statements as at and for the year ended December 31, 2001, but who have expressed a qualified opinion on IFRS Financial Statements as at and for the year ended December 31, 2000 due to the accounting treatment of forward foreign exchange contracts that resulted in an understatement of net income in 2000. See Note 28 to the IFRS Financial Statements included elsewhere in this document for further details.

SUMMARY

The following is a summary of certain information contained elsewhere in this document. Reference is made to, and this summary is qualified in its entirety by, the more detailed information and IFRS Financial Statements and notes thereto contained elsewhere in this document.

Zenit

Overview

Zenit was established on December 15, 1994. Zenit obtained a general banking licence from the CBR on December 17, 1996. Zenit is regulated and supervised by the CBR.

As of January 1, 2003, according to magazine *Expert*, Zenit was the nineteenth largest bank in Russia by assets, thirty-third by shareholders' equity and eighteenth by net profit, all as calculated under the Russian Accounting Regulations ("RAR"). As of December 31, 2002, Zenit's total assets were approximately U.S.\$727 million. Zenit has a head office and six additional offices in Moscow. Zenit also has five branches located in Almetievsk, in the Republic of Tatarstan, St. Petersburg, Gorno-Altai in the Republic of Altai, Kursk, in the Central Region of Russia and in Kemerovo, in Siberia and two other offices located elsewhere in the Russian Federation. For more information regarding Zenit's offices and branches see "Business – Overview".

Zenit offers a wide range of banking services primarily to corporate clients. Over the past three years, Zenit has been broadening its customer base, expanding its range of products and services and increasing its geographical presence across Russia.

Zenit currently focuses on serving corporate clients in Russia and the CIS. Zenit's corporate clients operate in a number of industry sectors, including retail and wholesale trade, manufacturing, food, oil and gas, agriculture, mining, finance, telecommunications, metallurgy, engineering, defence, energy and pharmaceuticals and also include pension funds, regional governments and municipalities.

Zenit divides its services into corporate banking, investment banking, private banking and retail banking sectors. For more information regarding Zenit's organisation and services see "Business."

Zenit's largest shareholder is OJSC Tatneft ("Tatneft"), which beneficially owns 50 per cent. plus one of Zenit's outstanding shares. Tatneft is one of the largest Russian oil companies and is headquartered in the Republic of Tatarstan.

Zenit's strategy is to improve its competitive position and profitability through the focused expansion and diversification of its business. Zenit will seek to implement this strategy through focused growth of its client base and branch network and by diversification of its funding sources and shareholder base.

Selected Financial Information

The selected financial information of Zenit presented below has been prepared in accordance with IFRS. It has been derived from Zenit's audited IFRS Financial Statements as at and for the years ended December 31, 2000, 2001 and 2002.

The selected financial information below should be read in conjunction with the IFRS Financial Statements included elsewhere in this document.

	For the year ended December 31,		
	2002	2001	2000 ⁽¹⁾
	(in thousands of U.S. dollars)		
Selected Income Statement Data			
Net interest income (before provisions).....	35,940	45,211	24,489
Net fee and commission income.....	11,690	9,933	6,827
Net gains from dealing in foreign currencies	7,002	6,264	6,931
Net gains from trading securities	5,103	11,495	12,874
Provisions for loan impairment	(2,047)	(10,938)	(8,867)
Profit before taxation and exceptional items	11,349	31,654	15,745
Net profit	7,436	18,567	11,429
	As at December 31,		
	2002	2001	2000 ⁽¹⁾
	(in thousands of U.S. dollars)		
Selected Balance Sheet Data			
Loans and advances to clients	388,552	330,978	208,070
Trading securities	79,895	165,626	71,048
Total assets	727,137	671,812	449,852
of which related party transactions.....	72,819	224,238	70,386
Client accounts	322,499	261,226	250,622
Due to other banks	102,578	103,075	48,359
Debt securities issued by Zenit	153,513	138,634	23,315
Total liabilities	595,885	539,222	371,422
of which related party transactions.....	103,157	77,496	65,302
Guarantees and import letters of credit issued.....	59,109	35,563	50,743
of which related party transactions.....	2,693	8,034	34,720
Total shareholders' equity	131,252	132,590	78,430

(1) The financial information as at and for the year ended December 31, 2000 is based on Zenit's 2000 IFRS Financial Statements on which the auditors had given a qualified opinion. See "Presentation of Financial Information – Auditors".

Selected Financial Ratios and Other Information

	As at and for the year ended December 31,		
	2002	2001	2000 ⁽⁷⁾
Profitability			
Return on shareholders' equity ⁽¹⁾	5.64%	17.60%	18.61%
Return on total assets ⁽²⁾	1.06%	3.31%	3.25%
Liquidity			
Net loans/total assets ⁽³⁾	53.44%	49.27%	46.25%
Net loans/client accounts ⁽⁴⁾	120.48%	126.70%	83.02%
Capital adequacy			
Tier 1 capital ratio (BIS) ⁽⁵⁾	19.13%	22.10%	19.02%
Shareholders' equity/total assets ⁽⁶⁾	18.05%	19.74%	17.43%
Sundry information			
RUR:U.S.\$1.00 exchange rate (period end)	31.78	30.14	28.16
RUR:U.S.\$1.00 exchange rate (average for period)	31.34	29.17	28.51
Change in CPI (period-end, per cent. year-on-year)	15.10%	18.90%	20.13%
Conversion factor for inflating rubles (based on CPI)	1.151	1.369	1.645

(1) Net income divided by average total shareholders' equity. The average total shareholders' equity was calculated as a simple average of Zenit's shareholders' equity as at January 1 and as at December 31 of the relevant year.

(2) Net income divided by average total assets. The average total assets was calculated as a simple average of Zenit's total assets as at January 1 and as at December 31 of the relevant year.

(3) Loans and advances to clients (net of allowance for loan impairment) divided by total assets, calculated as at December 31 of the relevant year.

(4) Loans and advances to clients (net of allowance for loan impairment) divided by client accounts, calculated as at December 31 of the relevant year.

(5) Tier 1 capital calculated in accordance with Bank for International Settlements methodology.

(6) Total shareholders' equity divided by total assets, calculated as at December 31 of the relevant year.

(7) The ratios as at and for the year ended December 31, 2000 are based on Zenit's 2000 IFRS Financial Statements on which the auditors had given a qualified opinion. See "Presentation of Financial Information – Auditors".

SUMMARY OF THE OFFERING

Issuer:	WestLB AG
Borrower:	OJSC Bank ZENIT
Issue Amount:	U.S.\$125,000,000
Issue Price:	100 per cent. of the principal amount of the Notes
Maturity Date:	June 12, 2006
Trustee:	J.P. Morgan Corporate Trustee Services Limited
Principal Paying Agent:	JPMorgan Chase Bank, London Branch
Paying Agent:	J.P. Morgan Bank Luxembourg S.A.
Interest:	The Notes will bear interest from, and including, June 12, 2003 to, but excluding, June 12, 2006 at a rate of 9.25 per cent. per annum payable semi-annually in arrear on June 12 and December 12 in each year commencing on December 12, 2003.
Limited Recourse:	The Notes will constitute the obligation of the Issuer to apply an amount equal to the net proceeds from the issue of the Notes solely for the purpose of financing a Loan to Zenit pursuant to the terms of the Credit Facility Agreement. The Issuer will only account to the holders of the Notes for all amounts equivalent to those (if any) received from Zenit under the Credit Facility Agreement less amounts in respect of the Reserved Rights (as defined in the “Terms and Conditions of the Notes”).
Security:	The Notes are secured by a charge and pledge to the Trustee of (i) the Issuer’s rights to payments and all its other rights, title, benefits and interest in, to and under the Credit Facility Agreement, and (ii) the Issuer’s rights, title and interest in and all sums held on deposit in the Account (as defined in the Terms and Conditions (in each case, other than the Reserved Rights (as defined in the “Terms and Conditions of the Notes”))), all as more fully described under “Terms and Conditions of the Notes”.
Form:	The Notes will be issued in bearer form. The Notes will be in the denomination of U.S.\$1,000 and will be represented by either or both of the Global Notes. The Permanent Global Note will only be exchangeable for Notes in definitive form in the limited circumstances described under “Summary of Provisions relating to the Notes in Global Form”.
Early Redemption at the Option of the Issuer:	The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time at their principal amount together with accrued interest to the date of redemption if Zenit elects to prepay the Loan for tax reasons or by reason of increased costs or in the event that it becomes unlawful for the Issuer to fund the Loan or to allow it to remain outstanding under the Credit Facility Agreement, all as more fully described in Clause 10 of the Credit Facility Agreement. See also Condition 6 (<i>Redemption and Purchase</i>) of the 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 Put Event (as defined in Condition 6 (<i>Redemption and Purchase</i>) of the Terms and Conditions of the Notes) occurs.

Certain Covenants:	As long as any of the Notes remains outstanding, the Issuer will not, without the prior written consent of the Trustee, agree to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Credit Facility Agreement, except as otherwise expressly provided in the Trust Deed or the Credit Facility Agreement.
Negative Pledge and Other Covenants:	Clause 14.5 of the Credit Facility Agreement contains a negative pledge in relation to the creation of Liens (other than Permitted Liens) by Zenit. The Credit Facility Agreement also contains, in Clause 14, covenants limiting mergers and disposals by Zenit, transactions between Zenit and its Affiliates (as defined in the Credit Facility Agreement) and the making of distributions by Zenit and its subsidiaries as well as a covenant by Zenit to maintain a specified Tier 1 capital ratio.
Events of Default/Relevant Event: ..	<p>If an Event of Default (as defined in Clause 15 of the Credit Facility Agreement) or a Relevant Event (as defined in the “Terms and Conditions of the Notes”) occurs, the Trustee may, subject as provided in the Trust Deed, (i) (in the case of an Event of Default) require the Issuer to declare all amounts payable under the Credit Facility Agreement by Zenit to be due and payable and do all such other acts in connection therewith that the Trustee may direct, or (ii) (in the case of a Relevant Event) enforce the security created in the Trust Deed in favour of the Noteholders.</p> <p>Upon repayment of the Loan following an Event of Default, the Notes will be repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.</p>
Ratings:	<p>Zenit has received a rating of B2 for long-term foreign currency deposits from Moody’s Investors Service, Inc. (“Moody’s”) and a long-term foreign currency rating of B- from Fitch Ratings, Ltd. (“Fitch”).</p> <p>The Notes have been rated B2 by Moody’s and B- by Fitch.</p> <p>A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, change or withdrawal at any time by the assigning rating agency. The significance of each rating should be analysed independently from any other rating.</p>
Withholding Tax:	All payments under the Loan and in respect of the Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of the Federal Republic of Germany or the Russian Federation save as required by law. If any taxes, duties, assessments or governmental charges are payable in either or both of the above jurisdictions, the sum payable by Zenit will (subject to certain exceptions) be required to be increased to the extent necessary to ensure that the Issuer receives a net sum which it would have received had no such deduction or withholding been made or required to be made. The sole obligation of the Issuer in this respect will be to pay to the Noteholders sums equivalent to the sums received from Zenit to the Noteholders. See “Terms and Conditions of the Notes”.
Use of Proceeds:	The net proceeds from the issue of the Notes will be used by the Issuer for the sole purpose of financing the Loan to Zenit. Zenit intends to use substantially all of the net proceeds from the Loan to facilitate the provision of medium-term funding to its clients and the remainder for general corporate purposes.
Listing:	Application has been made to list the Notes on the Luxembourg Stock Exchange.

Selling Restrictions:	The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Notes may be sold in other jurisdictions (including the United Kingdom, Russia, Germany, Italy, France and Singapore) only in compliance with applicable laws and regulations. See “Subscription and Sale”.
Governing Law:	The Notes, the Credit Facility Agreement, the Trust Deed and the Agency Agreement will be governed by English law.
Investment Considerations:	An investment in the Notes involves a high degree of risk. See “Certain Risk Factors”.
Security Codes:	ISIN: XS0170388424 Common Code: 017038842

CERTAIN RISK FACTORS

Investment in the Notes involves risk. Prospective investors should consider carefully, among other things, the risks set forth below and the other information contained in this document prior to making any investment decision with respect to the Notes. Each of the risks highlighted below, if it occurs, could have a material adverse effect on Zenit's business, financial condition, results of operations and prospects, which, in turn, could have a material adverse effect on Zenit's ability to service its payment obligations under the Credit Facility Agreement and, as a result, the Issuer's payments on the Notes.

Prospective investors should note that the risks described below are not the only risks Zenit faces. Zenit has described only the risks it considers to be material. However, there may be additional risks that Zenit currently considers not to be material or of which Zenit is not currently aware, and any of these risks could have the effect set forth above.

Risks Relating to Zenit's Business and Industry

Zenit faces intense competition in the Russian banking market.

The Russian market for financial and banking services is highly competitive. Although the industry is dominated by a few Moscow-based banks, according to the CBR, 1,773 banks operated in Russia as of December 31, 2002.

Due to the number of banks in Russia and the varying focuses of many of those banks, Zenit faces competition from different banks in each of the different business sectors and various regions of Russia in which it operates. In the corporate banking sector, Zenit's primary competitors are OJSC Alfa Bank ("Alfa Bank"), MDM Bank OAO ("MDM Bank") and OJSC Uralsib Bank ("Uralsib Bank"). In the investment banking sector, Zenit's primary competitors are Alfa Bank, MDM Bank and Investment Bank "Trust". In the private banking sector, Zenit's primary competitors are Financial Corporation NIKoil ("NIKoil"), JSC Rosbank ("Rosbank"), Alfa Bank, ING Bank (Eurasia) ZAO ("ING Bank") and OOO Raiffeisen Bank Austria ("Raiffeisen Bank"). Zenit does not view itself as having a competitive position in the Russian domestic retail banking sector. In the Republic of Tatarstan ("Tatarstan"), Zenit's primary competitor in the corporate and retail banking sectors is AK BARS Bank OJSC ("AK BARS Bank").

Zenit competes with other Russian banks for those corporate clients that can bring in significant volumes of business, and that have an interest in developing a long-term working relationship with the relevant bank. Zenit faces increased competition as a result of recent and proposed Russian banking reforms and with the continued entry of experienced international banks into the Russian market. See "– If pending legislation giving Russian residents greater freedom to engage in financial transactions abroad is enacted, Zenit may lose business". In addition, Zenit is smaller than its main competitors, some of which possess greater resources, both in terms of assets and business volume. Therefore, it has less access to funding, is less able to take advantage of economies of scale and is more vulnerable to economic downturns. If Zenit is unable to compete successfully, such factors may have a material adverse effect on its business, financial condition, results of operations and prospects.

Zenit may be unable to expand its corporate client base.

A key aspect of Zenit's business strategy is continuing to expand its corporate client base. See "Business – Strategy – Focused growth of client base". Many large Russian companies have established in-house banking entities through which they conduct substantially all of their banking activities. Zenit may thus be unable to compete effectively for the banking business of such companies.

The limited number of Russian corporate clients with satisfactory financial condition and credit standing to which Zenit can offer banking services may significantly inhibit Zenit's ability to grow its corporate and investment businesses while maintaining an acceptable level of credit risk. Furthermore, few medium and small enterprises in Russia have credit histories, which makes it difficult to evaluate their creditworthiness. If Zenit is unable to attract such corporate clients or accepts a higher degree of credit risk in order to do so, such factors may have a material adverse effect on its business, financial condition, results of operations and prospects. See "– Zenit's growth strategies may have a negative effect on the credit quality of its loan portfolio".

Zenit may lose some or all of Tatneft's business.

Zenit's largest corporate client is currently its main shareholder, Tatneft, a major Russian oil company. As of December 31, 2002, Zenit's total on-balance sheet and off-balance sheet exposure to Tatneft and its subsidiaries was U.S.\$75 million. Although Zenit's exposure to Tatneft has declined in

percentage terms, Tatneft remains a controlling shareholder and an important client of Zenit, and Zenit continues to depend on it for a significant volume of banking business. See “– Tatneft has the ability to exert significant influence over Zenit, and Tatneft’s interests may conflict with those of the Noteholders”.

Zenit has had a relationship with Tatneft since 1994. Zenit strives to be well-informed about Tatneft’s business and responsive to its needs. Zenit believes that Tatneft is unlikely to change banks in the near future, due, among other reasons, to the variety of services that it receives from Zenit, including, but not limited to, Zenit acting as Tatneft’s agent in international transactions and providing private banking services to its senior executives. See “Shareholding”. However, if Tatneft ceases to use Zenit’s banking services or significantly reduces the volume of its business with Zenit, it may have a material adverse effect on Zenit’s business, financial condition, results of operations and prospects.

Tatneft has the ability to exert significant influence over Zenit, and Tatneft’s interests may conflict with those of the Noteholders.

Tatneft, Zenit’s major shareholder, beneficially owns 50 per cent. plus one share of Zenit’s outstanding shares. Tatneft is not closely involved in the day-to-day management of Zenit, but, as the majority shareholder, it reviews and approves Zenit’s strategic and planning decisions. As a result, Tatneft has the ability to exert significant influence over certain actions requiring shareholder approval, including, but not limited to, the election of directors, the declaration of dividends, appointment of management and other policy decisions. For example, although Tatneft has not done so in the past and Zenit does not expect it to do so in the future, Tatneft could cause Zenit to pursue acquisitions, divestitures and other transactions that are intended to enhance the value of Tatneft’s equity in Zenit, even though such transactions may involve increased risk for Noteholders. In addition, Zenit has, in the past, made relatively high dividend payouts to its shareholders, including Tatneft. The interests of Tatneft may, in some circumstances, conflict with the interests of the Noteholders, and it may make Zenit take actions that materially adversely affect the Noteholders’ investment.

Fluctuations in global markets for oil, gas and precious metals may have a negative impact on Zenit.

Many of Zenit’s corporate clients, including a number of its strategic clients, engage in production and/or export of oil, gas, iron ore and precious metals. The financial condition of each of these corporate clients depends on the prices of the relevant commodities. A decrease in the prices of these commodities or an increase in production costs that is not offset by a corresponding price increase may negatively impact on the financial condition of each of such corporate client and may result, among other things, in a decrease in the funds that each such client holds on deposit with Zenit, a reduction of the volume of foreign currency and/or investment operations in which these clients engage through Zenit, or a default, or a need for increased allowances, on obligations to Zenit. Any of these occurrences may have a material adverse effect on Zenit’s business, financial condition, results of operations and prospects.

Relatively high industry and borrower concentrations in Zenit’s loan portfolio may cause a significant adverse impact on Zenit as a result of a downturn in a particular industry or a decline in the economic situation of a particular borrower.

Zenit’s loan portfolio shows relatively high industry concentration and, within each industry, a relatively high dependence on a few major clients. As of December 31, 2002, the trade, food, manufacturing and oil and gas industry sectors accounted for 26 per cent., 17 per cent., 17 per cent. and 13 per cent., respectively, of Zenit’s loan portfolio. Furthermore, as of such date, total loans to Zenit’s 20 largest borrowers amounted to U.S.\$244 million, representing 58 per cent. of Zenit’s loan portfolio.

In order to minimise the risks related to loan portfolio concentration, Zenit continues to take measures to diversify its loan portfolio, as it has done for the past three years. Even though the percentage of loans to clients operating in the oil and gas industry declined from 33 per cent. of Zenit’s loan portfolio in 2000 to 13 per cent. in 2002 and the percentage of loans to Zenit’s 20 largest borrowers declined from 62 per cent. of Zenit’s gross loan portfolio in 2000 to 58 per cent. in 2002, there is no guarantee that Zenit will be able to further diversify its loan portfolio and failure to do so may have a material adverse effect on Zenit’s business, financial condition, results of operations and prospects.

If pending legislation giving Russian residents greater freedom to engage in financial transactions abroad is enacted, Zenit may lose business.

Under Russian law, legislation is presented in the State Duma three times. At the first reading, the State Duma debates a proposed bill and either accepts it and proceeds with further work on it or rejects it. At the second reading, the State Duma examines and considers comments and changes to a proposed bill introduced by working groups. At the third reading, the State Duma either adopts a proposed bill or votes against it. No comments may be introduced at the third reading.

On March 14, 2003, the State Duma passed the first reading of the bill on currency regulation and control (the “Foreign Exchange Bill”). On May 21, 2003, President Putin sent a letter to the State Duma requesting that the Foreign Exchange Bill be redrafted as a law of direct application (*i.e.* a law that needs no clarifications or references to other laws in order to be applied) and that the text of the Foreign Exchange Bill include all restrictions on capital operations. As a result of President Putin’s letter, the second reading of the Foreign Exchange Bill has been postponed until the fall of 2003.

If the Foreign Exchange Bill is enacted substantially as proposed, it will remove the existing restrictions on money transfers abroad, allow Russian companies and individuals to open foreign bank accounts and increase significantly the ability of Russian companies and individuals to bank directly with foreign banks without using the services of Russian intermediary banks. If the Foreign Exchange Bill is enacted substantially as proposed, Zenit’s corporate clients may find it more attractive to keep their funds with foreign banks, as such banks can offer more attractive terms than Zenit currently does or offer services that are not currently available in Russia, such as securitisation or derivative transactions. Russian clients may also consider foreign banks to be more reliable or creditworthy than Russian banks, including Zenit. Foreign banks may consider Russian corporate clients who engage in production and/or export of oil, gas and precious metals, among which are many of Zenit’s major clients, to be among the most attractive Russian clients, and may actively solicit the business of such clients. If Zenit’s clients transfer all or part of their banking business to foreign banks following the enactment of the proposed Foreign Exchange Bill, this may have a material adverse effect on Zenit’s business, financial condition, results of operations and prospects.

Zenit may fail to manage its growth properly.

Zenit’s growth strategy includes a substantial expansion of its branch network and increase in the size of its overall loan portfolio in a relatively short period of time. Expansion of Zenit’s branch network may entail significant investment, as well as increased operating costs, since Zenit’s intention is to either develop its own regional branches or acquire small regional banks and convert them into branches. There is no guarantee that Zenit will achieve a positive return on the investment that it makes in the development of its branch network.

Overall growth in Zenit’s business requires greater allocation of management resources away from daily operations, continued development of Zenit’s financial and information management control system, continued training of management and other personnel, presence of adequate supervision and maintenance of consistency of client services across regions. If Zenit fails to manage its growth while at the same time maintaining adequate focus on existing business divisions, this failure may have a material adverse effect on its business, financial condition, results of operations and prospects.

Zenit’s growth strategies may have a negative effect on the credit quality of its loan portfolio.

Although Zenit’s increased lending to medium and small corporate clients may diversify Zenit’s loan portfolio, it may, at the same time, increase Zenit’s credit risk exposure. Lending to such clients may carry a greater degree of risk of default than lending to large corporate clients. It may also result in an increase of past due amounts and, consequently, in higher loan impairment allowances. In addition, lending to such medium and small corporate clients requires implementation and application of credit policies and provisioning procedures different from those that Zenit already has in place for large corporate borrowers. Zenit’s ability to expand its client base and to expand its loan portfolio will depend on its ability to implement its credit policies and provisioning procedures for medium and small corporate clients and, in the future, private banking and retail clients, as well as on its ability to achieve capital growth in order to maintain an adequate level of capital. There is no guarantee that Zenit will be successful in implementing these measures and that its exposure to credit risk as a result of its growth strategies will not increase. Increased exposure to credit risk may have a material adverse effect on Zenit’s business, financial condition, results of operations and prospects.

Zenit may be unable adequately to assess the credit risk of potential borrowers.

An accurate assessment of default risk on loans and other instruments is difficult for Zenit due to the unpredictability of economic conditions in Russia and abroad. Moreover, since financial statements of most of Zenit's corporate clients are not prepared in accordance with the United States generally accepted accounting principles ("GAAP") or IFRS and are not audited in accordance with United States Generally Accepted Auditing Standards or International Standards on Auditing, they may not present a complete and comparable picture of each such client's financial condition. Furthermore, few medium and small enterprises have credit histories. Therefore, in spite of the credit risk determination procedures that Zenit has in place, Zenit may be unable to evaluate correctly the current economic condition of each prospective borrower and to determine the long-term economic outlook for each such borrower. If Zenit fails to assess correctly the credit risk of potential borrowers, this may have a material adverse effect on Zenit's business, financial condition, results of operations and prospects. See "Business – Asset, Liability and Risk Management – Risk Management – Credit Risk".

Zenit may be unable to recruit or retain experienced and/or qualified personnel.

Zenit's success will depend, in part, on its ability to continue to attract, retain and motivate qualified and experienced banking and management personnel. Competition in the Russian banking industry for personnel with relevant expertise is intense, due to the disproportionately low number of available qualified and/or experienced individuals compared to the demand. In order to recruit qualified and experienced employees and to minimise the possibility of their departure for other banks, Zenit attempts to provide attractive compensation packages in a manner consistent with evolving standards of the Russian labour market. See "Employees". Zenit is not insured against damage that may be incurred in the event of the loss or dismissal of its key personnel. Zenit's failure to recruit and/or retain necessary personnel or successfully manage its personnel needs could have a material adverse effect on its business, financial condition, results of operations and prospects.

Zenit may face liquidity risks and, due to the nature of the Russian economy, may fail to mitigate these risks.

Russian companies may face significant liquidity problems due to a limited supply of domestic long-term bank funding and few foreign sources of funds. Therefore, the amount of client funds to which Zenit may have access is limited. Zenit may also be exposed to maturity mismatches between its assets and liabilities which may lead to lack of liquidity at certain times. See "Business – Asset, Liability and Risk Management – Risk Management – Liquidity Risk".

Zenit also obtains funding in the domestic and international inter-bank markets. Zenit's ability to continue to access these markets in amounts sufficient to meet its funding needs could be adversely affected by a number of factors, including Russian and international economic conditions and the state of the Russian financial system.

Although Zenit believes that its level of access to domestic and international inter-bank markets, its favourable credit standing and its sophisticated liquidity risk management policy, which includes maintaining liquidity reserves sufficient to meet Zenit's liquidity needs for a certain period, allow and will continue to allow Zenit to meet its short-term and long-term liquidity needs, a deterioration of Russian companies' liquidity, a deterioration of the Russian and/or international inter-bank markets and maturity mismatches between Zenit's assets and liabilities may, together or separately, have a material adverse effect on its business, financial condition, results of operations and prospects. See "Business – Asset, Liability and Risk Management – Risk Management – Liquidity Risk".

Zenit cannot completely eliminate interest rate risks.

Like other commercial banks in Russia and elsewhere, Zenit is exposed to risks resulting from mismatches between the interest rates on its interest-bearing liabilities and interest-earning assets. While Zenit monitors fluctuating interest rates on a large and representative portion of its assets and liabilities and allocates funds to assets the terms of which match the terms of Zenit's liabilities, interest rate movements may have a material adverse effect on the business, financial condition, results of operations and prospects of Zenit. See "Business – Asset, Liability and Risk Management – Risk Management – Interest Rate Risk".

Zenit cannot completely eliminate foreign currency risks.

Zenit trades currency on behalf of its clients and for its own account and maintains open currency positions, which results in Zenit's exposure to foreign exchange risk. Although Zenit is subject to limits on its open currency positions pursuant to CBR regulations and Zenit's internal policies, future changes in

currency exchange rates and the volatility of the ruble may adversely affect Zenit's foreign currency positions. See "Business – Asset, Liability and Risk Management – Risk Management – Foreign Currency Risk".

As at December 31, 2002, Zenit had balanced ruble and dollar positions. To the degree that Zenit does not maintain balanced ruble and dollar positions, fluctuations in currency exchange rates and real appreciation or depreciation of the ruble against the U.S. dollar could have a material adverse effect on Zenit's business, financial condition, results of operations and prospects. In addition, a high rate of inflation in Russia may result in a decline in the value of Zenit's ruble-denominated net monetary assets.

Zenit's investment banking activities may be adversely affected by the state of the Russian corporate securities market.

Due in part to the limited liquidity of the Russian corporate securities market and the relative lack of effective securities market regulation, in comparison to a more developed market such as the United Kingdom, the prices of Russian corporate securities may be significantly affected by a relatively small amount of trading activity or favourable or unfavourable press coverage. Moreover, regulation of market making and insider trading is not fully developed. As a result, the prices of Russian corporate securities may be affected by practices not permitted in more developed securities markets.

Furthermore, economic conditions continue to limit the volume of activity in the Russian financial markets. Even though Zenit believes that it uses the best available information in adjusting its market quotations to reflect the estimates of fair values, market quotations are not always indicative of values for securities that would be determined in an efficient, active market involving willing buyers and willing sellers. The current state of the Russian corporate securities market may have a negative impact on Zenit's investment banking activities and consequently may have a material adverse effect on Zenit's business, financial condition, results of operations and prospects.

Russian tax authorities may challenge Zenit's past tax planning initiatives.

In 2001 and 2002, Zenit's results of operations benefited significantly from various off-shore tax planning initiatives. Although, to date, the Russian tax authorities have not challenged these tax planning initiatives, there is no assurance that they will not be challenged retrospectively in the future or that, if challenged, Zenit will be able successfully to defend against such challenge. Since Russian tax rates have been significantly reduced in 2002, Zenit does not intend to use these tax planning initiatives in 2003 or thereafter. However, if their previous use is successfully challenged by the Russian tax authorities, Zenit may be ordered to pay to the Russian tax authorities additional tax and related interest as well as penalties, which may result in significant losses and, as a consequence, may have a material adverse effect on Zenit's business, financial condition, results of operations and prospects.

The Russian government or the CBR may challenge measures that Zenit takes to maintain bank regulatory norms.

Zenit uses transactions with off-shore entities that conduct their activities according to Zenit's specific needs in order to meet various CBR requirements. To date, Zenit is not aware of any challenge by either the Russian government authorities or the CBR to such regulatory optimisation schemes, but there is no assurance that they will not be challenged in the future or that, if challenged, Zenit will be able successfully to defend against such a challenge. If the use of such regulatory optimisation schemes is successfully challenged by the Russian government authorities or the CBR, Zenit may face consequences that may include: fines; a tightening of the bank regulatory requirements applied to Zenit; prohibition on any reorganisation of Zenit; appointment of outside administration for Zenit; temporary prohibition on Zenit engaging in certain activities currently allowed by its banking licence; or even a revocation of Zenit's banking licence. Any of these consequences may have a material adverse effect on Zenit's business, financial conditions, results of operations and prospects.

Some transactions between Zenit and interested parties or affiliated companies require the approval of disinterested directors or shareholders and Zenit's failure to obtain such approvals may cause its business to suffer.

Russian law requires a company that enters into transactions with certain of its affiliates that are referred to as "interested party transactions" to comply with special approval procedures. Under Russian law, an "interested party" means: (i) any member of the board of directors or the collegiate executive body of the company, (ii) the CEO of the company (including managing organisation or manager), (iii) any

person who, together with its affiliates, owns at least 20 per cent. of the company's voting shares or (iv) a person who on legal grounds has the right to give mandatory instructions to the company, if any of the above listed persons, or a close relative or affiliate of such person, is, in each case:

- a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction;
- the owner of at least 20 per cent. of the shares in a company that is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction;
- a member of a governing body of a company that is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction or an officer of the managing organisation of such company; or
- in other cases stipulated by law.

Transactions between members of a consolidated corporate group may be considered to be interested party transactions in certain circumstances, even when the companies involved are wholly-owned by the parent company.

Under applicable Russian law, interested party transactions are required to be approved by a majority of either disinterested or disinterested and independent directors of the company. Where all the directors are interested, or are not independent, or if the value of the transaction equals to or exceeds two per cent. of the company's assets, determined under RAR according to its latest balance sheet (with exceptions for certain share placements or other cases prescribed by law), then a majority vote of the disinterested shareholders of the company is required. The consequence of not having obtained the appropriate approval is that the transaction in question may be declared invalid upon a claim by the company or any of its shareholders.

In certain circumstances, such as when an interested party transaction was entered into between Zenit and one of its shareholders in the past, the transaction was not always submitted to the Board of Directors of Zenit (the "Board of Directors") for advance approval. However, under Russian law, the lack of advance approval makes the transaction voidable, but not void. If any transaction is challenged in court, it will be submitted for retroactive approval to the Board of Directors.

In 2000, 2001 and 2002, the Board of Directors approved certain transactions after, rather than before, they were consummated. To date, the Board of Directors has not deemed any transaction that it was asked to approve *post factum* to be contrary to Zenit's interests and has never denied such approval. Zenit cannot be certain, however, that any such *post factum* approval will be granted by the Board of Directors in the future or, if obtained, would be deemed sufficient to validate the transaction under Russian law. Zenit also cannot be certain that any such *post factum* approval will be granted by the boards of directors of the companies with whom Zenit entered into interested party transactions, or that such approvals would be sufficient to validate such transactions under Russian law. Any successful challenge to any of Zenit's interested party transactions may result in the invalidation of a transaction that may be important to its business, and may have a material adverse effect on Zenit's business, financial condition, results of operations and prospects.

Zenit is only able to conduct banking transactions with a limited number of creditworthy Russian banks as the Russian banking system remains underdeveloped.

Russia's banking and other financial systems are not well developed or regulated and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent applications. Zenit can conduct banking transactions only with a limited number of creditworthy Russian banks, as the 1998 Russian financial crisis resulted in the bankruptcy and liquidation of many Russian banks. Most creditworthy Russian banks are located in Moscow and there are few creditworthy Russian banks in the regions. Although Zenit engages in inter-bank transactions with a number of Russian banks, including subsidiaries of international banks, another prolonged or more serious inter-bank crisis or bankruptcy of a number of banks with which Zenit engages in banking transactions may have a material adverse effect on Zenit's business, financial condition, results of operations and prospects.

Russian banking reforms and their effect on banking regulation and supervision may have a negative impact on Zenit.

At the end of 2001, the Government of the Russian Federation and the CBR issued a joint declaration setting out a strategy for banking reform in Russia and proposing certain legislative steps to be taken and structural changes to be made 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 upon 30 days' notice of funds held in deposit accounts opened for a certain term by legal persons, (iii) the adoption of IFRS accounting and reporting by all Russian banks and (iv) the gradual implementation of a mandatory system of securing private depositors' funds held by all Russian banks. See "The Banking Sector and Banking Regulation in the Russian Federation".

Although the Russian banking sector generally views such changes and reforms as beneficial to the Russian banking system, it is uncertain whether such reforms may, at the same time, adversely affect Russian banks, including Zenit, and their approach to conducting business. For example, although the implementation of the proposed mandatory deposit insurance may give Zenit's depositors more comfort that their monies will be protected against default or a 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 expenses incurred by Zenit in securing such deposits.

Furthermore, the switch from RAR to IFRS by all Russian banks and the accompanying changes to banking regulation could also adversely affect Zenit. For example, no assurance can be given that, without appropriate remedial action, Zenit's capital would satisfy the guidelines regarding solvency and capitalisation adopted by the Basel Committee on Banking Supervision at the Bank for International Settlements as provided in such Committee's paper entitled "International Convergence of Capital Measurement and Capital Standards" dated July 1988, as amended.

Without a clearer understanding of what legislative steps and structural changes are to be implemented as part of the CBR's banking reform package, it is difficult to identify how such reforms might adversely impact Zenit and its business, financial condition, results of operations or prospects.

If Zenit fails to receive a licence from the CBR when needed, or if an existing licence is revoked Zenit will be adversely affected.

All banking and various related operations in Russia require specific licences, and certain capital transactions with foreign currencies require transaction-specific currency licences, from the CBR. Zenit has obtained such licences in connection with its banking operations, for non-banking foreign currency operations and for a number of its non-convertible currency borrowings and guarantees. Although Zenit has been successful in obtaining CBR licences in the past, there is no assurance that Zenit will be able to obtain such licences in the future. Applying for a CBR licence is a burdensome and time-consuming process. The CBR may, in its discretion, impose additional requirements or deny Zenit's request for licences, which would harm Zenit's business and results of operations. The loss of a Central Bank licence, a breach of the terms of a CBR licence by Zenit or Zenit's failure to obtain CBR licences in the future would result in cash flow difficulties and penalties such as fines imposed by the CBR on Zenit, which would, in turn, affect Zenit's ability to fulfil its payment obligations and would have a material adverse effect on its business, financial condition, results of operations and prospects. If Zenit loses its general banking licence, this will result in Zenit's inability to perform any banking operations.

Risks Relating to the Notes and the Trading Market

The lack of a public market for the Notes could reduce the value of an investment in the Notes.

There is no existing market for the Notes. Application has been made to list the Notes on the Luxembourg Stock Exchange. However, there can be no assurance that a market will develop for the Notes, that Noteholders will be able to sell their Notes or that such Noteholders will be able to sell their Notes for a price that reflects their value. The Managers have informed Zenit that they intend to make a market in the Notes. However, the Managers are under no obligation to do so and may discontinue making a market in the Notes at any time.

Payments under the Loan may be subject to Russian withholding tax.

In general, payments of interest on borrowed funds by a Russian entity to a non-resident legal person or organisation 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 Zenit has received, Zenit believes that payments of any amounts on the Loan should not be subject to withholding tax under the terms of the double tax treaty between Russia and the Federal Republic of Germany. However, there is no assurance that such double tax treaty relief will be obtained.

If payments under the Loan are subject to Russian withholding tax, Zenit will be obliged to increase such payments, such that the net amount received by the Issuer would be no less than the amount the Issuer would have received in the absence of such withholding. However, this gross-up clause may not be enforceable under Russian law. In the absence of such a gross-up, the Issuer will reduce the payments made under the Notes by the amount of Russian withholding tax deducted from the payments it receives under the Loan.

The Notes will be prepaid in certain circumstances.

The Issuer shall redeem the Notes if Zenit becomes obliged to pay, on the occasion of the next payment of any amount due under the Credit Facility Agreement, additional amounts such that every net payment made by Zenit under the Credit Facility Agreement after deduction or withholding for any taxes shall not be less than the amount then due and payable (in the absence of such withholding or deduction) and, as a result, Zenit repays the Loan in accordance with the Credit Facility Agreement. If the Issuer redeems the Notes under such circumstances, the redemption price will be equal to 100 per cent. of the principal amount of the Notes plus any accrued interest and additional amounts due. In addition, the Issuer shall redeem the Notes if Zenit becomes obliged to pay certain increased costs of the Lender and, as a result, Zenit repays the Loan in accordance with the Credit Facility Agreement. Finally, the Issuer shall redeem the Notes if Zenit is required to repay the Loan at the request of the Lender because of illegality. See “Terms and Conditions of the Notes – Redemption and Purchase – Redemption at the option of the Issuer”.

Tax may be withheld on dispositions of the Notes, reducing their value.

If a non-resident holder sells Notes to a Russian resident, there is a risk that the proceeds from such disposition may be subject to a withholding tax on any gain realised, subject to any available treaty relief. There is no assurance that advance treaty relief would be granted and obtaining a refund can be extremely difficult, if not impossible. Where proceeds from disposal of the Notes are received from a source within Russia by an individual non-resident holder, the withholding tax would be charged at 30 per cent. of the gross proceeds of such disposition, less any available cost deduction. Proceeds from the sale of Notes received by non-resident Noteholders who are not individuals should not be subject to Russian taxation. However, it is not clear how the tax authorities will, in practice, apply Chapter 25 of the Russian Tax Code that became effective on January 1, 2002. For example, there is a risk that the portion, if any, of the proceeds which represents accrued interest may be subject to 20 per cent. withholding tax. The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes. See “Taxation”.

The right of the Noteholders to receive payment on the Notes will be limited to payments received by the Issuer under the Credit Facility Agreement.

The Issuer is only obliged to make payments under the Notes to Noteholders of an amount equivalent to sums of principal, interest, and/or additional amounts, if any, actually received by or for the account of the Issuer under the Credit Facility Agreement. Consequently, if Zenit fails to meet its obligations fully under the Credit Facility Agreement, the Noteholders will receive less than the scheduled amount of principal, interest and/or additional amounts (if any) on the relevant due date.

Zenit may not have the ability to raise the funds necessary to finance the Change of Control offer required by the Terms and Conditions of the Notes.

Upon the occurrence of certain Change of Control events relating to Zenit and a Negative Ratings Event (each as defined in the “Terms and Conditions of the Notes”) with respect to such Change of Control, at the option of the Noteholders, the Issuer shall be required to redeem the Notes of the relevant Noteholders. However, it is possible that Zenit will not have sufficient funds at the time of the Change of Control to make the required repayment of the Loan to enable the Issuer to redeem the relevant Notes. In general terms, a Change of Control shall be deemed to occur if (whether or not approved by the Board of Directors) any Person (other than a Permitted Holder) (each, as defined in the “Terms and Conditions of the Notes”) or any Persons (other than Permitted Holders) acting in concert, 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 or acquires an interest in more than 50 per cent. of the issued or allotted ordinary share capital of Zenit or (b) the beneficial owner of more than 50 per cent. of the Voting Stock (as defined in the “Terms and Conditions of the Notes”) of Zenit.

During certain periods, the Noteholders will be exposed to credit risk on JPMorgan Chase Bank, London Branch.

Under the Credit Facility Agreement, Zenit is required to make payments of principal, interest and additional amounts (if any), in respect of the Advance to the Account (both as defined in the Credit Facility Agreement) on the business day before the due date for payment. Any such payment so made will discharge Zenit's obligation to make the relevant payment under the Credit Facility Agreement. The Issuer has directed JPMorgan Chase Bank, London Branch, as Principal Paying Agent, to make payments of principal, interest and additional amounts (if any), in respect of the Notes from amounts received into the Account. Thus Noteholders will be exposed to credit risk on JPMorgan Chase Bank, London Branch, for any period during which amounts are credited to the Account.

Risks Relating to the Russian Federation

Zenit is a Russian company and all of its fixed assets are located in, and a significant portion of its revenues are derived from, Russia. There are certain risks associated with an investment in Russia.

Governmental instability could adversely affect the value of investments in Russia.

Since 1991, Russia has sought to transform itself from a one-party state with a centrally-planned economy to a pluralist democracy with a market-oriented economy. The course of reform has in some respects been uneven, and the composition of the Russian Government and, in particular, the prime minister and the other heads of federal ministries, has at times been highly unstable. For example, six different prime ministers headed governments between March 1998 and May 2000. On December 31, 1999, President Boris Yeltsin unexpectedly resigned and Vladimir Putin, Prime Minister at the time, became the acting president and was subsequently elected President on March 26, 2000. While President Putin has maintained governmental stability and policies generally oriented towards the continuation of economic reform, no assurance can be given that such conditions will continue after the State Duma elections, to be held at the end of 2003 and presidential elections in 2004. The value of investments in Russia, including the Notes, may be reduced and Zenit's prospects may be harmed if governmental instability recurs or if reform policies are reversed.

Conflict between federal and regional authorities and other conflicts could create an uncertain operating environment that would hinder Zenit's long-term planning ability and could adversely affect the value of investments in Russia.

The Russian Federation consists of eighty-nine sub-federal political units, some of which exercise considerable autonomy in their internal affairs pursuant to agreements with the federal authorities. In practice, the division of authority between federal and regional governmental authorities remains uncertain and contested. Lack of consensus between local and regional authorities and the Russian government often results in enactment of conflicting legislation at various levels and may result in political instability. These uncertainties could hinder the operation and the expansion of Zenit's business.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to communal tensions and military conflict. From 1994 to 1996 and since 1999, Russian military forces have been engaged in operations in Chechnya, bringing normal economic activity within Chechnya to a halt and disrupting the economy of the neighbouring regions, and groups associated with the Chechen opposition have committed various acts of terrorism in Chechnya and in population centres in Russia, resulting in significant loss of life, injury and damage to property. The spread of violence, or political measures taken to counter violence, such as the imposition of a state of emergency, could hinder the operation and the expansion of Zenit's business.

Economic Risks

Economic instability in Russia could adversely affect Zenit's business.

Since the dissolution of the Soviet Union, the Russian economy has at various times experienced:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high Government debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- high levels of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of "black" and "grey" market economies;
- high levels of capital flight;
- corruption and extensive penetration of organised crime into the economy;
- significant increases in unemployment and underemployment; and
- high poverty levels among the Russian population.

The Russian economy has been subject to abrupt downturns. In particular, on August 17, 1998, in the face of a rapidly deteriorating economic situation, the Russian Government defaulted on its ruble-denominated securities, the Central Bank stopped its support of the ruble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the ruble and a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and an inability of Russian issuers to raise funds in the international capital markets.

These problems were aggravated by the near collapse of the Russian banking sector after the events of August 17, 1998. This further impaired the ability of the banking sector to act as a consistent source of liquidity to Russian companies, and resulted in the losses of bank deposits in some cases.

Despite improvements in the Russian economic situation after the 1998 crisis, there can be no assurance that the recent positive trends experienced by the Russian economy, such as the increase in the gross domestic product, a relatively stable ruble, and a reduced rate of inflation, will continue or will not be abruptly reversed. Moreover, the recent fluctuations in international oil and natural gas prices, the strengthening of the ruble in real terms relative to the U.S. dollar and the consequences of a relaxation in monetary policy and other factors may adversely affect Russia's economy and Zenit's business in the future.

Changes in the Russian tax system could materially adversely affect Zenit's business.

Generally, taxes payable by Russian companies are substantial and numerous. These taxes include, among others:

- income taxes;
- value added taxes, or VAT;
- excise taxes;
- unified social tax; and
- property tax.

All of these taxes are subject to change. Additionally, each region may establish a regional sales tax applicable to sales of goods and services to individuals at a rate of up to 5 per cent.

Because tax legislation is subject to frequent change and some of the sections and laws of the Tax Code related to the aforementioned taxes are comparatively new, the government's implementation of these regulations is often unclear or non-existent. There are few established precedents or consistent court practices in respect of these questions, and conflicting opinions and interpretations of tax rules frequently exist both among and within government ministries, departments, inspectorates and other bodies, leading to uncertainty. Tax declarations and other filings are subject to inspection by a variety of authorities, each of which is empowered to impose severe fines, penalties and interest charges. Tax declarations generally remain open for three years following the year to which they relate, and inspection of a declaration by one authority does not preclude subsequent further inspection by a superior authority during the three-year period. These factors create tax risks in Russia which are more significant than those typically found in countries with more developed tax systems.

Such conditions complicate tax planning and related business decisions. The introduction of new tax provisions may affect the overall tax efficiency of Zenit and may result in significant additional tax liabilities. Although Zenit intends to undertake to minimise such exposures with effective tax planning, there is no assurance that tax exposure will not arise in the future.

Russia's physical infrastructure is in very poor condition, which could disrupt normal business activity.

As a general matter, Russia's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. Particularly affected are the rail and road networks, power generation and transmission, communication systems and building stock. For example, during the winter of 2000-2001, electricity and heating shortages in Russia's far-eastern Primorye region seriously disrupted the local economy. Road conditions throughout Russia are poor, with many roads not meeting minimum requirements for usability and safety. The Russian 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 deterioration of Russia's physical infrastructure harms the national economy, disrupts the transportation of goods and supplies, adds costs to doing business in Russia and can interrupt business operations. If such deterioration continues, this could have a material adverse effect on the business of Zenit's clients and/or of Zenit itself.

Fluctuations in the global economy may adversely affect Russia's economy and Zenit's business.

Russia's economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems 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 is one of the world's largest producers of, and a major exporter of, natural gas and oil, the Russian economy is especially sensitive to the price of natural gas and oil on the world markets, and a decline in the price of natural gas or oil could slow or disrupt the Russian economy. These developments could severely limit Zenit's access to capital and could adversely affect the financial condition of Zenit's clients and thus Zenit's business.

Social Risks

Crime and corruption could disrupt Zenit's ability to conduct its business and could materially adversely affect Zenit's financial condition and results of operations.

The political and economic changes in Russia since the early 1990s have resulted in reduced policing of society and increased lawlessness. Organised criminal activity has reportedly increased significantly since the dissolution of the Soviet Union, particularly in large metropolitan centres and with respect to a substantial increase in property crime in large cities. In addition, the Russian and international press have reported high levels of official corruption in Russia and the former Soviet Union, including the bribing of officials for the purpose of initiating investigations by Russian Government agencies. Press reports have also described instances in which Russian Government officials have engaged in selective investigations and prosecutions to further interests of the Russian Government and individual officials. Additionally, published reports indicate that a significant segment of the Russian media regularly publish biased articles in return for payment. Zenit's business, and the value of the Notes, could be adversely affected by illegal activities, corruption or by claims implicating Zenit in illegal activities.

Social instability could increase support for renewed centralised authority, nationalism or violence and thus materially adversely affect Zenit's ability to conduct its business effectively.

The failure of the Russian Government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest. For example, in 1998, miners in several regions of Russia, demanding payment of overdue wages, resorted to strikes that included blocking major railroads. Such labour and social unrest 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 economy of Russia; and increased violence. Any one or a combination of these factors could restrict the operations of Zenit or Zenit's clients and have a material adverse effect on Zenit's revenue.

Risks Relating to the Russian Legal System and Russian Legislation

Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and for business activity.

Russia is still developing the legal framework required by a market economy. Since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the 1993 Federal Constitution. Zenit's business is subject to the rules of the 1995 Civil Code, other federal laws and decrees, orders and regulations issued by the President, the Russian Government, the federal ministries and the CBR, which are, in turn, complemented by regional and local rules and regulations. These legal norms, at times, overlap or contradict one another. Several fundamental Russian laws have only recently become effective. The recent nature of much of Russian legislation and the rapid evolution of the Russian legal system place the enforceability and underlying constitutionality of such laws in doubt and result in ambiguities, inconsistencies and anomalies. In addition, Russian legislation often leaves substantial gaps in the regulatory infrastructure. Among the risks of the current Russian legal system are:

- limited judicial and administrative guidance on interpreting Russian legislation;
- the relative inexperience of judges in interpreting Russian legislation;
- a high degree of discretion on the part of governmental authorities; and
- bankruptcy procedures that are not well developed and are subject to abuse.

All of these weaknesses could affect Zenit's ability to enforce its rights under contracts, or to defend against claims by others.

Inexperience and lack of independence of certain members of the judiciary and the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent Zenit or investors from obtaining effective redress in a court proceeding, including in respect of expropriation or nationalisation.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia remain largely untested. The court system is understaffed and underfunded. Judges and courts are generally inexperienced in the area of business and corporate law. Russia is a civil law jurisdiction and, as such, judicial precedents have no binding effect on subsequent decisions. In addition, most court decisions are not readily available to the public. Enforcement of court judgments can in practice be very difficult in Russia. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims are often used to further political aims. Zenit and/or its clients may be subject to such claims and may not be able to receive a fair trial. In addition, law enforcement agencies do not always enforce or follow court judgments.

There are also legal uncertainties relating to property rights. During Russia's transformation from a centrally planned economy to a market economy, legislation was enacted to protect private property against expropriation and nationalisation. However, it is possible that due to the lack of experience in enforcing these provisions and due to political changes, these protections would not be enforced in the event of an attempted expropriation or nationalisation, or in the event Zenit's business and/or its clients' businesses are reorganised. Expropriation or nationalisation of any of Zenit's assets or portions thereof, potentially with little or no compensation, could have a material adverse effect on Zenit's operations and revenues, and on the value of the Notes.

Unlawful or arbitrary Russian Government action may have an adverse effect on Zenit's business.

Russian Government authorities have a high degree of discretion in Russia and have in the past exercised their discretion arbitrarily, without a hearing or prior notice, and sometimes in a manner that was contrary to the law. Moreover, the Russian Government also has the power in certain circumstances, by regulation or Government act, to interfere with the performance of, nullify or terminate contracts. Previous unlawful or arbitrary governmental actions have included withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities have also used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands that have enabled them to invalidate such issuances and registrations and/or to void transactions, often for political purposes. Unlawful or arbitrary Russian Government action, if directed at Zenit, could have a material adverse effect on its business, and on the value of the Notes.

Foreign judgments may not be enforceable against Zenit.

Judgments rendered by a court in any jurisdiction outside the Russian Federation 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 the Russian Federation and the country where the judgment is rendered. No such treaty exists between the United Kingdom and the Russian Federation for the reciprocal enforcement of foreign court judgments. Thus, the enforcement of English court judgements against Zenit in the Russian Federation may be impossible. Also, the Trust Deed provides that controversies, claims and causes of action brought by any party thereto against Zenit may be settled by arbitration. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including the lack of experience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favour of foreign investors, the inability of Russian courts to enforce such orders, and corruption.

The legislative framework governing bankruptcy in the Russian Federation differs substantially from that of Western European countries, potentially adversely affecting the value of the Notes in the event of Zenit's insolvency.

Russian bankruptcy law often differs from comparable law in Western European countries and is subject to varying interpretations. There is little precedent to predict how claims on behalf of the Noteholders against Zenit would be resolved in the case of Zenit's bankruptcy. Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity and thus could have a material adverse effect on an investment in the Notes.

In addition, under Russian law, Zenit's obligations under the Credit Facility Agreement would be subordinated to the following obligations:

- costs related to bankruptcy litigation;
- claims of individual depositors and of individuals who have other types of accounts at Zenit;
- personal injury obligations;
- severance pay and employment-related obligations;
- secured obligations; and
- tax and other payment obligations to the government.

In the event of Zenit's insolvency, this subordination may substantially decrease the amounts available for repayment of the Loan and, as a result, the Notes.

The rights of Zenit's shareholders, the public reporting requirements and the Russian Accounting Regulations to which Zenit is subject differ significantly from those applicable to comparable listed companies in other jurisdictions.

Zenit's corporate affairs are governed by its charter, its internal regulations, by laws governing Russian banks and by laws governing companies incorporated in Russia. See "The Banking Sector and Banking Regulation in the Russian Federation". The rights of shareholders and the responsibilities of members of the Board of Directors and Zenit's Management Board (the "Management Board") under Russian law are different from, and may be subject to certain requirements not generally applicable to corporations organised in the United Kingdom or other jurisdictions. See "Management".

The Law on Banks and Banking Activities (the "Banking Law") contains certain regular disclosure requirements, including the requirement to publish annual financial statements in accordance with Russian Accounting Regulations. Due to the fact that Zenit's systems and processes are tailored for Russian statutory requirements, it takes Zenit longer than most Western companies to prepare its consolidated annual and interim financial reports and its consolidated periodic internal accounts.

In accordance with the Banking Law, Zenit must publish quarterly reports within 29 days and file such quarterly reports with the CBR within 30 days of the end of the relevant quarter. Such reports include certain financial information, including a balance sheet, income statement and information on the Zenit's assets, capital reserves and allowances for non-performing loans, but do not contain all of the information contained in Zenit's IFRS Financial Statements. Zenit has regularly published and filed such reports since 1995 and generally complied with the relevant reporting requirements. Such reports shall be available in the English language at the offices of the Luxembourg Paying Agent.

In accordance with Russian legislation applicable to securities issuers, Zenit must file quarterly reports with the Federal Commission on the Securities Markets within 30 days after the end of the relevant quarter. Such reports include certain information about Zenit, its management, subsidiaries, affiliates and selected financial and business information (such as events of litigation, quarterly accounts prepared in accordance with Russian accounting standards, etc.) but do not contain all of the information contained in Zenit's IFRS Financial Statements. Zenit has regularly filed such reports since 2000 and in general has complied with the relevant reporting requirements. Such reports shall be available in the English language at the offices of the Luxembourg Paying Agent.

Despite recent initiatives to improve corporate transparency in Russia, there is nonetheless less publicly available information about Zenit than there is available for comparable companies in, for example, the United Kingdom.

Russian tax law is not fully developed and is subject to frequent changes which could have an adverse effect on Zenit.

Zenit is subject to a broad range of taxes imposed at the federal, regional and local levels, including, but not limited to, value-added tax, income tax, property tax, social taxes and import duties.

Laws related to these taxes, such as the Tax Code, have been in force for a short period relative to tax laws in more developed market economies and the Russian Government's implementation of these tax laws is often unclear or inconsistent. Accordingly, few precedents with regard to the interpretation of these laws have been established. Often, differing opinions regarding legal interpretation exist both between companies subject to such taxes and the Russian Government and within Russian Government ministries and organisations, such as the Ministry of Taxes and Duties and its various inspectorates, creating uncertainties and areas of conflict. Generally, tax declarations remain open and subject to inspection by

tax and/or customs authorities for a period of three years following the tax year. The fact that an accounting year has been reviewed by tax authorities does not preclude that year, or any tax declaration applicable to that year, from further review by the tax authorities during a three-year period. These facts create tax risks in Russia substantially more significant than typically found in countries with more developed tax systems.

The Russian Government is currently revising the Russian tax system. The new tax system is intended to reduce the number of taxes and the overall tax burden on businesses and to simplify the tax laws. However, the revised tax system relies heavily on the judgments of local tax officials and fails to address many of the existing problems. The current tax system imposes a significant tax burden on Russian companies and suffers from numerous inefficiencies. Even if further reforms to tax legislation are enacted, they may not result in a reduction of the tax burden on Russian companies and the establishment of a more efficient tax system. Conversely, they may introduce additional tax collection measures. Accordingly, Zenit may have to pay significantly higher taxes, which could have a material adverse effect on its business and financial condition.

Risk related to the German Insolvency Code

Provisions of the German Insolvency Code may adversely affect the security given pursuant to the Trust Deed.

Clause 4 of the Trust Deed provides for an English law charge in favour of the Trustee for the benefit of the Noteholders of certain amounts as well as certain claims and other rights of the Issuer under the Credit Facility. Section 166(2) of the German Insolvency Code (the “Insolvency Code”) provides that receivables assigned under German law for security purposes may, after the opening of insolvency proceedings involving the assignor, only be enforced by the assignee if the insolvency administrator (*Insolvenzverwalter*) does not exercise its power of discretion to enforce the receivables. If the insolvency administrator does exercise its discretion, it will be entitled to withhold from the enforcement proceeds a flat-rate fee for establishment and enforcement of the receivables of a total of 9 per cent. in favour of the bankruptcy estate, subject to adjustment in the case of higher or lower actual costs of enforcement, in each case plus value added tax, if any, thereon pursuant to Sections 170(1) and 171 of the Insolvency Code. If the insolvency administrator allows the assignee to enforce the receivables, the assignee will be obliged to pay a flat-rate fee of 4 per cent. plus value-added tax, if any, thereon, to the bankruptcy estate pursuant to Sections 170(2) and 171(1) of the Insolvency Code. Section 166(2) of the Insolvency Code may affect the security given pursuant to the Trust Deed since there is no guarantee that a German court would hold that an English law charge should be subject to such Section 166(2).

Risks Relating to Emerging Markets

Emerging markets such as the Russian Federation are subject to greater risk than more developed markets, including significant legal, economic and political risks.

Investors in emerging markets such as the Russian Federation should be aware that these markets are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies, such as the economy of the Russian Federation are subject to rapid change and that the information set out herein may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult their own legal and financial advisers before making an investment in the Notes.

Financial turmoil in emerging markets could cause the price of the Notes to suffer.

Financial turmoil in Russia and other emerging markets in 1997 and 1998 adversely affected market prices in the world’s securities markets for companies that operate in those developing economies. Further financial turmoil in these and/or other markets could cause decreases in prices for securities of, or related to, Zenit (including the Notes), even if the Russian economy remains relatively stable.

CAPITALISATION

The following table sets out Zenit's consolidated capitalisation at December 31, 2002, and as adjusted to reflect the borrowing under the Credit Facility Agreement. This information should be read in conjunction with Zenit's IFRS Financial Statements and the notes thereto, located elsewhere in this document.

	As at December 31, 2002	
	Actual	As adjusted ⁽¹⁾
	(in thousands of U.S. dollars)	
Total short-term debt	—	—
Long-term debt		
Term borrowings from shareholders	1,700	1,700
Borrowing under the Credit Facility Agreement	—	125,000
Total long-term debt	1,700	126,700
Total debt	1,700	126,700
Shareholders' equity		
Share capital ⁽²⁾	99,203	99,203
Retained earnings and other reserves	32,049	32,049
Total shareholders' equity	131,252	131,252
Total capitalisation	132,952	257,952

(1) Adjusted figures correspond to the capitalisation of the Zenit as at December 31, 2002, as adjusted to reflect borrowings by the Bank under the Credit Facility Agreement as if such borrowings had occurred on December 31, 2002.

(2) As of December 31, 2002, Zenit's authorised share capital was RUR12 billion (U.S.\$378 million) comprised of 12 billion ordinary shares with a par value of RUR1.00 each. Such authorised share capital consisted of unissued share capital of RUR10 billion (U.S.\$315 million), comprised of 10 billion ordinary shares with a par value of RUR1.00 each and issued and fully paid shares, with a value of RUR2 billion (U.S.\$63 million), comprised of 2 billion ordinary shares with a par value of RUR1.00 each. The U.S. dollar equivalents were calculated by applying the CBR official exchange rate as of December 31, 2002.

There has been no material change in Zenit's consolidated capitalisation since December 31, 2002, except as set forth above.

DESCRIPTION OF THE TRANSACTION AND THE NOTES

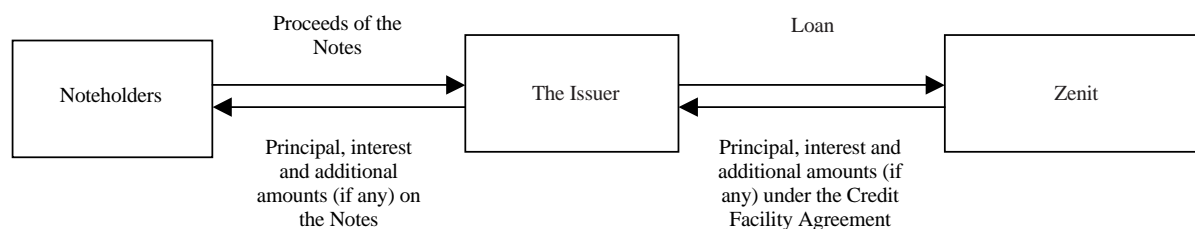
The following summary contains basic information about the Notes and the Loan and should be read in conjunction with, and is qualified in its entirety by, the information set forth under “Terms of the Credit Facility Agreement” and “Terms and Conditions of the Notes”

The transaction will be structured as a loan to Zenit by the Issuer. The Notes will be limited recourse loan participation notes and will be issued by the Issuer for the sole purpose of funding the Loan. The Notes will be constituted by the Trust Deed (the “Trust Deed”) to be entered into between the Issuer and J.P. Morgan Corporate Trustee Services Limited (the “Trustee”). Pursuant to the Trust Deed, the Issuer will charge and pledge by way of first fixed security, to the Trustee for the benefit of the Noteholders: (a) all its rights to principal, interest and additional amount (if any) and all other rights, title, benefits and interest in, to and under the Credit Facility Agreement; and (b) all its rights, title and interest in and to all sums held on deposit from time to time in an account with JPMorgan Chase Bank, London Branch, account number 25129501 (Ref: OJSC Bank Zenit) in the name of the Issuer (other than interest from time to time earned thereon) (the “Account”) (in each case other than the Reserved Rights). Zenit will be obliged to make payments under the Loan to the Issuer in accordance with the terms of the Credit Facility Agreement to the Account. The Issuer will agree in the Trust Deed not to make any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Credit Facility Agreement unless the Trustee has given its prior written consent or except as otherwise expressly provided in the Trust Deed and the Credit Facility Agreement. The Issuer will further agree to act at all times in accordance with any instructions of the Trustee from time to time with respect to the Credit Facility Agreement, save as otherwise provided in the Trust Deed. Any amendments, modifications, waivers or authorisations made with the Trustee’s consent shall be notified to the Noteholders in accordance with Condition 15 (*Notices*) and shall be binding on the Noteholders. Formal notice of the security interests created by the Trust Deed will be given to Zenit and the Principal Paying Agent who will each be required to acknowledge the same.

In the event that the Trustee enforces the security interests granted to it, the Trustee will assume the rights of the Issuer under the Loan and certain rights and obligations towards the Noteholders, as more fully set out in the Trust Deed.

The Notes are limited recourse obligations and the Issuer will not have any obligation to the Noteholders other than the obligation to account to the Noteholders for payments of principal, interest and additional amounts (if any) received by it under the Credit Facility Agreement less the Reserved Rights which the Issuer is entitled to retain from any amounts actually received.

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



USE OF PROCEEDS

The net proceeds from the offering of the Notes, of approximately U.S.\$123,220,000, will be used by the Issuer for the sole purpose of financing the Loan to Zenit. Zenit intends to use substantially all of the net proceeds from the Loan to facilitate the provision of medium-term funding to its clients and the remainder for general corporate purposes. Total commissions and expenses relating to the offering of the Notes are expected to be approximately U.S.\$1,780,000.

BUSINESS

History

Zenit was established as a limited liability company on December 15, 1994 and its charter was registered with the CBR on June 22, 1995. Its founding shareholders were Tatneft, the Academy of National Economy of the Government of the Russian Federation, SGI Enterprises Ltd. and Finnoil AG. On December 30, 1999, in order to facilitate capital increases and to increase transparency, Zenit was reorganised into an open joint stock company.

Zenit obtained a general banking licence from the CBR on December 17, 1996, and this licence was re-issued on December 30, 1999 and, again, on October 2, 2002. Zenit also holds other licences required under applicable Russian laws and regulations authorising it to perform all banking activities, including, but not limited to, lending, receiving and holding deposits from legal entities and individuals, cash operations, provision of settlement and money transfer services, operations with securities and precious metals, and currency transactions. Zenit is regulated and supervised by the CBR. Zenit's general licence number with the CBR is 3255.

Overview

Zenit's head office is located at Banny Pereulok 9, 129110 Moscow, Russian Federation. Zenit currently has six other offices in Moscow and the Moscow Region, located at Ulitsa Gorbunova 14, 121596 Moscow, Russian Federation; Ulitsa Ostozhenka 28, 119034 Moscow, Russian Federation; Ulitsa Akademika Anokhina 8, 117602 Moscow, Russian Federation; Ulitsa Scherbakovskaya 40-42, 105187, Moscow, Russian Federation; Kilometer 19, Moscow-Minsk Highway, Trading Complex "Tri Kita", 143026, Odintsovo, Moscow Region, Russian Federation; Butakovo 4, Trading Complex "Grand", 141400 Khimki, Moscow Region, Russian Federation. Zenit also has five branches, an additional office and a representative office located elsewhere in the Russian Federation.

Zenit opened its first branch in 1998 in Almet'yevsk, located at Ulitsa Mira 6, 423450, Almet'yevsk, Republic of Tatarstan, Russian Federation, its second branch in 1999 in St. Petersburg, located at Suvorovsky Prospect 32, 191015 St. Petersburg, Russian Federation, and its third branch in 2000 in Gorno-Altaysk, located at Ulitsa Choros-Gurkina 29, 649000 Gorno-Altaysk, Republic of Altai, Russian Federation. In 2001, Zenit opened an additional office in Nizhnekamsk, located at Ulitsa Shinnikov 53A, 423570, Nizhnekamsk, Republic of Tatarstan, Russian Federation and a representative office in Kazan, located at Ulitsa Pushkina 30, 420111, Kazan, Republic of Tatarstan, Russian Federation. In 2002, Zenit opened branches in Kursk, in the Central Region of Russia, located at Ulitsa Kati Zelenko 9, 305004 Kursk, Russian Federation and in Kemerovo in Siberia, located at Sovetsky Prospect 74/1, 650099 Kemerovo, Russian Federation.

Zenit's main objectives, as described in Article 2.1 of its charter, are conducting a profitable banking business, developing market relationships with clients and other banks, promoting integration of Russian capital into international capital and commodities markets and attracting foreign investment into the Russian economy. Zenit is committed to increasing the range of corporate and investment banking services it provides to its existing clients, expanding its operations into other regions of Russia and the CIS and attracting new clients while maintaining its existing client base. Zenit engages in various transactions permitted by the banking legislation of the Russian Federation.

Zenit currently focuses on serving corporate clients in Russia and the CIS. Zenit's corporate clients operate in a number of industry sectors, including retail and wholesale trade, manufacturing, food, oil and gas, agricultural, mining, finance, telecommunications, metallurgy, engineering, defence, energy and pharmaceuticals. Other clients include pension funds, regional governments and municipalities.

Zenit divides its services into corporate banking, investment banking, private banking and retail banking sectors. The various departments within Zenit that provide these services are collectively referred to within Zenit as the "Corporate Bank", the "Investment Bank", the "Private Bank" and the "Retail Bank", respectively. Corporate banking services include lending, cash payments and settlements, electronic banking, domestic trade operations, foreign exchange and foreign trade operations, project financing, cash management, operations with precious metals, debit card services, leasing services, corporate depository and custodial services and correspondent banking services. Investment banking services are provided mainly to corporate clients, and include brokerage services on all Russian markets, debt capital markets activities, corporate finance services, repurchase ("repo") and resale ("reverse repo") transactions, research on various segments of the international and domestic capital markets, custodial and correspondent banking services and foreign exchange spot and money market transactions. Private banking involves the provision of personal banking services to a number of high net worth individuals. Retail banking services

are currently limited in scope and are offered to the employees and customers of Zenit's principal corporate clients. See "Business – Zenit's Banking Services – The Corporate Bank", "– Zenit's Banking Services – The Investment Bank", "– Zenit's Banking Services – The Private Bank" and "– Zenit's Banking Services – The Retail Bank".

Zenit has been a member of SWIFT since 1996 and a member of Clearstream Banking since 1997. In addition, Zenit is a member of the Moscow InterBank Currency Exchange ("MICEX"), Moscow Stock Exchange ("MSE"), St. Petersburg Currency Exchange ("SPCEX") and the Russian Trading System ("RTS"), which is a remote-access stock trading system. Zenit belongs to the National Association of Stock Market Participants and to the National Capital Markets Association, which, together with MICEX, MSE, SPCEX and RTS, are the principal constituents of the developing Russian capital markets infrastructure.

Zenit's total assets increased from U.S.\$671.8 million as at December 31, 2001 to U.S.\$727.1 million as at December 31, 2002. Its total shareholders' equity decreased from U.S.\$132.6 million as at December 31, 2001 to U.S.\$131.3 million as at December 31, 2002. In the year ended December 31, 2002, Zenit generated net revenues of U.S.\$64.7 million and a net profit of U.S.\$7.4 million, compared with net revenues of U.S.\$68.7 and a net profit of U.S.\$18.6 million in the year ended December 31, 2001.

Strategy

Zenit's strategy is to improve its competitive position and profitability through the focused expansion and diversification of its business. Zenit will seek to implement this strategy through focused growth of its client base and branch network, and by diversification of its funding sources and shareholder base.

Focused growth of client base

Zenit will continue to focus on expanding its business with large Russian corporate clients in the trade, food, manufacturing, defence and oil and gas industry sectors. Zenit believes that these sectors offer good opportunities for the growth of its business. Zenit will seek to offer existing and new clients attractive banking products and services. In particular, Zenit plans to use substantially all of the proceeds of the Loan to provide medium-term loans to large Russian corporate clients. Zenit believes that many Russian corporate clients are seeking longer-term funding and that there is currently a shortage of such funding in the Russian bank financing market.

Zenit will also focus on medium and small Russian corporate clients. These categories of Russian corporate clients are currently often unable to access the higher quality banking products and services that Zenit intends to make available to them.

Zenit believes that its sophisticated risk management systems will enable Zenit to achieve controlled growth of its business with large as well as medium and small corporate clients.

Focused expansion of branch network

Zenit intends to expand its branch network in regions of Russia that are experiencing strong economic growth and to open or acquire new branches close to some of its most important corporate clients. For example, Zenit is planning to open or acquire new branches in Kazan, Tula and Tyumen.

Generally, higher quality banking products and services are only available in Moscow. Zenit believes that its track record of providing higher quality banking products and services in Tatarstan makes it well placed to capitalise on the growth opportunities in other regions.

Diversification of funding

In addition to accessing the international capital markets through the transaction described in this document, Zenit will seek to attract deposits from a wider range of corporate clients and from individual clients, including both private banking and retail banking clients. By diversifying its deposit base, Zenit will aim to achieve a more diversified and stable funding base.

Diversification of shareholder base

Zenit is seeking to diversify its shareholders. It believes that diversifying its shareholder base will allow it greater access to capital and enhance its opportunities for diversifying business with new and existing clients. As a first step towards this diversification, Zenit is seeking to attract a strategic foreign investor.

Market Position and Competition

According to the CBR, 1,773 banks and 53 non-banking credit institutions were licensed to conduct banking transactions in Russia as of January 1, 2003, 170 (9.5 per cent.) of which had issued capital of RUR300 million (U.S.\$9.4 million) or more. According to information published by the CBR and banking ratings published by the magazines *Profile* and *Expert*, as of January 1, 2003, the total assets of banks in Russia were U.S.\$130 billion, with the 20 largest banks accounting for approximately 59 per cent. of such total assets, the top five of those banks accounting for 42 per cent. of such total assets and, OJSC Sberbank (“Sberbank”), the largest bank in Russia in terms of assets and volume of banking operations, accounting for 27 per cent. of such total assets. As of December 31, 2002, Zenit’s total assets under IFRS were U.S.\$727 million. According to *Expert*, as of January 1, 2003, Zenit was the nineteenth largest bank in Russia by assets, thirty-third by shareholders’ equity and eighteenth by net profit, all as calculated under RAR.

A small number of Moscow-based banks dominate the Russian banking industry. Sberbank which is majority owned by the CBR, remains the largest bank in Russia in terms of assets and volume of banking operations. Due to the large number of banks in Russia and the varying focuses of many of those banks, Zenit faces competition from different banks in each of the business sectors and various regions of Russia in which it operates. In the corporate banking sector, Zenit’s primary competitors are Alfa Bank, MDM Bank and Uralsib Bank. In the investment banking sector, Zenit’s primary competitors are Alfa Bank, MDM Bank and Investment Bank “Trust”. In the private banking sector, Zenit’s primary competitors are NIKoil, Rosbank, Alfa Bank, ING Bank and Raiffeisen Bank. Zenit currently does not view itself as having a competitive position in the Russian domestic retail banking sector. As Zenit is smaller than its competitors both in terms of assets and business volume, it has less access to funds and can take less advantage of economies of scale. See “Certain Risk Factors – Risks Relating to Zenit’s Business and Industry – Zenit faces intense competition in the Russian banking market” and “Certain Risk Factors – Risks Relating to Zenit’s Business and Industry – Russian banking reforms and their effect on banking regulation and supervision may have a negative impact on Zenit”.

Zenit competes with other Russian banks for those corporate clients that can bring in significant volumes of business and that have an interest in developing a long-term working relationship with the relevant bank. Zenit also faces increased competition as a result of proposed banking reforms in Russia that are likely to facilitate further entry of sophisticated international banks into the Russian market. Zenit does, however, have certain large corporate clients, such as Tatneft, that Zenit believes are unlikely to change banks in the near future as Zenit is familiar with their operations and responsive to their needs. See “Certain Risk Factors – Risks Relating to Zenit’s Business and Industry – Zenit may lose some or all of Tatneft’s business”. Zenit believes that branch location is of central importance in servicing large corporate clients, and that having a branch and a representative office in Tatarstan gives Zenit an advantage over most of its competitors. In Tatarstan, Zenit’s primary competitor in the retail and corporate banking sectors is AK BARS Bank, and Zenit believes that it has a dominant position in the investment banking sector in that region.

Zenit believes that it is difficult for non state-owned Russian banks to compete exclusively on the basis of providing the best prices for services to their clients because state-owned banks, such as Sberbank, have access to funding at a much lower cost. Instead of competing on the basis of price for services, Zenit seeks to differentiate itself from other banks by offering faster and more flexible services to its clients. For example, Zenit usually makes a credit decision for corporate clients in two to three weeks and is able to offer flexible collateral requirements. See “Asset, Liability and Risk Management – Lending Policies and Procedures”. Zenit also attracts and maintains corporate clients by offering them custom-tailored service packages that include a wide range of banking products that are, in Zenit’s view, suitable to their specific requirements, including various types of loans, customised deposit accounts, both in Russian rubles and foreign currencies, foreign currency transactions, settlements and exchange services, operations in precious metals, and other services, such as access to terminals that allow clients to trade in securities over the internet. Zenit also indirectly engages in the leasing of machinery and production equipment. See “– Zenit’s Banking Services – The Corporate Bank”.

Zenit’s success depends significantly on brand recognition. In its efforts to improve its brand recognition Zenit conducts marketing campaigns in Moscow and other regions of Russia, which use billboard, print, TV, radio and online advertising. In 2002, Zenit spent U.S.\$4.4 million on advertising and marketing, a 300 per cent. increase over 2001 advertising and marketing spending, which was U.S.\$1.1 million. In 2002, Zenit was one of the sponsors of the Russian Winter Olympics team. In 2003, Zenit plans to further increase its advertising and marketing activities in order to achieve greater brand recognition.

Zenit's Banking Services

The Corporate Bank

The Corporate Bank is Zenit's largest business sector. Services of the Corporate Bank include lending, cash payment and settlement services in domestic and foreign currency, electronic banking, domestic trade operations, foreign exchange and foreign trade operations, project financing, cash management, operations with precious metals, debit card services, leasing services, corporate depositary services and correspondent banking services. The Corporate Bank aims not only to provide banking services to corporate clients but also to assist them in their business development by providing consulting services, especially with respect to key and strategic clients (as described below), and to provide banking services to their affiliates and counterparties.

Client Segmentation

Zenit's Corporate Bank classifies its corporate clients in the following manner:

- **“Key” clients** – clients whose share of business (including each such client's subsidiaries) with Zenit constitutes 10 per cent. or more of Zenit's net assets, liabilities or revenues. As of May 15, 2003, Zenit had two key clients.
- **“Strategic” clients** – clients whose share of business (including each such client's subsidiaries) with Zenit amounts to 1 per cent. or more of the revenues of the Corporate Bank. As of May 15, 2003, Zenit had 49 strategic clients, none of which was affiliated with Zenit. In 2002, strategic clients represented no more than 10 per cent. of the Corporate Bank's clients, but accounted for 70 per cent. of the revenues of the Corporate Bank.
- **“Affiliated” clients** – affiliates and counterparties of key and strategic clients.
- **“Other” clients** – all corporate clients that do not fall into the three above categories.

Zenit views its relationship with each of its key and strategic clients as a partnership with mutual benefits. Before Zenit approaches a potential key or strategic client, it prepares a strategic plan for developing the relationship with, and providing services to, such client. These clients receive service packages tailored to their business and industry needs and have access to dedicated managers who are familiar with their operations and markets. These managers work with up to five key and strategic clients that, for the most part, operate in the same industry. A number of services that Zenit provides to key and strategic clients do not necessarily generate revenues for Zenit, but are viewed by Zenit as important in building and maintaining client relationships. Zenit believes that by building a reputation for providing high-quality banking products and services to strategic clients it will be able to expand its services to their affiliates and counterparties.

Zenit plans to increase its share of the corporate banking market in Russia by continuing to improve the quality, and by expanding the range, of services that it provides to corporations. Zenit has identified industries and regions in which it would like to develop its corporate client base. In making these determinations, Zenit took into account its experience in serving particular industries and regions, the dependence of particular industries and regions on various economic factors and the presence of Zenit's current corporate clients in particular regions. Zenit is actively targeting new large corporate clients active in oil and gas production and trading, food, defence, petrochemicals, metallurgy, alcohol, tobacco and retail and wholesale trading industries, as well as insurance companies and pension funds. The majority of these potential large corporate clients are located in Moscow, the Moscow region, St. Petersburg, the Leningrad region, Tatarstan, the Republic of Bashkortostan (“Bashkortostan”), Siberia and the Central region.

Zenit markets itself to potential corporate clients as a bank that is able to provide a full range of banking services. Services currently marketed to potential strategic and other corporate clients include term deposit and current accounts, loans, assistance in export, import and trading operations, financial advisory services, underwriting services and consulting services, such as assistance with the creation of accounting systems. Zenit also studies the industry and the regions in which its clients operate and tailors its services to the requirements of the particular industry and/or region.

Services

Lending. The Corporate Bank provides short-term and long-term credit facilities to corporate borrowers active in a number of industry sectors including retail and wholesale trade, manufacturing, food, oil and gas, agricultural, mining, finance, telecommunications, metallurgy, engineering, defence, energy and pharmaceuticals. Most corporate borrowers are located in Moscow, the Moscow region, Tatarstan, the Central region, the North-Western region, the Urals and Western Siberia.

Short-term credit facilities include revolving and term facilities as well as overdraft facilities. Long-term credit facilities include project financing and investment loans primarily to enterprises in the oil and gas industry and related businesses.

Zenit's net loan portfolio grew by 17.4 per cent. in 2002, and its target rate of loan portfolio growth in 2003 is 20 per cent. Zenit intends to maintain a high growth rate for its loan portfolio, while focusing on asset quality and industry diversification. Zenit has identified industries that it believes have the highest potential for growth in the demand for lending services, namely oil and gas production and trading, petrochemical, metallurgy, food, defence, alcohol, tobacco and retail and wholesale trade. Zenit is also working on developing its lending business to smaller oil companies that produce 12,000 to 360,000 metric tons (approximately 87,600 to 2,628,000 barrels) of crude oil per year. Zenit believes that due to current oil prices, such companies tend to have high revenues and stable financial conditions. Zenit is well-positioned to compete for their business because of its experience in, and knowledge of, the oil industry.

Cash payment and settlement services. Cash payment and settlement services include providing domestic and foreign currency accounts to residents and non-residents of the Russian Federation, payment services in domestic and foreign currency and various forms of domestic and international money transfers.

Electronic banking. Electronic banking services give the Corporate Bank's clients the ability to initiate online domestic and foreign currency payment orders, to obtain balance information for current accounts, and to initiate online payment instructions.

Domestic trade operations. The Corporate Bank helps to finance the domestic trade operations of its clients, including providing overdraft facilities and financing inventory production, warehousing and transportation.

Foreign exchange and foreign trade operations. The Corporate Bank provides consulting services regarding Russian currency controls and customs regulations, assists with obtaining foreign currency licences from and registering credit agreements with the CBR and assists with foreign currency payments and with purchases and sales of convertible foreign currencies. The foreign exchange operations also include participation in the CBR's non-convertible foreign currency auctions (such as Indian rupees and Chinese yuan) on behalf of corporate clients who require such foreign exchange for trade purposes and for Zenit's own account.

The Corporate Bank, through Zenit's division of trade finance and international operations, opens and maintains clearing accounts for both convertible and non-convertible currencies, provides regular and standby letters of credit and bank guarantees and provides financing of exports, which is collateralised by the proceeds of such exports.

Project financing. The Corporate Bank makes loans to corporate clients to finance long-terms projects such as the construction of facilities and the acquisition of fixed assets or equipment and helps such clients to obtain syndicated loan facilities or guarantees from supra-national institutions, such as the International Finance Corporation and European Bank for Reconstruction and Development.

Cash management. The Corporate Bank's cash management services enable corporate clients to invest their cash balances in products such as overnight deposits and debt securities, such as veksel (promissory notes prepared in accordance with the requirements of Russian Federal Law No. 48-FZ of March 11, 1997, hereinafter, "promissory notes") and certificates of deposits.

Many clients find the purchase of promissory notes to be convenient because promissory notes may be used as payment instruments in transactions with the clients' counter-parties. Issuing promissory notes also provides a stable liquidity source to Zenit because clients cannot withdraw the amounts represented by promissory notes prior to maturity without Zenit's consent.

In 2002, Zenit increased the amount of outstanding debt securities by U.S.\$14.9 million, bringing the amount of debt securities outstanding as at December 31, 2002 up to U.S.\$153.5 million, representing a 10.8 per cent. increase over the amount of its outstanding debt securities as at December, 31, 2001, which was U.S.\$138.6 million.

Operations with precious metals. The Corporate Bank has been engaged in operations with precious metals since 1997, both for the account of corporate clients and for Zenit's own account. Operations with precious metals include gold exports, gold-related forward operations in the domestic inter-bank gold market and international gold markets, pre-export financing of gold sales, provision of bank guarantees for financing of gold production by the European Bank for Reconstruction and Development, hedging operations on international gold markets, advances for processing of ore of up to 40 per cent. of estimated extraction value, financing of precious metal prospecting, financing production of jewellery and selling of measured gold ingots.

Debit card services. Zenit issues debit cards, including Visa, Eurocard/MasterCard Standard and Eurocard/MasterCard Gold, for its corporate clients.

Leasing services. The leasing services of the Corporate Bank consist of financial and operational leasing of aircraft, vehicles, production equipment and sale and leaseback services. Zenit provides these services through Center Capital OJSC and Finance Leasing Company OJSC, leasing companies in which it holds a nine per cent. stake and a one per cent. stake, respectively, and to which it also provides funding.

Corporate depositary and custodial services. The Corporate Bank provides depositary services for securities, nominee services for non-certificated securities, securities registry services and paying agent services. It also provides safe deposit boxes for the storage of confidential documents, securities and precious metals and stones. Custodial services provided to corporate clients, as well as some individual clients, include custody accounts and proxy voting.

Correspondent banking services. Through Zenit's division of settlements and correspondence relations and the Nostro correspondent banking network, the Corporate Bank provides correspondent banking services for international corporate clients and financial institutions in connection with operations in CIS countries and the Baltic states (Estonia, Latvia and Lithuania), including pre-export financing, letters of credit in rubles and foreign currencies, guarantees, and transactions with Zenit's promissory notes.

The Investment Bank

Zenit provides investment banking services through its Investment Bank business sector. The Investment Bank provides brokerage services on all major Russian markets, engages in investment management and corporate finance services, acts as an underwriter and a broker in international and domestic debt capital markets and as a broker in international and domestic equity capital markets, engages in repo and reverse repo transactions, produces research on various segments of international and domestic capital market activity and engages in foreign exchange money market activities. The Investment Bank also engages in proprietary trading activities.

As of December 31, 2002, the value of the securities portfolio of the Investment Bank amounted to U.S.\$121 million. The securities portfolio is marked to market on a daily basis.

Client Segmentation

The Investment Bank provides investment banking services primarily to corporate clients and to some high net worth individuals. The Investment Bank also provides financial advisory services in investment banking activities for key and strategic clients of the Corporate Bank.

Services

Brokerage services. The Investment Bank provides brokerage services for corporate clients, as well as some private banking clients, on MICEX, MSE, SPCEX and the RTS, and in the over-the-counter markets, including trading in money market products, domestic and international bonds, foreign currencies, domestic equities and corporate promissory notes. According to the RTS, Zenit is among the top thirty Russian equity brokers by volume of trades on the RTS, and, according to MICEX, Zenit is among the top fifty brokers by volume of trades on MICEX.

Investment management services. The Investment Bank provides investment management services, such as assistance with investments in foreign equity and debt securities, for corporate clients and high net worth individuals.

Corporate finance services. The corporate finance services of the Investment Bank include advisory and financing services in connection with mergers and acquisitions and initial public offerings, consulting services with respect to capital structure optimisation and advisory services in connection with financial strategy and privatisation of state assets. Recently, Zenit has begun to provide acquisition financing and to act as a financial adviser for prospective buyers in leveraged buy-outs. In 2002, Zenit estimates that it provided more than U.S.\$50 million of this type of financing to corporate clients, primarily Russian holding companies operating in the food industry and agricultural production.

Debt capital markets activities. The debt capital markets activities of the Investment Bank include providing advice on primary issuance of domestic bonds, debt origination and underwriting activities, as well as arranging syndicated loans and corporate commercial paper transactions (mainly promissory notes).

In 2002 and the first six months of 2003, Zenit acted as a lead manager or an underwriter in a number of domestic bond issuances by leading Russian companies, including Tatneft, OJSC Nizhnekamskneftekhim, CJSC Parizhskaya Kommuna, OJSC Salvatnefteorgsintez, Razgulai-Ukrros

Group, Tinkoff-Invest LLC and Alfa Finance as well as in municipal bond issuances of the cities of Ufa and Moscow. In addition to Russian bond issuances, Zenit was part of the underwriting syndicate for eurobond issuances of Magnitogorsk Metallurgical Plant, Mobile TeleSystems OJSC and MDM Bank, as well as being part of the lending syndicate for diamond producer Alrosa Co. Ltd.

Repo transactions. The Investment Bank engages in repo and reverse repo transactions secured by eurobonds, Russian Internal State Hard Currency Loan Bonds (commonly known as “MinFins”), domestic equities and ADRs representing securities issued by Russian companies. Repo counterparties include Citigroup, Credit Suisse First Boston International, Standard Bank London Limited, Raiffeisenbank Austria and Donau Bank (Vienna).

Research. The Investment Bank’s research services consist of daily research that focuses on various segments of the international and domestic capital markets, including Russian equities, Russian corporate and municipal bonds and eurobonds of Russian issuers.

Foreign exchange spot and money market activities. Foreign exchange spot and money market activities consist of inter-bank lending and foreign exchange spot, forward and derivative transactions for the accounts of Zenit’s corporate clients and on for its own account.

Proprietary trading. The Investment Bank also holds securities and engages in securities trading activities on Zenit’s behalf.

The Private Bank

Zenit’s Private Bank business sector, established at the end of 2001, provides banking services to high net worth individuals. The aim of the Private Bank is to generate income from transactions with individual clients and attract additional corporate clients through dealing with individuals who hold senior positions with such potential corporate clients.

The clients of the Private Bank include senior management of Zenit’s shareholders and key and strategic clients, Russian government officials, businessmen, athletes, artists and their family members. Before the Private Bank accepts a high net worth individual as a client, Zenit’s risk management department (the “RMD”) and anti-money laundering departments carefully review the individual’s sources of funds and their legality in order to avoid engaging in transactions with illegal capital. As of December 31, 2002, the total amount of the Private Bank’s deposits exceeded U.S.\$45 million and the value of the securities portfolio held on behalf of clients exceeded U.S.\$6 million. As of May 7, 2003, the Private Bank had 572 clients.

The Private Bank offers to its clients high-interest rate deposit accounts, asset management services, loans and lines of credit, execution services for transactions in securities, tax consulting, and financial advisory services in connection with the acquisition of real estate, objets d’art and antiques. Each client of the Private Bank has his or her own personal financial adviser (each of such advisers serves up to 20 clients of the Private Bank) who provides consulting services with respect to the client’s financial transactions and investment portfolio. The services of the Private Bank are offered at Zenit’s head office and all of its branches.

Zenit intends to focus on expanding the range of services currently provided to clients of the Private Bank and to attract additional high net worth individuals by offering secure but well-performing investments, providing custom-tailored financial advisory services and continuing to develop client trust.

The Retail Bank

Zenit’s Retail Bank business sector started as an ancillary service for employees of Zenit’s corporate clients, but Zenit is currently in the process of expanding its retail operations. The Retail Bank currently provides limited retail banking services to employees of Zenit’s corporate clients, who, as at December 31, 2002, accounted for 90 per cent. of its retail clients, as well as to customers of Zenit’s corporate clients and to the general public. The services of the Retail Bank include opening and maintaining current accounts and ruble and foreign currency term deposit accounts, the purchase and sale of foreign currencies, transactions with precious metals, brokerage services, and the provision of debit cards and safe deposit boxes. The Retail Bank is also developing a mortgage lending programme, which it is planning to launch in the second half of 2003. As of December 31, 2002, retail clients had U.S.\$27 million on deposit with Zenit.

The Retail Bank is currently focusing on expanding its retail client base through targeting middle-income clients whose net worth is below the level required for the Private Bank. This expansion of the retail client base is primarily conducted in connection with services provided to corporate clients. For example, Zenit has entered into arrangements with a number of its clients that engage in retail trading whereby Zenit provides some retail banking services, such as discount cards, to customers of these clients.

Other plans for the development of the Retail Bank include increasing the number of retail clients not affiliated with Zenit's corporate clients by establishing additional branches and automatic teller machines ("ATMs") in Moscow and in other regions, particularly Tatarstan, where the standard of living is rising. Zenit is also in the process of negotiating cooperation agreements with American Express for the sale of travellers' cheques and with Western Union for the provision of money transfer services to retail clients. In addition, Zenit plans to focus on developing new retail markets and products, such as consumer credit, personal loans, mortgage lending, debit and credit cards, providing ATM access to accounts and payment centres and expanding its network of merchants with point-of-sale terminals.

Asset, Liability and Risk Management

Overview

Zenit monitors and manages its assets and liabilities through its Assets and Liabilities Committee ("ALCO"), which consists of fourteen of Zenit's senior managers and is chaired by the Chairman of the Management Board. ALCO is responsible for the control and management of Zenit's asset and liability structure, as well as the establishment of Zenit's lending and funding policies, including target interest rates, and the evaluation and mitigation of related risks. Zenit's departments that assist ALCO in its functions are the RMD, the finance department, the treasury department (the "treasury") and the corporate client financing department.

ALCO meets every two weeks to review Zenit's asset and liability position, including maturities, interest rates and yields, the size of Zenit's loan and investment portfolios, its net foreign currency position, operating ratios relative to CBR regulatory requirements, exchange and inflation rates, national political and economic trends and other factors that may have an impact on Zenit's financial position. ALCO also sets counterparty limits, monitors and reviews position limits and counterparty exposure and reviews Zenit's reserves. On the basis of its bi-weekly reviews, ALCO assesses Zenit's total risk profile and determines Zenit's risk management strategy.

Risk Management

The Management Board approves Zenit's general risk management strategy. Basic risk management processes, such as the determination of Zenit's aggregate risk levels, methods of risk management and confidence levels are set by ALCO, which reviews limits and risk optimisation proposals suggested by the RMD. Key limits for investment projects and inter-bank and foreign currency transactions as well as the volume of Zenit's short-term portfolio of liquid securities which it holds for arbitrage purposes (the "arbitrage portfolio") are set by ALCO and, for clients and services of the Corporate Bank, by Zenit's credit committees, at the request of Zenit's departments that deal directly with clients (the "front offices"). Each time a front office requests that a particular limit be set, the RMD conducts an independent evaluation of risks. The treasury, which is in charge of Zenit's funding, liquidity and portfolio optimisation, the RMD and Zenit's back office manage day-to-day compliance with risk management limits and procedures. The RMD's specialists are familiar with Western risk management standards and procedures and have received training at ING Bank N.V., The Royal Bank of Scotland PLC and BankBoston (now Fleet Bank) and through the Financial Risk Manager programme developed by the Global Association of Risk Professionals.

ALCO periodically sets Zenit's total risk limit, based on recommendations from RMD which, in turn, consults with Zenit's finance department prior to making its recommendations. On a monthly basis the RMD submits to ALCO its evaluation of total capital at risk which is then reviewed against Zenit's total risk limit in place at the time. This total risk limit is determined on the basis of the difference between the amount of Zenit's net assets and allowances for expected losses, (as determined on the basis of management accounts, which are generally maintained at higher levels than the allowances required by the CBR).

To determine Zenit's overall level of risk, the RMD initially evaluates client risks at the level of a single client and, for corporate clients, for groups of clients (either related clients or groups of clients operating in the same industry). The RMD then evaluates the combined risks of separate categories of clients (corporate, retail, high net worth) and of separate credit products, such as loans and bank guarantees, and combines the results of these evaluations to determine the overall level of client risk. For its evaluation of risks associated with counterparties in Zenit's banking transactions, which are primarily banks and finance companies, the RMD uses a combination of expert and analytical approaches, which takes into account credit ratings assigned to a particular counterparty and the RMD's own analysis of such counterparty's financial statements and publicly available information on such counterparty. The RMD also evaluates the risk associated with Zenit's trading transactions, such as risks associated with open positions in securities, foreign currency and precious metals, on the basis of the value at risk approach,

known as VAR, which summarises the worst loss over a target horizon with a given level of confidence, and its modifications. After this risk assessment has been conducted, the RMD combines the client, the counterparty and the market risks in order to determine the level of Zenit's overall risk and its distribution. The RMD reports such risk to ALCO on a monthly basis.

In addition to engaging in risk evaluation, the RMD recommends to ALCO steps for minimising the risks faced by Zenit and optimising Zenit's operations. These recommendations are made both on the basis of the overall risk and the risk of separate business sectors and banking products. In addition to setting a total risk limit for Zenit, ALCO also sets, based on the RMD's recommendations and in consultation with Zenit's front offices, as defined above, position limits for trading and investment portfolios and for positions in foreign currencies and precious metals, limits on purchases of the securities of a single issuer, limits on extending credit to a single borrower and groups of affiliated borrowers and limits on acceptable capital loss or "stop-loss" limits. ALCO also sets limits for acceptable liquidity gaps, aimed at ensuring Zenit's ability to make payments on its obligations in the event of a liquidity crisis at Zenit or in Russia.

Zenit believes that its management system is consistent with the proposals outlined in the proposed New Basel Capital Accord, also known as Basel II. According to this system, RMD makes its risk determinations on the basis of principles and methods that were developed in-house at Zenit, but that are based on internationally accepted management principles.

Major risks to which Zenit is exposed through its operations and the way Zenit manages these risks are described below.

Credit Risk. As a result of its credit operations, Zenit is exposed to credit risk, which is the risk that a counterparty will be unable to repay its obligations in full when due. Zenit manages its credit risk by establishing internal policies aimed at minimising credit risk exposure and by following CBR requirements with respect to lending limits. See "The Banking Sector and Banking Regulation in the Russian Federation – Regulation – Liquidity and Reserve Requirements".

Zenit manages its credit risk by imposing limits on exposure to one borrower and groups of borrowers and on exposure to geographical and industry sectors. It also imposes limits on all of its credit positions associated with a single borrower and related borrowers including loans, credit lines, letters of credit and guarantees, and limits the quantity of securities of a single issuer that Zenit purchases for its own account.

Zenit's credit risk policies include carrying out risk analysis in respect of each borrower at the time of a credit decision, frequent revaluation of liquid collateral, such as securities, periodic inspections of non-liquid collateral, such as property, plant and equipment, assessment and periodic reassessment of the probability of default on a credit obligation and assessment of exposure limits by industries in which Zenit's borrowers operate.

In making its credit decisions Zenit uses a rating scale based on the approach of international rating and audit firms, allocating prospective borrowers to various credit rating groups, as adapted to the Russian financial and economic situation. To assign a prospective borrower to a credit rating group, Zenit first assigns to such prospective borrower an internal rating determined on the basis of evaluations of the borrower's financial statements, credit history, economic position and cash flows. Zenit then correlates the internal rating with the credit rating scale used by international rating agencies. On the basis of this rating scale, Zenit determines the expected risk of default and level of volatility for such prospective borrower. Zenit also monitors the weighted average credit risk of potential borrowers on a portfolio basis and by industry sector. See "– Lending Policies and Procedures".

At the time of the initial credit assessment Zenit requires prospective borrowers to provide, where available, their RAR, U.S. GAAP or IFRS financial statements and to provide updates of such statements annually or whenever an additional extension of credit is requested. Zenit thus monitors the financial condition of each borrower from the time of its credit application until repayment and re-evaluates the borrower's rating on at least an annual basis, as well as every time the borrower requests an extension of credit. Zenit also requires borrowers to provide collateral and/or corporate or personal guarantees for their obligations. See "Certain Risk Factors – Risks Relating to Zenit's Business and Industry – Zenit may be unable to adequately assess the credit risk of potential borrowers". For a description of Zenit's lending procedures and collateral requirements see "– Lending Policies and Procedures".

Interest Rate Risk. Zenit is exposed to interest rate risk, principally as a result of making fixed interest rate loans and extending credit lines to corporate clients and other banks, in amounts and at maturities that differ from those of the amounts and maturities of Zenit's fixed interest rate term deposits and other borrowings. Due to changes in interest rates and maturities, Zenit's liabilities may have disproportionately

high interest rates compared to the interest rates of its assets and *vice versa*. Interest margins on assets and liabilities having different maturities may increase as a result of changes in market interest rates, but unexpected interest rate movements may also reduce interest rate margins or result in losses. With the consent of the relevant borrower, Zenit may reset fixed interest rates on the relevant loans, to reflect current market conditions. In such cases, Zenit and the relevant borrower sign an addendum to the relevant credit agreement, which sets forth the new interest rate.

Zenit analyses interest rate risks by major currencies in which it executes transactions (U.S. dollar and RUR) in terms of maturity and the expected and unexpected changes in interest rates. In order to avoid interest rate risk, Zenit strives to allocate funds into assets, the terms of which correspond to the terms of Zenit's liabilities.

Zenit has developed a methodology for the evaluation of interest rate risk by reference to its consolidated balance sheet and the sensitivity of particular line items to interest rate changes. This methodology will aid in internal repricing of assets and liabilities in accordance with market interest rates. Currently, Zenit is taking measures to implement the methodology into its existing systems. According to this methodology, Zenit will estimate the amount of interest income and expenditure resulting from anticipated changes in market rates for given periods, sensitivity levels and liquidity gaps.

The tables below summarise the effective average period-end interest rates, by major currencies, for monetary financial instruments outstanding as at December 31, 2002 and 2001. The analysis has been prepared for the various instruments using period end contractual rates.

December 31, 2002				
	% U.S.\$ Instruments	End of period balance (in thousands of U.S. dollars)	% RUR Instruments	End of period balance (in thousands of U.S. dollars)
Assets				
Cash and cash equivalents	0.7	28,170	0.9	40,150
Due from other banks	1.5	53,889	13.2	6,847
Trading securities	8.1 ⁽¹⁾	49,917	12.7	27,265
Loans and advances to clients	14.0	234,184	18.3	147,134
Liabilities				
Due to other banks	7.0	72,353	4.0	26,052
Client term deposits	5.8	148,982	12.0	27,083
Debt securities issued	8.0	46,747	10.0	106,516
Other borrowed funds	11.1	1,700	— ⁽²⁾	— ⁽²⁾

(1) The change in 2002 is principally due to the redemption of Tatneft Eurobonds in October 2002, which had been purchased by Zenit at a substantial discount to their face amount.

(2) Zenit does not have liabilities in the corresponding currency.

December 31, 2001				
	% U.S.\$ Instruments	End of period balance (in thousands of U.S. dollars)	% RUR Instruments	End of period balance (in thousands of U.S. dollars)
Assets				
Cash and cash equivalents.....	3.1	25,727	0.0	20,369
Due from other banks	1.9	31,748	32.4	24,059
Trading securities	37.1	116,204	28.8	49,422
Loans and advances to clients	16.8	175,749	20.4	154,960
Liabilities				
Due to other banks	3.7	78,525	19.8	24,061
Client term deposits	8.8	56,833	12.6	35,745
Debt securities issued	5.6	44,303	11.3	94,331
Other borrowed funds	6.4	23,685	0.0	— ⁽¹⁾

(1) Zenit does not have liabilities in the corresponding currency.

Foreign Currency Risk. Foreign currency risk results from Zenit having open positions in different currencies. Such positions are calculated as differences between assets and liabilities in the same currencies. The value of these positions, expressed in the currency in which they are financed, is exposed to exchange rate fluctuations. Therefore, an increase in the value of the financing currency against the currency of the open position could adversely affect Zenit. The RMD reviews all open currency positions on a monthly, as well as case-by-case, basis and determines the ways to minimise the risks of these positions in the context of Zenit's currency risk management policy and its overall risk limit. As at December 31, 2002 and 2001, Zenit had the following positions in foreign currencies:

	December 31, 2002			
	RUR	U.S.\$	Other Currencies	Total
	(in thousands of U.S. dollars)			
Assets				
Cash and cash equivalents.....	40,150	28,170	7,989	76,309
Mandatory CBR cash balances	41,078	—	—	41,078
Precious metals	3,047	—	—	3,047
Due from other banks	6,847	53,889	5,044	65,780
Trading securities	27,265	49,917	2,713	79,895
Securities available for sale	41,189	—	—	41,189
Loans and advances to clients	147,134	234,184	7,234	388,552
Accrued interest income.....	1,564	2,475	283	4,322
Premises and equipment	21,696	—	—	21,696
Other assets	4,595	650	24	5,269
Total assets	334,565	369,285	23,287	727,137
Liabilities				
Due to other banks	26,052	72,353	4,173	102,578
Client accounts	96,303	212,190	14,006	322,499
Debt securities issued	106,516	46,747	250	153,513
Other borrowed funds	—	1,700	—	1,700
Accrued interest expense	6,171	4,611	70	10,852
Other liabilities	435	309	1	745
Deferred tax liability	3,998	—	—	3,998
Total liabilities	239,475	337,910	18,500	595,885
Net balance sheet position	95,090	31,375	4,787	131,252
Off-balance sheet net notional position⁽¹⁾	3,023	(11,534)	8,511	—
Credit related commitments	14,519	21,148	23,442	59,109

(1) The difference between off-balance sheet assets and liabilities, such as letters of credit and guarantees.

December 31, 2001

	RUR	U.S.\$	Other Currencies	Total
	(in thousands of U.S. dollars)			
Assets				
Cash and cash equivalents.....	20,369	25,727	4,753	50,849
Mandatory CBR cash balances	32,593	—	—	32,593
Precious metals	12,516	—	—	12,516
Due from other banks	24,059	31,748	4,707	60,514
Trading securities	49,422	116,204	—	165,626
Securities available for sale	499	—	—	499
Loans and advances to clients	154,960	175,749	269	330,978
Accrued interest income.....	5,191	3,678	39	8,908
Premises and equipment	2,335	—	—	2,335
Other assets	3,802	3,185	7	6,994
Total assets	305,746	356,291	9,775	671,812
Liabilities				
Due to other banks	24,061	78,525	489	103,075
Client accounts	105,867	145,782	9,577	261,226
Debt securities issued	94,331	44,303	—	138,634
Other borrowed funds	—	23,685	—	23,685
Accrued interest expense	1,945	1,902	3	3,850
Other liabilities	2,729	700	1	3,430
Deferred tax liability	5,322	—	—	5,322
Total liabilities	234,255	294,897	10,070	539,222
Net balance sheet position	71,491	61,394	(295)	132,590
Off-balance sheet net notional position⁽¹⁾	(6,120)	11,536	(5,416)	—
Credit commitments	8,144	8,379	19,040	35,563

(1) The difference between off-balance sheet assets and liabilities, such as letters of credit and guarantees.

Zenit's treasury monitors the open foreign currency position on a daily basis. The strategy and the limits for the foreign currency positions are set by ALCO. The treasury department meets with ALCO every two weeks in order to review strategy with respect to open positions.

Liquidity Risk. Zenit is subject to liquidity requirements set by the CBR. See "The Banking Sector and Banking Regulation in the Russian Federation – Regulation – Liquidity and Reserve Requirements". Liquidity risk is the risk of a mismatch between the maturities of assets and liabilities, which may result in Zenit being unable to meet its obligations in a timely manner. Zenit may also experience liquidity shortages if the liquidity situation of its corporate clients worsens due to economic factors even if these clients remain solvent. See "Certain Risk Factors – Risks Relating to Zenit's Business and Industry – Zenit may face liquidity risks and, due to the nature of the Russian economy, may fail to mitigate these risks".

Zenit closely monitors the matching or controlled non-matching of maturities of assets and liabilities. The treasury regularly reviews the maturities of Zenit's assets and liabilities by means of in-house developed software and reports imbalances. However, it is unusual for banks to have a complete match of maturities of assets and liabilities, since terms and types of business transactions differ. An unmatched position potentially enhances a bank's profitability, but can also increase the risk of losses. Zenit has generally been conservative in managing its liquidity position and has had a positive liquidity gap, or an excess of assets over liabilities in the same maturity segment, across substantially all maturities, except the "on demand and less than one month" category, which includes liabilities, such as client accounts, that, in Zenit's experience, actually remain at Zenit for longer terms. Having a positive liquidity gap is considered important by Zenit, as it ensures that Zenit remains liquid even in a situation where it may be required to liquidate assets to meet its obligations.

Zenit's liquidity management includes calculation of its liquidity position, which consists of real-time monitoring of Zenit's Nostro correspondent network account balances carried out in order to ensure that these balances are positive, daily review of the amount of liquid assets necessary to close Zenit's open positions, daily evaluation of future cash flows (including those arising from off-balance sheet items) on the basis of the term and volume structure of assets and liabilities and constant monitoring of opportunities to attract new funding and to divest existing assets.

The following table shows Zenit's assets and liabilities by residual maturity as at December 31, 2002. Some of the assets, however, may have a longer-term nature, for example, fully repaid credit lines are frequently renewed and, accordingly, loans that initially have a short term can have a longer-term duration.

The table also contains information regarding Zenit's liquidity exposure.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Overdue/ no stated maturity	Total
(in thousands of U.S. dollars)						
Assets						
Cash and cash equivalents	76,309	—	—	—	—	76,309
Mandatory CBR cash balances ⁽¹⁾	41,078	—	—	—	—	41,078
Precious metals.....	3,047	—	—	—	—	3,047
Due from other banks.....	34,714	3,511	26,163	521	871	65,780
Trading securities ⁽²⁾	79,895	—	—	—	—	79,895
Securities available for sale ⁽³⁾	2,263	8,153	22,267 ⁽⁴⁾	6,264	2,242	41,189
Loans and advances to clients	63,856	175,301	100,889	41,127	7,379	388,552
Accrued interest income	3,684	420	119	99	—	4,322
Premises and equipment	—	—	—	—	21,696	21,696
Other assets.....	4,422	484	—	—	363	5,269
Total assets	309,268	187,869	149,438	48,011	32,551	727,137
Liabilities						
Due to other banks	57,389	30,207	9,162	5,820	—	102,578
Client accounts.....	235,520	52,631	33,302	1,046	—	322,499
Debt securities issued	65,069	19,776	32,428	36,240	—	153,513
Other borrowed funds.....	—	—	—	1,700	—	1,700
Accrued interest expense.....	6,248	1,791	1,452	1,361	—	10,852
Other liabilities.....	317	293	6	—	129	745
Deferred tax liability	—	—	—	—	3,998	3,998
Total liabilities	364,543	104,698	76,350	46,167	4,127	595,885
Net liquidity gap	(55,275)	83,171	73,088	1,844	28,424	131,252
Cumulative liquidity gap at December 31, 2002	(55,275)⁽⁵⁾	27,896	100,984	102,828	131,252	
Cumulative liquidity gap at December 31, 2001	82,400	123,582	155,958	125,270	132,590	

(1) Mandatory cash balances with the CBR are included in the "on demand and less than one month" category, as the majority of liabilities to which these balances relate are also included in this category.

(2) All trading securities are included in the "on demand and less than one month" category, as the nature of the portfolio is that of a trading portfolio and Zenit believes that this is a more accurate portrayal of its liquidity position.

(3) Securities available for sale are valued at market value and serve as a funding source for Zenit.

(4) This category includes securities that were purchased by third parties with funds lent by Zenit. Another company is scheduled to purchase these securities from the third parties in July 2003, at which point the third parties will repay the borrowed funds to Zenit. As of April 10, 2003, Zenit had already received U.S.\$6 million.

(5) Zenit has stable, on-demand deposit balances that serve as a funding source for Zenit's longer-term assets. Zenit estimates that at December 31, 2002 the aggregate amount of its stable, on-demand deposit balances was the equivalent of U.S.\$85 million. Zenit believes that despite the substantial portion of corporate client deposits having the stated maturity of "on demand and less than one month", diversification of these deposits by number and type of depositors and Zenit's past experience indicate that these deposits provide a long-term and stable source of funding to Zenit.

Market Risk. Market risk arises from open market positions, which relate to Zenit's arbitrage portfolios in interest rate, currency and equity and debt securities, all of which are subject to general and specific market movements. ALCO sets market position and portfolio limits for market risks acceptable on a cumulative basis, as well as with respect to particular portfolios, such as securities or foreign currency instruments, and with respect to particular issuers.

Zenit reduces transaction risks through a number of limits that have been put in place. ALCO sets open position exposure limits, stop-loss position limits with respect to every issuer and every open position. Zenit's traders must apply for individual position limits. The application must describe the needs of the division to which the trader belongs in particular volumes and other conditions necessary for execution of transactions. The RMD evaluates the relevant risk in light of the budget of the particular division, as well as the liquidity of the particular instrument which is the subject of the proposed transaction and recommends the appropriate limits to ALCO.

Funding and Liquidity

The main sources of Zenit's funding have been deposits from corporate clients and other banks, promissory notes and other debt securities issued by Zenit and inter-bank borrowings. During 2002, client deposits largely kept pace with Zenit's asset base which grew by 8.2 per cent., and remained the single largest component of Zenit's funding. In 2002, client deposits grew by 23.5 per cent. compared to 4.2 per cent. in 2001. In addition to deposits from its traditional corporate clients, Zenit has been developing a deposit base from private and retail banking clients. Zenit's debt securities, another important source of its funding, increased by 10.7 per cent. in 2002 compared to 2001, as Zenit expanded their use to complement client deposits. Debt securities accounted for 25.8 per cent. of Zenit's liabilities at December 31, 2002, compared to 25.7 per cent. at December 31, 2001.

As of December 31, 2002, U.S.\$73 million in issued certificates of deposit represents a significant part of Zenit's short-term liabilities, and sudden simultaneous claims on these certificates of deposit could have a negative effect on Zenit's liquidity. Zenit maintains a portfolio of liquid international and domestic corporate and Russian governmental bonds (both MinFins and Russian Federation bonds) as a hedge against the effect of such claims.

Client deposits accounted for 54.1 per cent. of Zenit's liabilities as at December 31, 2002, compared to 48.4 per cent. as at December 31, 2001. The following table sets out the composition of Zenit's client deposit portfolio as at December 31, 2002, 2001 and 2000.

Client accounts	December 31, 2002	%	December 31, 2001	%	December 31, 2000	%
(in thousands of U.S. dollars, except percentages)						
Individual accounts (both private banking clients and retail clients)						
Current (RUR).....	1,395	0	3,187	1	603	0
Current (foreign currency)	10,662	3	7,242	3	4,265	2
Term (RUR).....	2,868	1	2,825	1	1,464	1
Term (foreign currency)	57,562	18	23,228	9	13,757	5
Total individual accounts	72,487	22	36,482	14	20,089	8
Corporate accounts						
Current (RUR).....	67,825	21	66,935	26	76,765	31
Current (foreign currency)	58,019	18	91,224	35	100,990	40
Term (RUR).....	24,215	8	32,920	12	29,150	12
Term (foreign currency)	99,953	31	33,665	13	23,628	9
Total corporate accounts	250,012	78	224,744	86	230,533	92
Total client accounts.....	322,499	100	261,226	100	250,622	100

The table below shows concentrations within client accounts by industry sector as of December 31, 2002, 2001 and 2000.

	As at December 31,					
	2002		2001		2000	
	Amount	%	Amount	%	Amount	%
Finance	109,972	34	78,531	30	58,463	23
Individuals	72,487	22	36,482	14	20,089	8
Manufacturing	57,714	18	23,222	9	42,912	17
Oil and gas	48,752	15	77,390	30	87,063	35
Trade	17,947	6	25,640	10	15,883	7
Other	15,627	5	19,961	7	26,212	10
Total customer accounts.....	322,499	100	261,226	100	250,622	100

Over the past three years, the accounts of the clients in the oil and gas industry have decreased and the accounts of banks and other clients in the finance industry, as well as of individuals, have increased, both in the amount and percentage terms, partly as a result of Zenit's diversification strategy.

In recent years Zenit has entered into a number of inter-bank financing arrangements. At December 31, 2002, inter-bank funding amounted to 17.2 per cent. of Zenit's liabilities, compared to 19.1 per cent. at December 31, 2001. Excluding funds that Zenit raised by selling securities under repo transactions, inter-bank funding amounted to 13.5 per cent. of total liabilities at December 31, 2002 and 7.8 per cent. at December 31, 2001. Except for amounts raised under repo transactions and certain small borrowings related to letters of credit, Zenit's inter-bank borrowings are from Russian banks, with the largest such borrowings originating from smaller and regional banks. Borrowing from such banks, especially those in Tatarstan, generally represent a reliable source of funding for Zenit due to the good working relationships that Zenit has established with these banks. Zenit estimates that, in 2002, the total average credit balance of Zenit's fifteen largest inter-bank creditors was U.S.\$48 million.

In addition to borrowing in the inter-bank market, Zenit raises funding by selling securities under repo transactions. Zenit's main repo counterparties include Citigroup, Credit Suisse First Boston International, Standard Bank London Limited, Raiffeisenbank Austria and Donau Bank (Vienna). Tatneft Finance Plc eurobonds (the "Tatneft Eurobonds"), prior to their redemption in October 2002, were the primary assets used in repo transactions. The main assets for outstanding repo agreements are Russian sovereign debt and Russian corporate eurobonds.

Zenit was the first Russian bank to raise funds in the international syndicated loan market after the 1998 Russian financial crisis. In June 2001 Zenit raised U.S.\$20 million from a syndicate that included Standard Bank London Limited, Credit Suisse First Boston, Moscow Narodny Bank and certain other financial institutions. The loan facility was arranged by Standard Bank London Limited and was secured by Tatneft Eurobonds. The loan facility had a maturity of one year and Zenit repaid the loan on June 7, 2002.

Zenit is continuing efforts to raise funds in the international and inter-bank markets. These efforts, together with the proceeds of the Notes, should further improve its medium-term funding base. Zenit is also considering a domestic bond issuance of up to RUR1 billion (U.S.\$32 million at the exchange rate of RUR30.98 per U.S.\$1.00). This bond issuance has been approved by the Board of Directors and will take place not earlier than the third quarter of 2003.

The following table sets out certain liquidity ratios for Zenit at the dates indicated.

	As at December 31, 2002	As at December 31, 2001
Loans to clients ⁽¹⁾ as % of total assets.....	53%	49%
Loans to clients ⁽¹⁾ as % of client accounts	120%	127%
Loans to clients ⁽¹⁾ as % of total equity	296%	250%

(1) Net of allowance for loan impairment.

Lending policies and procedures

Lending Decision. Zenit's corporate client financing department, in cooperation with the RMD, sets Zenit's lending policies, on a bi-annual basis, and these policies are then approved by the Management Board. The corporate client financing department and the RMD review these lending policies annually, in order to ensure that Zenit's loan portfolio is sufficiently diversified.

In making its lending decisions, Zenit evaluates potential borrowers on the basis of their financial condition as reflected in their financial statements, their credit history with Zenit and other financial institutions and the amount of risk involved in extending credit to the particular borrower, using a rating scale based on the approach of international rating and audit firms. A lack of credit history with Zenit or lack of credit history in general is not an absolute bar to receiving a loan as long as Zenit receives information that allows it to understand the borrower's business and financial condition. However, if Zenit extends a loan to a borrower with no credit history, it requires additional collateral or guarantees from such borrower and/or extends the loan at a higher interest rate. In evaluating the risks associated with extending credit to a particular borrower, Zenit reviews the borrower's business and considers factors such as the quality of management of the borrower, the main business activities of the borrower, its geographic location, suppliers and customers and outstanding borrowings. Zenit also evaluates various financial factors relating to the borrower, including its financial stability, turnover, likely return on the loan and the amount and the quality of collateral offered. Zenit also looks at the weighted average credit risk associated with the industry sector in which the borrower operates. Zenit's corporate client financing department and collateral department perform the initial assessment of the borrower, and forward the borrower's information and the result of their assessment to the RMD, which performs its own assessment of the borrower. Strategic clients receive preferential loan terms, such as lower interest rates, less strict collateral requirements and longer maturities.

Once a borrower's initial review has been completed, the corporate client financing department and the RMD forward the borrower's assessment and their recommendations to credit committees that have the authority to approve loans. The minor credit committee (the "Minor Credit Committee") is authorised to approve loans up to and including U.S.\$1.5 million. The major credit committee (the "Major Credit Committee") approves loans and other credit transactions that exceed that amount. In addition to the credit committees, Zenit's branches in Almet'yevsk and St. Petersburg have the flexibility to make their own credit decisions with respect to loans not exceeding U.S.\$250,000 per borrower, including related borrowers, and twelve months in maturity, with the aggregate amount of such loans being limited to U.S.\$1.5 million. Upon approval by the relevant credit committee, Zenit extends the loan to the borrower.

In order to assure the effectiveness and flexibility of the lending process and address quickly the needs of key and strategic clients and clients familiar to Zenit and of whose repayment ability Zenit is confident, Zenit also extends loans on the basis of the prior sole decision and from the personal limits of the Chairman of the Management Board and of the four members of the Management Board responsible for lending, trade finance, client relations management and treasury, respectively. The Management Board assigns personal limits to such members of the Management Board. Personal limits are divided by credit product, amount and maturity. The personal limit of the member of the Management Board responsible for lending is U.S.\$7 million in aggregate, with a lending limit of U.S.\$2 million per borrower, including related borrowers, and the personal limits of the four other members of the Management Board range from U.S.\$2 million to U.S.\$6 million in aggregate per person, with a lending limit of U.S.\$1.5 million per borrower, including related borrowers. The maximum maturity is one year for guarantees, six months for loans and two months or less for other credit products. Only the member of the Management Board who has been assigned a particular personal limit can use that personal limit, although members of the Management Board may combine their personal limits. Currently, the aggregate amount of loans made on the basis of personal limit is less than 10 per cent. of Zenit's loan portfolio. Each of Zenit's corporate client financing department, the RMD and relevant credit committee subsequently review lending decisions made by the members of the Management Board if they involve amounts in excess of U.S.\$200,000. If the credit committee approves the lending decision of the member of the Management Board, the relevant amount is restored to the personal limit of that member.

Zenit monitors the financial condition of each borrower from the time of its credit application until repayment. See "– Risk Management".

The relevant credit committee has the discretion to extend the maturity of a loan upon a borrower's request. It makes the decision whether or not to extend the loan after a review of the borrower's overall credit standing. Generally, a request for an extension of the maturity of the loan will be refused if the borrower does not have credit balances in its accounts, if there is apparent deterioration in the borrower's financial condition, or if there is a material risk that the borrower will become insolvent.

Collateral. Zenit's general policy is to secure loans with collateral equal to or greater in value than the amount of the relevant loan. The value of the collateral must generally be at least equal to the principal amount of the loan (discounted to present value) plus one month of interest. If, in Zenit's view, the collateral is undervalued or a loan is being made to a key or a strategic client, Zenit may accept collateral with a value of up to 30 per cent. less than the principal amount of the loan. The proportion of collateralised loans has increased significantly over time and at December 31, 2002 amounted to over 90 per cent. of all loans and advances to clients.

The Minor Credit Committee or the Major Credit Committee, as appropriate depending on the size of the loan, makes the decision about the requisite level of collateralisation. Zenit seeks different types of collateral, such as property, plant and equipment and securities, as security for each loan. The most common forms of collateral accepted are property, plant and equipment and inventory.

Zenit's collateral department inspects, evaluates and monitors the quality, market value and liquidity of the collateral. For real estate collateral, Zenit requires a valuation by an independent appraiser in addition to the assessment by the collateral department. The collateral department also monitors the status of the collateral throughout the life of the loan by inspecting the relevant premises, reviewing the borrower's financial statements and requesting periodic reports from the borrower on the status of the collateral.

Loan Classification and Allowances. For 2001 IFRS financial reporting purposes, Zenit used a system of loan classifications and corresponding allowances that it applied as part of adopting IAS 39, "Financial Instruments – Recognition and Measurement". The loan classifications and allowances are set out below:

An allowance for loan impairment was established if there was objective evidence that Zenit would not be able to collect the amounts due. The amount of the allowance was the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the instrument's interest rate at inception.

A loan impairment estimation involved the following steps:

- Identification of loans that were individually significant, i.e. those loans which if fully impaired would have a material impact on an expected average level of operating profit of Zenit.
- Determination of whether an individually significant loan showed objective evidence of impairment. Special emphasis was placed on the timing of the contractual cash flows from interest payments and principal repayments. If Zenit expected to collect all interest and principal due in full, but it was probable that those cash flows would be received later than the date agreed in the original contract, an impairment exercise was performed. Other impairment indicators included but were not limited to: any significant financial difficulty of the borrower; an actual breach of loan contract; a high probability of bankruptcy or other financial reorganisation of the borrower; recognition of an impairment loss on that asset in a prior financial reporting period; or a historical pattern of collections of loans that indicates that the entire principal and interest amount of a loan portfolio would not be collected.
- Review for impairment of individually significant loans that showed objective evidence of impairment. An impairment review required an estimate of the expected timing and amounts of cash flows from interest and principal repayments and other cash flows, including amounts recoverable from guarantees and collateral, and discounting them at the loan's original effective interest rate. The loan was impaired if its carrying amount exceeded the estimated recoverable amount as defined above. A separate impairment loss on an impaired individually significant loan was recorded.
- All remaining loans that had not been identified as individually significant were to be assessed on a portfolio basis if, and only if, there were signs that impairment was present in those portfolios. For the purpose of such a review, the portfolio of loans had to be grouped in pools, based on similar credit risk characteristics. Such pools could be further assessed for impairment as if they were a single asset. Additionally, separate pools of loans could be identified that, for example, by virtue of belonging to a particular industry had a greater probability of being impaired than other categories of loans.

For 2002 IFRS financial reporting purposes, Zenit applied the following system of loan classifications and corresponding allowances:

	Classification	Description	Allowance %
A	Pass	Loans which do not present an above-average risk and whose repayment is not in doubt. This category includes the bank's highest quality borrowers.	2-5
B	Watch	Loans in this category have potential weaknesses. Such loans constitute increased credit risk but not to the point of justifying a classification of "Substandard".	5-10
C	Substandard	A substandard loan is inadequately protected by the current credit standing and paying capacity of the obligor. The loan bears above-average risk due to the financial condition and of the borrower, insufficient collateral or other reasons.	10-30
D	Doubtful	Loans classified doubtful have all the weaknesses inherent in ones classified "Substandard" with the added characteristic that the collection in full is highly questionable and improbable based on the current conditions. The entire amount of the loan or part thereof may not be repaid and will result in a loss, but the amount of such loss has not yet been determined.	50-75
E	Loss	The entire amount of credit or part thereof is most likely unrecoverable.	100

The following table sets out Zenit's outstanding gross client loans and the allowance created against them at December 31, 2001:

	% of total loans	Gross loans (in thousands of U.S. Dollars)	Allowance (in thousands of U.S. Dollars)	Gross loans less allowance (in thousands of U.S. Dollars)	% of allowance to gross loans
December 31, 2001					
0-5%	57	207,703	6,439	201,263	3.1
6-20%	34	126,320	10,539	115,782	8.3
21-50%	3	11,040	3,312	7,728	30.0
51-100%	6	22,408	16,203	6,205	72.3
Total	100	367,471	36,493	330,978	

The following table sets out Zenit's outstanding gross client loans and the allowance created against them as at December 31, 2002:

	% of total loans	Gross loans (in thousands of U.S. Dollars)	Allowance (in thousands of U.S. dollars)	Gross loans less allowance (in thousands of U.S. dollars)	% of allowance to gross loans
December 31, 2002					
A	41	170,314	3,406	166,908	2
B	49	204,023	10,201	193,822	5
C	7	31,066	5,706	25,360	18
D	1	4,097	2,084	2,013	51
E	2	10,027	9,578	449	96
Total	100	419,527	30,975	388,552	

The following table sets out details of changes in the allowance for loan impairment:

	December 31, 2002	December 31, 2001
	(in thousands of U.S. dollars)	
Balance	36,493	31,313
Adjustment on adoption of IAS 39 ⁽¹⁾	—	(492)
Charge for loan impairment during the period	2,445	10,670
Write-offs	(3,175)	(13)
Effect of inflation	(4,788)	(4,985)
Balance at end of the period	30,975	36,493
Total client loan portfolio, gross	419,527	367,471
Effective provisioning level, %	7%	10%

(1) Zenit adopted IAS 39, “Financial Instruments – Regulation and Management”, in 2001, and recorded all adjustments in conjunction with the adoption in that year.

During 2002, Zenit ceased to recognise contractually due interest income related to a loan extended to a single problem borrower. This resulted in Zenit writing off U.S.\$3.2 million during 2002 which had an allowance for impairment in the same amount as of December 31, 2001. Had this contractually due interest income been written off as of December 31, 2001, the effective provisioning level would have declined from 10 per cent. to 9 per cent. as of December 31, 2001.

The following table lists Zenit’s non-performing loans to non-bank clients as at December 31, 2002.

Gross exposure	Allowances (in thousands of U.S. dollars)	Net exposure
13,697	2,732	10,965
2,711	2,677	34
2,314	2,314	—
2,305	1,153	1,152
2,003	1,622	381
1,496	1,477	19
1,180	1,165	15
828	377	451
361	180	181
315	158	157
314	314	—
293	221	72
8	8	—

Zenit extended most of its non-performing loans in 1999 and 2000. Zenit is currently engaged in civil litigation with one problem borrower. With respect to the majority of the non-performing loans that are guaranteed or collateralised with property, other fixed assets or inventory, Zenit expects to recover at least the amount equal to the principal of each such loan minus any allowances. One problem loan was extended to a related party.

Zenit extended some unsecured loans in or before 1999, when collateralisation was still not a general practice in the Russian market.

Selected Statistical and Other Information

The following selected statistical and other financial information is derived, where applicable, from the audited IFRS Financial Statements of Zenit for the years ended December 31, 2002, 2001 and 2000.

Loan Portfolio

Zenit lends primarily to Russian corporate clients and to some private and retail clients in Russia. Loans to clients in the CIS countries currently consist of loans to several clients in Belarus. Zenit has also extended loans to borrowers in other CIS countries, such as Kazakhstan and Ukraine, to enable these clients to purchase non-convertible currencies, such as the Indian rupee or Chinese yuan, from third parties. Zenit’s credit committees made decisions on extending loans to non-Russian potential borrowers on a case-by-case basis.

The rate of interest that Zenit charges on a loan depends on current market rates as well as RMD's view as to the level of the loan's credit risk and its maturity. As at December 31, 2002, interest rates for U.S. dollar-denominated loans were as follows: extended for one month, 11.4 per cent., for three months, 15.1 per cent. and for one year, 12.9 per cent. For ruble-denominated loans the interest rates were 16.3 per cent. for one month, 20.7 per cent. for three months and 19.6 per cent. for one year.

The following table provides a breakdown of Zenit's loan portfolio as at December 31, 2002, 2001 and 2000.

	December 31, 2002		December 31, 2001		December 31, 2000	
	Amount (in thousands of U.S. dollars)	Percentage of loan portfolio	Amount (in thousands of U.S. dollars)	Percentage of loan portfolio	Amount (in thousands of U.S. dollars)	Percentage of loan portfolio
Loans to clients ⁽¹⁾	419,527	92	367,471	94	239,383	88
Due from other banks ⁽²⁾ ..	65,902	15	61,112	16	64,003	24
Allowances for loan impairment ⁽³⁾	(31,097)	(7)	(37,091)	(10)	(31,804)	(12)
Total	454,332	100	391,492	(100)	271,582	100

(1) Includes promissory notes.

(2) Not including mandatory reserves deposited with the CBR.

(3) Includes loans to clients and amounts due from other banks.

Client Concentration. As at December 31, 2002, 58 per cent. of Zenit's gross loan portfolio consisted of loans to twenty borrowers, each borrower having aggregate loans in excess U.S.\$6 million. Loans to related parties totalled U.S.\$46.6 million (net of allowances), amounting to 12 per cent. of Zenit's loan portfolio.

The following table shows Zenit's exposure to its 20 principal non-bank clients, which together accounted for 58 per cent. of Zenit's total non-bank on and off balance sheet credit exposure in 2002. Each line item in this table represents a single gross client, identified by the industry in which it operates.

Client's Industry Sector	As at December 31, 2002			
	Loans	Guarantees	Import letters of credit	Total gross exposures
	(in thousands of U.S. dollars)			
Oil production.....	47,389	2,693	—	50,082
Food processing	19,363	—	—	19,363
Wholesale and retail trading	6,324	11,101	—	17,425
Diamond extraction	17,000	—	—	17,000
Brewing and restaurant business	16,260	—	—	16,260
Retail trading	15,157	—	—	15,157
Private equity fund	15,057	—	—	15,057
Gas retail and wholesale trading	13,843	—	—	13,843
Agriculture and fur production	13,697	—	—	13,697
Oil production.....	12,000	—	—	12,000
Petrol production	—	10,913	—	10,913
Retail trading	10,013	—	—	10,013
Agriculture and food processing.....	9,665	—	8,886	18,551
Food processing	8,000	—	—	8,000
Defence.....	7,579	—	—	7,579
Leasing	7,012	—	—	7,012
Automobile manufacturing	6,719	—	—	6,719
Oil and gas retail and wholesale trading	6,631	—	—	6,631
Energy	6,292	—	—	6,292
Oil production.....	6,000	—	—	6,000
Total for 20 top clients	244,001	24,707	8,886	277,594
Bank total	419,527	44,946	14,163	478,636
Top 20 clients as % of total exposure.....	58%	55%	63%	58%

The following table sets out the structure of the client loan portfolio by the gross amount of loans.

	December 31, 2002		December 31, 2001		December 31, 2000	
	in thousands of U.S. dollars	%	in thousands of U.S. dollars	%	in thousands of U.S. dollars	%
Up to U.S.\$1.5 million	50,237	12	42,050	11	44,545	19
U.S.\$1.5 million up to U.S.\$7 million	157,174	37	142,155	39	84,695	35
U.S.\$7 million up to U.S.\$15 million ..	81,810	20	84,276	23	60,258	25
U.S.\$15 million up to U.S.\$25 million ..	82,838	20	23,240	6	—	—
Over U.S.\$25 million.....	47,468	11	75,750	21	49,885	21
Total loans outstanding, gross.....	419,527	100	367,471	100	239,383	100
Allowance for loan impairment	(30,975)		(36,493)		(31,313)	
Total loans outstanding, net	388,552		330,978		208,070	

The following table sets out Zenit's loan portfolio by maturity.

	December 31, 2002 (in thousands of U.S. dollars)	%	December 31, 2001 (in thousands of U.S. dollars)	%	December 31, 2000 (in thousands of U.S. dollars)	%
Net loans and advances to clients by maturity:						
On demand and up to one month..	63,856	16	36,989	11	45,736	22
One to six months	175,301	45	155,986	47	63,834	31
Six to twelve months	100,889	26	73,884	22	44,963	22
More than one year	41,127	11	61,481	19	51,684	25
Overdue/no stated maturity	7,379	2	2,638	1	1,853	0
Total net loans and advances	388,552	100	330,978	100	208,070	100

The majority of Zenit's loans are short-term, as is customary in the Russian domestic lending market. Loans with maturities of up to six months were the fastest growing category of loans in 2002. As of December 31, 2002, the "more than one year" category consisted of 34 per cent. of loans maturing within two years, 61 per cent. in two to three years and 5 per cent. over three years. As of December 31, 2002, approximately 49 per cent. of the "more than one year" category comprised loans to a number of Zenit's most creditworthy clients, including key and strategic clients. It also included small loans associated with Zenit's long-term investments in leasing. Zenit expects that as the Russian economy becomes more stable, the "more than one year" category will experience significant growth.

Sectoral Analysis. The following table sets forth Zenit's gross loans to corporate clients by industry sector as at December 31, 2002. Zenit has observed increasing industry diversification in its loan portfolio over the past three years.

Industry sector	Loans	Guarantees	Import letters of credit	Total gross exposures	% of total
	(in thousands of U.S. dollars)				
Corporate clients					
Trade	108,740	25,293	633	134,666	28
Manufacturing	72,861	712	305	73,878	15
Food	71,565	805	8,886	81,256	17
Oil and gas	54,381	15,890	826	71,097	15
Agricultural	22,488	—	—	22,488	5
Mining	20,292	—	—	20,292	4
Finance	22,074	472	41	22,587	5
Telecommunications	6,167	—	—	6,167	1
Other	36,771	784	3,472	41,027	9
Total corporate	415,339	43,956	14,163	473,458	99
Individuals	4,188	990	—	5,178	1
Total	419,527	44,946	14,163	478,636	100

Currency Analysis. The following table sets forth Zenit's loan portfolio by currency. Loans in "other currencies" consist of loans in euro and in non-convertible currencies, such as the Indian rupee and Chinese yuan:

	December 31, 2002 (in thousands of U.S. dollars)	%	December 31, 2001 (in thousands of U.S. dollars)	%	December 31, 2000 (in thousands of U.S. dollars)	%
Loans and advances to clients by currency (net of allowances):						
RUR	147,134	38	154,960	47	116,078	56
U.S. dollars.....	234,184	60	175,749	53	91,992	44
Other currencies.....	7,234	2	269	—	—	—
Total loans and advances.....	388,552	100	330,978	100	208,070	100

Trading Portfolio

The following table sets forth Zenit's securities trading portfolio as at December 31, 2002, 2001 and 2000.

	December 31, 2002 (in thousands of U.S. dollars)	%	December 31, 2001 (in thousands of U.S. dollars)	%	December 31, 2000 (in thousands of U.S. dollars)	%
<i>Ruble denominated securities</i>						
Corporate bonds	12,999	16	27,143	16	6,499	9
Promissory notes	8,590	11	12,937	8	13,377	19
Municipal bonds	4,977	6	9,312	6	—	—
Shares	608	1	30	—	277	—
Federal loan bonds (OFZ)	91	—	—	—	2,093	3
Total ruble denominated securities	27,265	34	49,422	30	22,246	31
<i>U.S. dollar and other currencies denominated securities</i>						
Corporate Eurobonds	16,377	20	54,610	33	8,925	13
Vnesheconombank 3% coupon bonds (VEB)	484	1	2,042	1	274	—
Russian Federation Eurobonds	2,385	3	—	—	296	—
Total U.S. dollar and other currencies denominated securities	19,246	24	56,652	34	9,495	13
<i>U.S. dollar denominated securities sold under repo transactions</i>						
Corporate Eurobonds	—	—	33,497	20	16,883	24
Vnesheconombank 3% coupon bonds (VEB)	9,647	12	22,173	14	—	—
Tatneft ADRs	23,737	30	3,882	2	—	—
Russian Federation Eurobonds	—	—	—	—	22,424	32
Total U.S. dollar denominated securities sold under repo transactions	33,384	42	59,552	36	39,307	56
Total trading securities	79,895	100	165,626	100	71,048	100

As more Russian companies issue domestic debt or equity securities, the share of such securities in Zenit's trading portfolio continues to increase. Zenit's eurobond portfolio consists mainly of eurobonds of Russian corporate issuers and eurobonds issued by the Russian Federation. Prior to their redemption in

October 2002, Zenit's trading portfolio included Tatneft Eurobonds. As of December 31, 2001 their value was U.S.\$77 million. Zenit's trading portfolio continues to grow despite the redemption of Tatneft Eurobonds.

IT Infrastructure

Zenit views information technology as an integral part of its daily operations and is committed to modernising its existing information technology infrastructure and continuing to invest in information technology in order to support the growth of its operations in the future. The core element of Zenit's IT infrastructure is its in-house developed and implemented "Our Banking System" software (known as "NBS"), which is installed at Zenit's head office in Moscow and networked across Zenit's branches. NBS facilitates full-scale operational and analytical support for wire transfers and cash settlements, credit decisions, lending activities, bank deposit maintenance, buying and selling of securities, investment projects such as acquisitions and debt origination, transactions in foreign currencies and risk management activities. NBS is integrated with other software, such as "Bank-Client" or "Internet Trading", which are commercially available to clients in Russia, and SWIFT. NBS can support Zenit's short-term expansion and will be upgraded for long-term expansion.

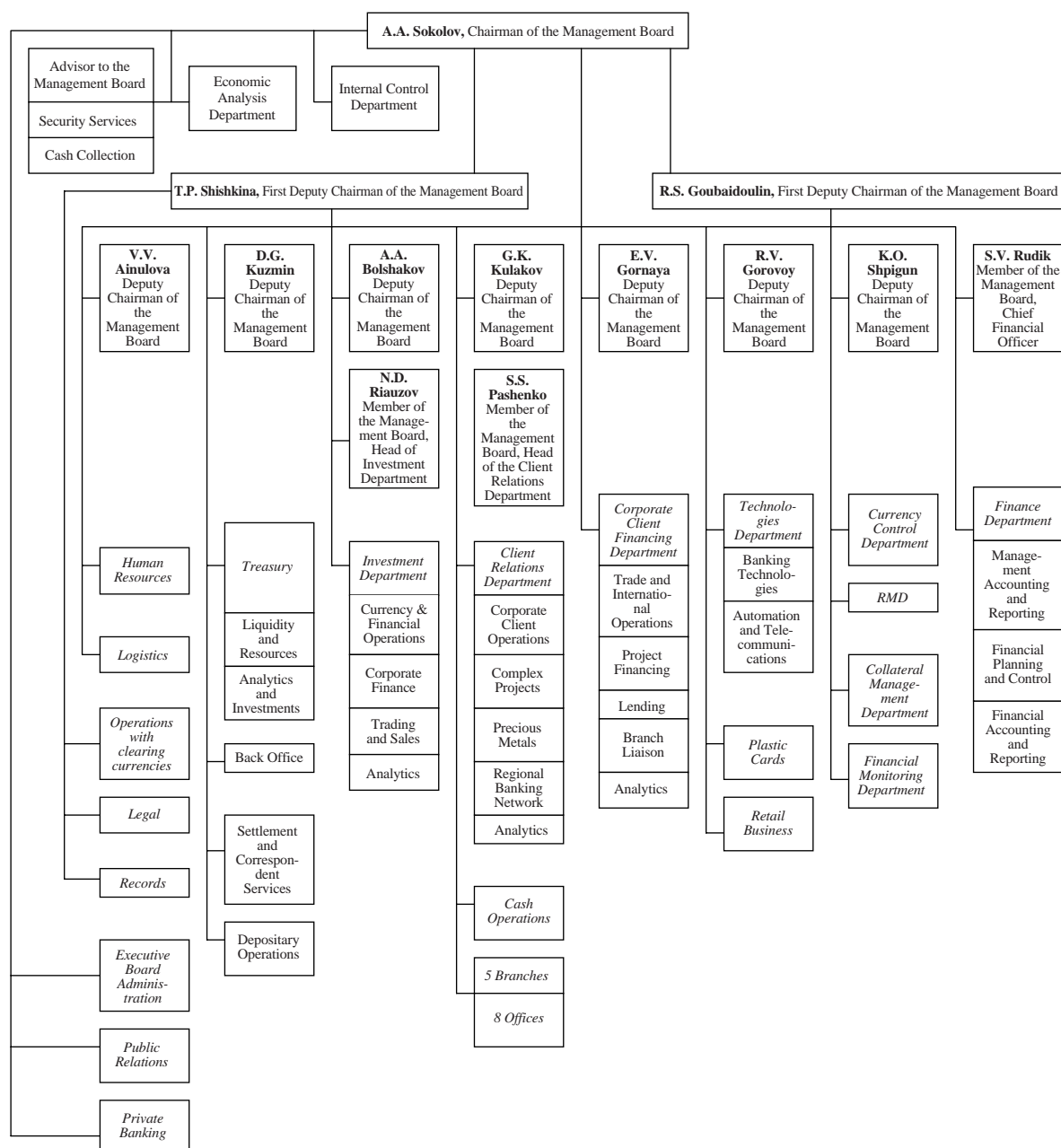
In addition to NBS, Zenit operates other software that facilitates processing of debit card transactions, transactions made by private depositors, securities depositary operations, employee record keeping and document exchange between Zenit and its clients. All of Zenit's computer systems are protected by firewalls from virus attacks and power supply interruptions. Periodic back-ups of the data are conducted and data is stored for a period of three to five years.

The functional capacity of Zenit's software systems is based on advanced computer and telecommunications equipment provided by a number of manufacturers, including Hewlett-Packard Company, Cisco Systems, Inc., IBM Corporation and Motorola, Inc. Communications and data transfers in Moscow are performed through high-quality private telecommunications providers, including GoldenTelecom Inc., JSC Combellga and Global One.

MANAGEMENT

Organisational Structure

The following chart sets forth the current management structure of Zenit.



Governance bodies

In accordance with the Russian legislation governing joint stock companies and Zenit's charter its principal governance bodies are the shareholders' meeting, the Board of Directors and the Management Board.

Shareholders' Meeting

The shareholders' meeting is Zenit's highest governance body. It meets at least once a year. The following matters can only be dealt with by the shareholders' meeting:

- alteration of Zenit's charter and the size and composition of its charter capital (including decisions on additional share issues);
- increase or decrease in the size of Zenit's Board of Directors, election and early termination of the members of the Board of Directors, appointment and termination of the Chairman of the Management Board;
- approval of appointment of the Zenit's auditors, annual reports and financial statements, distribution of Zenit's profits and coverage of Zenit's losses;
- approval of the manner of communication of information to shareholders;
- reorganisation or liquidation of Zenit;
- election of the Audit Committee and Review Committee;
- approval of certain major transactions;
- approval of compensation or reimbursement of expenses of Zenit's directors and Audit Committee members;
- approval of Zenit's participation in holding companies, industry groups and associations and other commercial associations;
- approval of internal documents regulating Zenit's governance bodies;
- approval of transfer of profits; and
- certain other matters provided for in the Joint-Stock Company Law and Zenit's charter.

Decisions of the Zenit's shareholders' meeting are generally made by a simple majority of votes. Changes to the size of Zenit's charter capital, major transactions and reorganisation or liquidation of Zenit require approval by a three-quarters majority of votes present at the shareholders' meeting.

Board of Directors

The Board of Directors is responsible for general management matters, with the exception of those matters that are designated by law as being the exclusive responsibility of the shareholders' meeting. Members of the Board of Directors are elected by a majority vote of the shareholders for a one-year term. The voting is done on a cumulative basis. Zenit's charter stipulates that the Board of Directors should be comprised of fifteen members.

The name, age, qualifications and certain other information for each member of the Board of Directors of Zenit is set out below:

Robert R. Musin (39) has been the chairman of the Board of Directors since June 3, 2002. He is the former Minister of Finance of Tatarstan. Since June 7, 2002 Mr. Musin has also served as chairman of the supervisory board of AK BARS Bank OJSC. Mr. Musin graduated from Kazan Finance and Economics Institute in 1985.

Abel G. Aganbegyan (71) has been a member of the Board of Directors since June 21, 2000. Mr. Aganbegyan was formerly the Rector and is now the head of the Economics Theory and Politics Department of the Academy of the National Economy of the Government of the Russian Federation. He also serves as chairman of the board of directors of Exteria CJSC and a managing director and a member of the supervisory board of Renaissance Capital Limited. Mr. Aganbegyan graduated from the Moscow State Economic Institute in 1955.

Igor G. Avanesyan (50) has been a member of the Board of Directors since November 15, 1995. He also serves as director and member of the board of directors of Petrokam OJSC, member of the boards of directors of Tatneft-Moscow CJSC, Tatoiilgaz CJSC and Finance Leasing Company CJSC and general manager of Pharmaceutical Agency Limited and Center-Capital Limited. Mr. Avanesyan graduated from the Moscow Institute of Oil and Gas Chemical Industry in 1975.

Vyacheslav P. Fedorov (37) has been a member of the Board of Directors since June 6, 2002. He is also the finance director of Lipetskcombank OJSC. Mr. Fedorov graduated from the Institute of Global Economy and Computer Science in 1987.

Semyon A. Feldman (67) has been a member of the Board of Directors since June 21, 2000. He has also been working as Deputy General Director for Capital Investments at Tatneft OJSC since March 1, 1993. Mr. Feldman is a member of the management board and board of directors of Tatneft OJSC, member of the board of directors of Devon Credit Bank OJSC, IFK SOLID CJSC, Nizhnekamsk Oil Refinery CJSC, Tatinkom-T OJSC and Optimum Capital Management CJSC. Mr. Feldman graduated from the Leningrad Mining Institute in 1960.

Iskandar G. Garifullin (43) has been a member of the Board of Directors since April 26, 1999. He is also the Head of the Accounting Department, the Chief Accountant and a member of the management board of Tatneft OJSC, and is a member of the board of directors of Tchulpan CJSC, Devon Credit OJSC, and IFK SOLID CJSC. Mr. Garifullin graduated from Kazan Finance and Economics Institute in 1981.

Sushovan Ghosh (46) has been a member of the Board of Directors since November 15, 1995. Mr. Ghosh is also a director of SGI Enterprises Limited. He served as the Chief Financial Officer of Renaissance Capital from 1994 to 2002, before which he spent three years with BOC plc and four years with Bain Consulting. Mr. Ghosh graduated from the University of London Queen Mary College in 1979 and is a Fellow of Institute of Chartered Accountants in England and Wales.

Valery I. Graifer (73) has been a member of the Board of Directors since April 26, 1999. He is also the general manager, the chairman of the management board and a member of the board of directors of Russian Innovation Fuel and Energy Company OJSC. Mr. Graifer also serves as a chairman of the boards of directors of Medprominvestbank OJSC, Lukoil OJSC, RITEK Vnyedrenye and is the chairman of the board of trustees of the Russian State University of Oil and Gas. Mr. Graifer graduated from the Moscow Oil Institute in 1952.

Vladimir S. Lisin (47) has been a member of the Board of Directors since June 8, 2001. He is also a chief consultant at Rumelko Limited. Mr. Lisin also worked at Rumelko Limited as its general manager between December 1, 1999 and January 1, 2001. Mr. Lisin is also the chairman of the board of directors of Novolipetsk Iron and Steel Corporation OJSC and Rumelko Limited and a member of the board of the Mining and Metallurgical Company Norilsk Nickel. Mr. Lisin graduated from the Siberian Metallurgy Institute in 1979.

Nail U. Maganov (45) has been a member of the Board of Directors since June 8, 2001. He is also the first deputy general director, a member of the management board and head of department of extraction of oil and oil products of Tatneft OJSC. Mr. Maganov also serves as member of the board of directors of Tatoiigaz CJSC, Nizhnekamsk Oil Refinery OJSC, NORSI OJSC, Nizhnekamskneftekhim OJSC, Nizhnekamsk Technical Carbon Works OJSC and Nizhnekamskshina OJSC and chairman of the board of directors of Tatneftviaservis CJSC. Mr. Maganov graduated from the Moscow Institute of Oil and Gas Chemical Industry in 1983.

Gennady I. Markin (51) has been a member of the Board of Directors since June 9, 2002. He is the Finance Director of Novolipetsk Iron and Steel Corporation. He holds a degree in metallurgical engineering from the Moscow Institute of Steel and Alloys in 1981.

Vladislav A. Oschepkov (33) has been a member of the Board of Directors since June 6, 2002. He is the Head of Financial and Lending Division of Corus Holding OJSC. He graduated from the Moscow Institute of Physics and Technology in 1993.

Aleksandr I. Proshechkin (57) has been a member of the Board of Directors since April 26, 1999. He is the chairman of the board of directors of Almetyevsk Pump Factory OJSC and Bugulminsk ETO Factory OJSC. Mr. Proshechkin graduated from the Urals Polytechnical Institute of Kirov in 1968.

Aleksey A. Sokolov (47) has been a member of the Board of Directors since the establishment of Zenit and chairman of the Management Board since July 24, 1995. Prior to joining Zenit he was the deputy chairman of the management board of Alfa Bank. He also serves as the deputy chairman of the board of the National Non-Government Pension Fund, a member of the board of directors of IFK SOLID CJSC, BShMB OJSC, Finance Leasing Company CJSC and the chairman of the board of directors of Tatneft-Moscow CJSC. Mr. Sokolov graduated from the Ordzhonikidze Moscow Aviation Institute in 1979 and in 1990 he received the International Economic Relations Economist degree from the Moscow Institute of Finance.

Shafagat F. Takhautdinov (57) has been a member of the Board of Directors since June 21, 2000. Mr. Takhautdinov is the general manager, the chairman of the management board and a member of the board of directors of Tatneft OJSC. He also serves as the chairman of the board of the National Non-Government Pension Fund, chairman of the boards of directors of IFK SOLID CJSC, Nizhnekamsk Oil Refinery OJSC, Perekryvatyel CJSC, Tatnefteotdacha CJSC and Tatech CJSC, and a member of the boards of directors of Tatneftaviaservis CJSC, Policell CJSC, Devon Credit Bank OJSC, Russian Innovation Fuel and Energy Company OJSC, Geotech CJSC, Tatneftechiminvestholding OJSC, Geologiya CJSC, Aloil CJSC, MGPZ OJSC, Mellyanefit OJSC, Neftekonsortium CJSC, Tatoiigaz CJSC, Nizhnekamskshina OJSC and Troickneft CJSC. Mr. Takhautdinov graduated from the Moscow Institute of Oil and Gas Chemical Industry in 1971.

The business address of each of the above directors is 9 Banny Pereulok, 129110 Moscow, Russian Federation.

Management Board

The Management Board is the executive body of Zenit and is elected by the Board of Directors. Members of the Management Board may be re-elected an unlimited number of times. The Management Board meets weekly and on an *ad hoc* basis and makes its decisions by simple majority, provided that two-thirds of its members are present. The members of the Management Board are responsible for the day-to-day management and administration of Zenit. The Chairman of the Management Board represents and acts in the name of Zenit and is ultimately responsible for all operational matters of Zenit.

The name, age, qualifications and certain other information about each member of the Management Board is set out below:

Aleksey A. Sokolov (47) has been a member of the Board of Directors and chairman of the Management Board since July 24, 1995. Prior to joining Zenit he was the deputy chairman of the management board of Alfa Bank. He also serves as the deputy chairman of the board of the National Non-Government Pension Fund, a member of the boards of directors of IFK SOLID CJSC, BShMB OJSC, Finance Leasing Company CJSC and the chairman of the board of directors of Tatneft-Moscow CJSC. Mr. Sokolov graduated from the Ordzhonikidze Moscow Aviation Institute in 1979 and in 1990 he received the International Economic Relations Economist degree from the Moscow Institute of Finance.

Rashid S. Goubaidoulin (46) has been the First Deputy Chairman of the Management Board since January 11, 1999. He was previously a general manager at Gornyi Altay Commercial Bank. Mr. Goubaidoulin graduated from the V. V. Kuybishev Financial and Economic Institute in the City of Kazan in 1982 with the specialisation of Economist.

Tatyana P. Shishkina (50) has been the First Deputy Chairman of the Management Board since April 23, 2001. She has been working for Zenit since August 1, 1996. Prior to joining Zenit, she worked at Alfa Bank for three years. Before joining Alfa Bank, Ms. Shishkina was employed at the Stroimaterialintorg trading company. Ms. Shishkina graduated from the M. Torez Moscow State Institute of Foreign Languages in 1980 with the specialisation of Foreign Language.

Valeria V. Ainulova (31) has been a Deputy Chairman of the Management Board since November 21, 1997. She has been working at Zenit since July 1, 1997. Ms. Ainulova has been the head of Zenit's internal control department for the past four years. Prior to joining Zenit, she worked for Arthur Andersen. Ms. Ainulova graduated from the Ordzhonikidze State Aviation University in 1994 with the specialisation of Economist with Knowledge of a Foreign Language.

Anton A. Bolshakov (35) has been a Deputy Chairman of the Management Board since June 18, 2001. He has been working at Zenit since July 24, 1995. During his employment at Zenit, Mr. Bolshakov has headed the investment department and the treasury. Mr. Bolshakov graduated from the Finance Academy of the Government of Russian Federation in 1996 with the specialisation in Finance and Credit.

Denis G. Kuzmin (31) has been a Deputy Chairman of the Management Board since June 7, 1996. He has been working at Zenit since July 3, 1995. Prior to joining Zenit, Mr. Kuzmin worked at Alfa Bank and at Konversbank commercial bank. Mr. Kuzmin graduated from the Finance Academy of the Government of the Russian Federation in 1994 with the specialisation in Finance and Credit.

Grigoriy V. Kulakov (36) has been a Deputy Chairman of the Management Board since August 10, 1995. Mr. Kulakov is in charge of relations with Zenit's corporate clients and marketing. Prior to joining Zenit, he worked at Alfa Bank and at the Wholesale Trade Development Commercial Bank. Mr. Kulakov graduated from Moscow Institute of Finance in 1990 with a specialisation in International Economic Relations.

Rodion V. Gorovoy (36) has been a Deputy Chairman of the Management Board since June 6, 2002 and a member of the Management Board since October 12, 1998. Mr. Gorovoy is also the head of the technologies department of Zenit. He joined Zenit on November 1, 1996 as the head of automation administration. Prior to joining Zenit, he worked at Deloitte and Touche. Mr. Gorovoy graduated from the Moscow State University in 1988 with a specialisation in Applied Mathematics.

Elena V. Gornaya (44) has been a Deputy Chairman of the Management Board since June 6, 2002. Since January 5, 1998 she has been the head of the corporate client financing department. Ms. Gornaya has been working at Zenit since October 9, 1995. Prior to joining Zenit, she worked at Alfa Bank. Ms. Gornaya graduated from the Moscow State Institute of International Relations in 1981 with the specialisation as International and Economic Relations Economist with Knowledge of a Foreign Language.

Kiril O. Shpigun (33) is a Deputy Chairman of the Management Board. On August 5, 1997 he became the head of the currency control department. Prior to joining Zenit, he worked at the Russian Federal Service for Foreign Exchange Monitoring. Mr. Shpigun graduated from the Moscow State University in 1995 with a specialisation in Applied Mathematics.

Vyacheslav P. Fedorov (37) has been a member of the Management Board of Zenit since June 6, 2002. Mr. Fedorov is in charge of Zenit's relations with its key clients. He is also the Finance Director of Lipetskombank OJSC. Mr. Fedorov graduated from the Institute of Global Economy and Computer Science in 1987.

Stanislav S. Pashenko (33) is a member of the Management Board. He has been the head of client relations department since April 7, 1999. Prior to joining Zenit, he worked at Rosbank and Toribank. Mr. Pashenko graduated from the State Academy of Food and Beverage Industry in Moscow in 1993 and from the Pan-Russian Part-Time Finance and Economy Institute with a specialisation in Finance and Credit in 1999.

Sergei V. Rudik (33) is a member of the Management Board. Mr. Rudik has been working at Zenit since April 24, 2000, and became Chief Financial Officer of Zenit in 2002. Prior to joining Zenit, he worked at Mosbusinessbank and at Neftekhimbank. Mr. Rudik graduated from the Finance Academy of the Government of the Russian Federation in 1990 with a specialisation in Accounting and Audit.

Nikita D. Riauzov (27) is a member of the Management Board. He is the head of the investment department. He has been working at Zenit since February 2, 1998. Prior to joining Zenit, he worked at Roseximbank. Mr. Riauzov graduated from the Finance Academy of the Government of the Russian Federation in 1998 with a specialisation in Finance and Credit.

Management – Certain Transactions

As of December 31, 2002, Zenit had outstanding loans to members of its Management Board in the amount of U.S.\$409,140.

In 2002, the total remuneration of the members of the Board of Directors and the Management Board, including pension contributions, bonuses, reimbursement of expenses and other discretionary compensation, amounted to U.S.\$2.15 million.

SHAREHOLDING

As of December 31, 2002, Zenit's authorised share capital was RUR12 billion (U.S.\$378 million) comprised of 12 billion ordinary shares with a par value of RUR1.00 each. Such authorised share capital consisted of unissued share capital of RUR10 billion (U.S.\$315 million) comprised of 10 billion ordinary shares with a par value of RUR1.00 each and issued and fully paid shares with a value of RUR2 billion (U.S.\$63 million), comprised of 2 billion ordinary shares with a nominal value of RUR1.00. The U.S. dollar equivalents were calculated by applying the CBR official exchange rate as of December 31, 2002.

Zenit has held shareholders' meetings since 1999. Prior to its conversion to an open joint stock company in 1999, Zenit held meetings of its members.

The following table lists Zenit's shareholders as of March 31, 2003 that held one per cent. or more of Zenit's outstanding ordinary shares.

	Number of shares held	% of total shares
Tatneft	1,000,000,001	50.0
CJSC Stinol-Invest ⁽¹⁾	694,270,999	34.7
SGI Enterprises Ltd.	134,000,000	6.7
Trade House AK BARS LLC	73,800,000	3.7
Tea House Grand LLC.....	50,000,000	2.5
OJSC Almetyevsk Pumps Factory	30,000,000	1.5
Others	17,929,000	0.9
Total	2,000,000,000	100

(1) Nominee holder.

RELATED PARTY TRANSACTIONS

In the past, Zenit has relied on related parties for a substantial portion of its funding and revenues. A large proportion of Zenit's related party transactions have been with Tatneft, particularly with regard to Zenit's acting as agent for the redemption of Tatneft Eurobonds. See "Certain Risk Factors – Risks Relating to Zenit's Business and Industry – Zenit may lose some or all of Tatneft's business". The vast majority of Zenit's related party transactions in 2001 and 2002 were conducted at "arm's length" and at fair market rates.

The majority of Zenit's related party transactions are with leading Russian companies. However, since 2000, Zenit has aimed to diversify its client base and Zenit estimates that this strategy will reduce related party loans and guarantees to approximately 10 per cent. of Zenit's total loans and guarantees by December 31, 2003. All the loans extended to related parties are fully collateralised.

The following table sets out certain financial information in relation to Zenit's related party transactions as at December 31, 2002 and December 31, 2001.

	December 31, 2002	% of total	December 31, 2001	% of total
	(in thousands of U.S. dollars, except percentages)			
Trading securities	26,214	32.8	106,400	64.2
Loans to clients	46,603	12.0	117,815	35.6
Gross loans outstanding at period end	388,552	100.0	330,978	100.0
Due from other banks	2	0	23	0
Client accounts	92,622	28.7	63,837	24.4
Outstanding balance at period end	322,499	100.0	261,226	100.0
Promissory notes issued by Zenit	2,997	2.0	5,430	3.9
Due to other banks	7,437	7.3	8,229	8.0
Other liabilities	101	13.6	—	0
Off balance sheet				
Guarantees issued by Zenit	2,693	6.0	3,875	12.5
Import letters of credit	—	—	4,159	88.9
Commission income	6,315	46.4	8,175	65.3
Commission expense	—	0	—	0
Interest income	6,351	9.1	11,539	18.3
Interest expense	6,845	20.2	3,013	16.8
Gains less losses arising from trading securities of related parties	5,752	112.7	10,480	91.2

EMPLOYEES

As at December 31, 2002, Zenit had 782 employees, compared to 639 at December 31, 2001. The largest growth in that period was in the Corporate Bank (nine new employees), the Retail Bank (nine new employees) and the Private Bank (eight new employees). The employees per branch and office were as follows: 598 in the Moscow head office, 40 in other Moscow offices, 37 in the St. Petersburg branch, 54 in the Almet'yevsk branch, 20 in the Kemerovo branch, 11 in the Gorno-Altaysk branch, four in the Kursk branch, 15 in the additional office in Nizhnekamsk and three in the representative office in Kazan.

The Russian market for qualified financial institutions personnel, especially for junior and middle management is highly competitive. See "Certain Risk Factors – Risks Relating to Zenit's Business and Industry – Zenit may be unable to recruit or retain experienced and/or qualified personnel". Zenit tries to attract employees at an early stage in their careers by providing internship opportunities for students from Russia's leading universities. Zenit also has a retention programme for key employees, which is centred around guaranteeing career growth and remuneration based on a system of financial rewards in addition to a competitive salary. Zenit is also developing schemes for long-term employee retention and motivation, such as a share option plan and pension schemes based on, among other things, length of employment.

Zenit's primary method of rewarding and motivating its personnel is payment of an annual bonus, which is approved by the Board of Directors and paid to employees in the first quarter of the fiscal year. The amount of the bonus is proportionate to the financial results of Zenit and each individual employee's contribution to Zenit's development and profits. Zenit also provides consumer credits to its employees and a range of non-financial benefits, including social benefits such as supplemental medical insurance and fitness club discounts, in-house educational and training programmes, subsidised loans and private pension fund contributions.

Zenit intends to continue to attract and retain high-calibre employees at all levels, particularly employees with Western professional experience, Western qualifications or extensive experience in the Russian banking industry.

None of Zenit's employees belongs to a trade union.

SUBSIDIARIES AND AFFILIATES

As of June 10, 2003 Zenit had no subsidiaries.

Four special purpose entities (the “SPEs”), registered in Cyprus, are used by Zenit mainly to manage its securities portfolio. Although these SPEs are not legally owned by Zenit they are consolidated with Zenit as certain of their activities are conducted according to Zenit’s specific business needs so that it obtains benefits from the SPEs’ operations. The SPEs are Zerama Holding Ltd., Zetex Holding Ltd., ZB Holding Ltd. and Whill Co. Trading Ltd. As of June 10, 2003, SPEs represented less than 10 per cent. of total assets, total shareholders’ equity, total income and total expenses of Zenit.

LITIGATION

As of June 10, 2003, Zenit was not a party to any material legal proceedings.

THE ISSUER

WestLB AG is a wholly-owned subsidiary of Landesbank Nordrhein-Westfalen (“Landesbank NRW”) and is domiciled in Düsseldorf (Herzogstrasse 15, 40217 Düsseldorf) and Münster (Friedrichstrasse 1, 48145 Münster). Pursuant to the “Gesetz zur Neuregelung der Rechtsverhältnisse der öffentlich-rechtlichen Kreditinstitute in Nordrhein-Westfalen” dated July 2, 2002 (the Restructuring Law), which became effective on August 1, 2002, the public legal form of the former Westdeutsche Landesbank Girozentrale (WestLB) was changed into a joint stock company (WestLB AG). On the same day and according to the Restructuring Law, the public mission business of the former WestLB was generally separated from its competitive operations (the Restructuring).

The conversion of WestLB into a joint stock company was completed with the entry in the commercial registers of Düsseldorf (HRB42975) and Münster (HRB6400) on August 30, 2002.

WestLB AG has legal capacity by virtue of its entry in the Commercial Register. It is a credit institution in the legal form of a joint stock company under German law (Aktiengesellschaft).

Business

As a German universal bank, WestLB AG provides commercial and investment banking services regionally, nationally and internationally to public, corporate and bank customers. As of December 31, 2002, WestLB AG (group) had total assets of approximately euro 266 billion.

WestLB AG also performs the functions of a state and municipal bank for the State of North Rhine-Westphalia and acts as the central bank of the Sparkassen (savings banks) in the State of North Rhine-Westphalia. It conducts a comprehensive range of wholesale banking business and has the power to issue bonds and notes with the exception of Pfandbriefe. In addition, WestLB AG acts as the clearing and depository bank for the savings banks in the State of North Rhine-Westphalia. Internationally, the WestLB AG Group (the “Group”) operates through an extensive network of banking subsidiaries, branches and representative offices to provide a range of financial services to its clients.

At present the registered share capital of the Issuer is EUR 950,500,000 divided into 9,505,000 shares. All shares are registered shares.

Supervisory Board

Delegated by Landesbank NRW:

Dr. Bernd Lüthje, Chairman of the Managing Board, Landesbank NRW, Düsseldorf/Münster (Chairman of the Supervisory Board)

Dr. Erich Bauer, Chief Executive Manager, TMD Friction Holding GmbH, Leverkusen

Jean-Pascal Beaufret, Chief Financial Officer, Alcatel, Paris

Dr. Karlheinz Bentele, President, Savings Banks and Giro Association of the Rhineland, Düsseldorf

Dr. Rolf Gerlach, President, Savings and Giro Association of Westphalia-Lippe, Münster

Heinz-Peter Krämer, Chairman of the Managing Board, Kreissparkasse Köln, Cologne

Dr. Siegfried Luther, Vice-Chairman of the Managing Board, Bertelsmann, AG, Gütersloh

Hartmut Mehdorn, Chairman of the Managing Board, Deutsche Bahn AG, Berlin

Udo Molsberger, Director, Regional Association of the Rhineland, Cologne

Dr. Hans-Ulrich Predeick, Erster Landesrat, Regional Association of Westphalia-Lippe, Münster

Managing Board of Directors

The members of the Managing Board of Directors of the Issuer are:

Hans-Jürgen Sengera, Chairman of the Managing Board

Dr. Adolf Franke

Klaus-Michael Geiger

Dr. Manfred Puffer

Robert Restani

Dr. Johannes Ringel

Gerhard Roggemann

Andreas Seibert

The members of the Managing Board of Directors may be reached at the address of WestLB AG as stated above.

Auditors

PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Moskauer Strasse 19, 40227 Düsseldorf, Federal Republic of Germany were the auditors of WestLB AG for the financial year ended December 31, 2002 and of the former Westdeutsche Landesbank Girozentrale for the financial years ended December 31, 2001 and December 31, 2000 respectively. The above auditors have issued, in each case, an unqualified audit report.

Since the Issuer's sole obligation in respect of the Notes is to make payments of amounts equal to and in the same currency as principal and interest actually received from Zenit pursuant to the Credit Facility Agreement (less amounts in respect of Reserved Rights), financial information relating to the Issuer is not set out in this Offering Circular.

TERMS AND CONDITIONS OF THE NOTES

The U.S.\$125,000,000, 9.25 per cent. Loan Participation Notes due 2006 (the “**Notes**”, which expression shall in these Terms and Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 14 (*Further Issues*) and forming a single series with the Notes) of WestLB AG (the “**Issuer**”) are constituted and secured by a trust deed (such trust deed as modified and/or restated and/or supplemented from time to time, the “**Trust Deed**”) dated 12th June, 2003 between the Issuer and J.P. Morgan Corporate Trustee Services Limited as trustee (the “**Trustee**”, which expression shall include its successor(s) as trustee) for the holders of the Notes (the “**Noteholders**”) and the holders of the interest coupons appertaining to the Notes (the “**Couponholders**” and the “**Coupons**”, respectively). The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing the U.S.\$125,000,000 advance (the “**Advance**”) to OJSC Bank Zenit. The Issuer and Zenit have recorded the terms of the Advance in a credit facility agreement dated 10th June, 2003 (such agreement as modified and/or restated and/or supplemented from time to time, the “**Credit Facility Agreement**”) between the Issuer and Zenit.

The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and an agency agreement dated 12th June, 2003 (such agreement as modified and/or restated and/or supplemented from time to time, the “**Agency Agreement**”) between the Issuer, JPMorgan Chase Bank, London Branch as principal paying agent (the “**Principal Paying Agent**”, which expression includes any successor principal paying agent appointed from time to time in connection with the Notes) and the other paying agents named therein (together with the Principal Paying Agent, the “**Paying Agents**”, which expression includes any additional or successor paying agent appointed from time to time in connection with the Notes) and the Trustee are available for inspection during normal business hours at the registered office for the time being of the Trustee, being at the date hereof at Trinity Tower, 9 Thomas More Street, London E1W 1YT and at the specified offices of each Paying Agent. The Noteholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

1. Form, Denomination and Title

- (a) *Form and Denomination*: The Notes are in bearer form, serially numbered, in the denomination of U.S.\$1,000, each with Coupons attached on issue.
- (b) *Title*: Title to the Notes and to the Coupons will pass by delivery.
- (c) *Holder Absolute Owner*: The Issuer, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Note or Coupon as the absolute owner for all purposes (whether or not the Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Note or Coupon or any notice of previous loss or theft of the Note or Coupon or of any trust or interest therein) and shall not be required to obtain any proof thereof or as to the identity of such bearer.

2. Status and Limited Recourse

- (a) *Status*: The Notes constitute secured, limited recourse obligations of the Issuer. Recourse in respect of the Notes is limited in the manner described in Condition (2)(b) (*Limited recourse*) below. The Notes are secured in the manner described in Condition 3 (*Security*) and shall at all times rank *pari passu* and without any preference or priority amongst themselves.
- (b) *Limited recourse*: The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Advance. In each case where amounts of principal, interest and additional amounts (if any) are stated in these Terms and Conditions or in the Trust Deed to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders and/or the Couponholders, as the case may be, 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 the Issuer pursuant to the Credit Facility Agreement less any amount in respect of the Reserved Rights (as defined in Condition 3 (*Security*) below).

Any payment in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest and/or additional amounts (if any) pursuant to the Credit Facility Agreement (less any amounts in respect of the Reserved Rights) will be made *pro rata* among all Noteholders and Couponholders (as the case may be), on or as soon as

practicable after the date of receipt of, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Credit Facility Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided in these Terms and Conditions and in the Trust Deed. The Issuer shall be under no obligation to exercise in favour of the Noteholders any rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and Zenit.

It is a condition of the Notes that:

- (i) neither the Issuer nor the Trustee makes any representation or warranty in respect of, and shall at no time have any responsibility for, or liability or obligation in respect of, the performance and observance by Zenit of its obligations under the Credit Facility Agreement or the recoverability of any sum of principal or interest (or any additional amounts) due or to become due from Zenit under the Credit Facility Agreement;
- (ii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial, operational or otherwise), creditworthiness, affairs, status, nature or prospects of Zenit;
- (iii) neither the Issuer nor the Trustee shall at any time be liable for any misrepresentation or breach of warranty or any act, default or omission of Zenit under, or in respect of, the Credit Facility Agreement;
- (iv) the Trustee shall not at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by any Paying Agent of its obligations under the Agency Agreement;
- (v) the financial servicing and performance of the terms of the Notes depend solely and exclusively upon: (1) performance by Zenit of its obligations under the Credit Facility Agreement, (2) Zenit's performance of, and compliance with, its covenants, and (3) Zenit's credit and financial standing;
- (vi) the Issuer and the Trustee will rely on self-certification by Zenit as a means of monitoring whether Zenit is complying with its obligations under the Credit Facility Agreement and shall not otherwise be responsible for investigating any aspect of Zenit's performance in relation to the Credit Facility Agreement other than the obligation to make payments of principal, interest and additional amounts (if any) under the Credit Facility Agreement and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make any investigation which might be made by a security holder in relation to the property which is the subject of the Charge (as defined in Condition 3 (*Security*) below) 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 the Issuer to the property which is the subject of the Charge (as defined in Condition 3 (*Security*) below) whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry and whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Charge whether or not as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee will have no responsibility for the value of such security; and
- (vii) the Issuer will not be liable for any withholding or deduction or for any payment on account of tax (not being a tax imposed on the Issuer's net income) required to be made by the Issuer on or in relation to any sum received by it under the Credit Facility Agreement which will or may affect payments made or to be made by Zenit under the Credit Facility Agreement save to the extent that it has actually received additional amounts under the Credit Facility Agreement in respect of such withholding or deduction or payment and the Issuer shall, furthermore, not be obliged to take any actions or measures as regards such deduction or withholding or payment, other than those set out in Clause 8 (*Taxes*) and Clause 10.4 (*Mitigation*) of the Credit Facility Agreement.

Save as otherwise expressly provided in these Terms and Conditions and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Credit Facility Agreement or the Advance exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Credit Facility Agreement or have direct recourse to Zenit except through action by the Trustee

under the Charge. Neither the Issuer nor the Trustee, shall be required to take proceedings to enforce payment under the Credit Facility Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

Payments made by Zenit under the Credit Facility Agreement to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent will satisfy *pro tanto* the obligations of the Issuer in respect of the Notes.

Notwithstanding any other provisions of these Terms and Conditions and the provisions in the Trust Deed, the Trustee and the Noteholders and the Couponholders shall have recourse only to the Charge (as defined in Condition 3 (*Security*) below) in accordance with Clause 8 (*Application of Moneys received by the Trustee*) of the Trust Deed. After realisation of the security which has become enforceable and distribution of the proceeds in accordance with Clause 8 (*Application of Moneys received by the Trustee*) of the Trust Deed, the obligations of the Issuer with respect to the Trustee and the Noteholders and the Couponholders in respect of the Notes shall be satisfied and none of the foregoing parties may take any further steps against the Issuer to recover any further sums in respect thereof and the right to receive any such sums shall be extinguished. In particular, none of the Trustee, Noteholders or Couponholders shall petition or take any other step for the winding-up of the Issuer.

3. Security

The Issuer (as lender) has in the Trust Deed, for the payment of all amounts due in respect of the Notes pursuant to these Terms and Conditions and all other moneys payable under the Trust Deed, charged by way of first fixed security and pledged by way of first fixed charge (together, the “**Charge**”) in favour of the Trustee for itself and as trustee for the Noteholders:

- (i) all its rights to principal, interest and additional amounts (if any) now or hereafter paid and payable by the Borrower to the Issuer as lender in respect of the Advance under the Credit Facility Agreement;
- (ii) the right to receive all sums which may be paid or be or become payable by the Borrower under any claim, award or judgment relating to the Credit Facility Agreement;
- (iii) all its rights, title and interest in and to all sums of money now or in the future deposited in an account in London in the name of the Issuer with JPMorgan Chase Bank, London Branch, account number 25129501 (Ref: OJSC Bank Zenit) together with the debts represented thereby (other than interest from time to time earned thereon) (the “**Account**”); and
- (iv) all its rights, title, benefits and interest in, to and under the Credit Facility Agreement (including, without limitation, the right to declare the Advance immediately due and payable and to take proceedings to enforce the obligations of the Borrower thereunder) other than as set out above (together with (i), (ii) and (iii) above but excluding proviso (b) below, the “**Charged Property**”); and

PROVIDED THAT (a) for the avoidance of doubt the Issuer shall remain legal and beneficial owner of the Charged Property following the creation of the Charge and (b) there shall be excluded from paragraphs (i), (ii), (iii) and (iv) above the Issuer’s right to amounts in respect of any rights, interests and benefits of the Issuer under the following clauses of the Credit Facility Agreement: Clause 7.4, second sentence thereof (*Costs of Prepayment*), Clause 8.3(1) (*Tax Indemnity*), Clause 10 (*Changes in Circumstances*), Clause 19 (*Costs and Expenses*), Clause 8.5 (*Tax Credits and Tax Refunds*) (to the extent that the Issuer’s claim is in respect of one of those aforementioned clauses of the Credit Facility Agreement) and Clause 17.2 (*Currency Indemnity*) (such rights being referred to in these Terms and Conditions as the “**Reserved Rights**”).

4. Issuer’s Covenant

As provided in the Trust Deed, so long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer will not, 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 Credit Facility Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Credit Facility Agreement, except as otherwise expressly provided in the Trust Deed and the Credit Facility Agreement. Any such amendment, modification, waiver or authorisation

made with the consent of the Trustee shall be binding on the Noteholders and Couponholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 15 (*Notices*).

5. Interest

- (a) *Accrual of interest:* The Notes bear interest from and including 12th June, 2003 (the “**Issue Date**”) at the rate of 9.25 per cent. per annum (the “**Rate of Interest**”), payable semi-annually in arrear on 12th June and 12th December of each year (each, an “**Interest Payment Date**”). The first payment amounting to U.S.\$92.50 per U.S.\$1,000 principal amount of the Notes shall be made on 12th December, 2003.

Each Note will cease to bear interest from and including the due date for redemption unless, upon due presentation of the relevant Note, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment, in which case interest will continue to accrue as provided in the Trust Deed.

When interest is required to be calculated in respect of a period of less than a full year, it shall 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 actual number of days elapsed.

- (b) *Default Interest under the Credit Facility Agreement:* In the event that, and to the extent that, the Issuer actually receives any amounts in respect of interest on unpaid sums from Zenit pursuant to Clause 16.3 (*Payment of Default Interest*) of the Credit Facility Agreement, the Issuer shall account to the Noteholders for an amount equivalent to the amounts in respect of interest on unpaid sums actually so received. Any payments made by the Issuer under this Condition 5(b) will be made on the next following Business Day (as defined in Condition 7 (*Payments*)) after the day on which the Issuer receives such amounts from Zenit and, save as provided in this Condition 5(b), all subject to and in accordance with Condition 7 (*Payments*).

6. Redemption and Purchase

- (a) *Final redemption:* Unless previously prepaid pursuant to Clause 7 (*Prepayment*) of the Credit Facility Agreement or repaid in accordance with Clause 10.3 (*Illegality*) of the Credit Facility Agreement, Zenit will be required to repay the Advance on its due date as provided in the Credit Facility Agreement and, subject to such repayment, all the Notes will be redeemed at their principal amount together with any additional amounts (if any) on 12th June, 2006 (the “**Redemption Date**”), subject as provided in Condition 7 (*Payments*).
- (b) *Mandatory Redemption by the Issuer:* The Notes shall be redeemed by the Issuer in whole, but not in part, at any time, on giving not less than 20 days’ nor more than 60 days’ notice to the Noteholders in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable) at the principal amount thereof, together with interest accrued to (but excluding) the date fixed for redemption (which shall be the date upon which prepayment of the Advance in whole, but not in part pursuant to (i) or (ii) below shall be due and payable all in accordance with the terms of the Credit Facility Agreement) and any additional amounts (if any), if, immediately before giving such notice:
- (i) the Issuer has received a notice of prepayment of the Advance in whole, but not in part from Zenit pursuant to Clause 7.1 (*Prepayment for Tax Reasons*) or Clause 7.2 (*Prepayment for Reasons of Increased Costs*) of the Credit Facility Agreement; or
 - (ii) the Issuer has delivered a notice to Zenit requiring Zenit to repay the whole (but not part only) of the amount of the Advance, in accordance with the provisions of Clause 10.3 (*Illegality*) of the Credit Facility Agreement.

Prior to the publication of any notice of redemption referred to in this Condition 6(b) the Issuer shall deliver to the Trustee a certificate signed by two officers of the Issuer stating (A) that the Issuer is entitled to effect such redemption in accordance with this Condition 6(b); (B) the text of Zenit’s notice of prepayment or details of the circumstances contemplated by Clause 10.3 (*Illegality*) of the Credit Facility Agreement; and (C) the date fixed for redemption of the Notes, and the Trustee shall be entitled to accept the certificate as sufficient evidence of the occurrence of the events described in (i) or (ii) above, in which event it shall be conclusive and binding on the Noteholders and the Couponholders.

Upon the expiry of any such notice as is referred to in this Condition 6(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 6, subject as provided in Condition 7 (*Payments*).

- (c) *Redemption at the option of the Noteholders:* 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, the Issuer gives notice under Condition 6(b) or redemption occurs pursuant to Condition 13) to require the Issuer to redeem each Note held by it 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 the Issuer becoming aware that a Put Event has occurred, the Issuer shall and upon the Trustee becoming so aware (the Issuer 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 15 (*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 Note in respect of which a Put Option Exercise Notice is given must be delivered to the Paying Agent no later than the day that is seven Put business days after the expiration of the Put Period together with all Coupons appertaining thereto maturing after that date (the “**Put Settlement Date**”), failing which the provisions of Condition 7(d) shall apply. The Paying Agent to which such Note and Put Option Exercise Notice are delivered will issue to the Noteholder concerned a non-transferable receipt in respect of the Note so delivered. Payment in respect of any Note so delivered will be made to, if the holder duly specified in the Put Option Exercise Notice, a bank account to which payment is to be made, on the Put Settlement Date by transfer to that bank account and, in every other case, on or after the Put Settlement Date against presentation and surrender of such receipt at the specified office of any Paying Agent. A Put Option Exercise Notice, once given, shall be irrevocable.

In this Condition 6:

“**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 Zenit) 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 Zenit or (b) the beneficial owner of more than 50 per cent. of the Voting Stock of Zenit.

“**Lowest Rating**” means, in respect of any Rated Security or any corporate rating of Zenit, the lowest rating assigned by a Rating Agency (or, where more than one Rated Agency has assigned an equivalent rating to such Rated Security or any corporate rating of Zenit, the relevant Rating Agencies) and existing on the business day (as defined in the Credit Facility Agreement) immediately preceding the commencement of the Relevant Period.

A “**Negative Ratings Event**” shall be deemed to have occurred:

- (a) if, during the period commencing upon or following the announcement or (in the absence of such an announcement) the occurrence of any reorganisation or any other similar transaction or series of transactions, or Change of Control, and ending on:

- (i) the date which is six weeks after the date of such an announcement or occurrence, as the case may be, of the relevant reorganisation or other similar transaction or series of transactions, or Change of Control, the Lowest Rating shall be placed on “credit watch” or formal review (or the equivalent) with negative implications or a negative outlook; or
 - (ii) the date which is six months after the date of such an announcement or occurrence, as the case may be, of the relevant reorganisation or other similar transaction or series of transactions, or Change of Control (such period, the “**Relevant Period**”), the Lowest Rating shall be downgraded or withdrawn; or
- (b) if at any time during the Relevant Period, any rating of the Rated Securities or any corporate rating of Zenit assigned by any other Rating Agency and existing on the business day (as defined in the Credit Facility Agreement) immediately preceding the commencement of the Relevant Period, shall be downgraded to a rating below the Lowest Rating (or its equivalent rating) or withdrawn by such Rating Agency.

“**Permitted Holders**” means OJSC Tatneft, the beneficial owners of Zenit as at 10th June, 2003, on behalf of whom CJSC Stinol-Invest held Capital Stock of Zenit as a nominee, and SGI Enterprises Ltd.

“**Person**” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government, business, 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 Event**” means the occurrence of a Change of Control and a Negative Ratings Event in respect of that Change of Control.

“**Rated Securities**” means the Notes, so long as they shall have an effective rating from any Rating Agency and, if there is no such rating, all unsecured and unsubordinated debt of Zenit having an initial maturity of one year or more which is rated by any Rating Agency.

“**Rating Agency**” means Standard & Poor’s Rating Services, a division of the McGraw Hill Companies, Inc., Moody’s Investors Service, Inc. or Fitch Ratings, Ltd, or any of their respective successors or any rating agency substituted for any of them (or any permitted substitute of them) by Zenit, from time to time with the prior written approval of the Trustee.

“**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) *No other redemption*: Except where the Advance becomes due and payable pursuant to Clause 15.9 (*Acceleration*) of the Credit Facility Agreement and as a result the Notes are to be redeemed pursuant to Condition 13 (*Enforcement*), the Issuer shall not be entitled to redeem the Notes otherwise than as provided in this Condition 6.
- (e) *Purchase*: The Issuer or any of its subsidiaries or Zenit or any of its subsidiaries may at any time purchase Notes in the open market or otherwise at any price. If purchases are made by tender, tenders must be available to all Noteholders alike.
- (f) *Cancellation*: All Notes which are purchased by or on behalf of the Issuer or any of its subsidiaries may be cancelled or reissued or resold by the Issuer and all Notes redeemed by the Issuer or purchased by or on behalf of Zenit or any of its subsidiaries pursuant to Clause 7.6 (*Purchase of Instruments Issued to the Agreed Funding Source*) of the Credit Facility Agreement shall, in the case of Notes purchased by Zenit or its subsidiaries, be surrendered to the Issuer and (in either case of any such redemption by the Issuer or any such purchase by Zenit or its subsidiaries) be cancelled.

7. Payments

- (a) *Payments in respect of Notes*: Payments of principal, interest and any additional amounts (if any) in respect of each Note will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Note, except that payments of interest due on an

Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any of the Paying Agents.

- (b) *Method of Payment*: Payment will be made by credit or transfer to an account in U.S. dollars maintained by the payee with or, at the option of the payee, by a cheque in U.S. dollars drawn on, a bank in New York City.
- (c) *U.S. Paying Agents*: Notwithstanding the foregoing, payments will be made at the specified office in the United States of any Paying Agent and (if no such appointment is then in effect) the Issuer shall, subject to the prior written approval of the Trustee, appoint and maintain a Paying Agent with a specified office in New York City at which payments will be made if (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment at the specified offices outside the United States of the full amount payable with respect to the Notes in the manner provided above when due, (ii) payment of the full amount due in U.S. dollars at all specified offices of such Paying Agents outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) the payment is then permitted under United States law.
- (d) *Missing Unmatured Coupons*: Each Note should be presented for payment together with all relative unmatured Coupons, failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8 (*Taxation*)), or if later, five years after the date on which the Coupon would have become due, in respect of the relevant Note (whether or not the Coupon would otherwise have become void pursuant to Condition 9 (*Prescription*)) but not thereafter.
- (e) *Payments subject to Applicable Laws*: Payments in respect of principal, interest and additional amounts (if any) on the Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*).
- (f) *Payment only on a Presentation Date*: A holder shall be entitled to present a Note or Coupon for payment only on a Presentation Date and shall not, except as provided in Condition 5 (*Interest*), be entitled to any further interest or other payment if a Presentation Date is after the due date.

“**Presentation Date**” means a day which (subject to Condition 9 (*Prescription*)):

- (i) is or falls after the relevant due date;
- (ii) is a Business Day in the place of the specified office of the Paying Agent at which the Note or Coupon is presented for payment; and
- (iii) in the case of payment by credit or transfer to a U.S. dollar account in New York City as referred to above, is a Business Day in New York City.

In this Condition 7, “**Business Day**” means, in relation to any place, 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 that place.

- (g) *Initial Paying Agents*: The names of the initial Paying Agents and their initial specified offices are set out at the end of these Terms and Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that it will at all times maintain:
 - (i) if any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council Meeting of 26th-27th November, 2000 (including, without limitation, the Directive adopted on 3rd June, 2003) or any law implementing or complying with, or introduced in order to conform to, such Directive is introduced, a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to any such Directive or law; and

- (ii) so long as the Notes are listed on the Luxembourg Stock Exchange, a Paying Agent having its specified office in Luxembourg.

Notice of any termination or appointment and of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 15 (*Notices*).

- (h) *Payment obligations limited:* The obligations of the Issuer to make payments under this Condition 7 shall constitute an obligation only to account to the Noteholders and/or the Couponholders on each Interest Payment Date or such other date upon which a payment is due in respect of the Notes for an amount equivalent to sums of principal and/or interest and/or additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Credit Facility Agreement less any amounts in respect of the Reserved Rights.

8. Taxation

All payments in respect of the Notes on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature (“**Taxes**”) imposed or levied by or on behalf of the Federal Republic of Germany or the Russian Federation or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction of the Taxes is required by law. In that case, the Issuer shall, subject as provided below, pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes or, as the case may be, Coupons in the absence of the withholding or deduction, except that no additional amounts shall be payable in respect of any Note or Coupon:

- (a) presented for payment by or on behalf of a holder who is liable to the Taxes in respect of such Note or Coupon by reason of his having some connection with the Federal Republic of Germany or the Russian Federation or any political subdivision or any authority thereof or therein having power to tax other than the mere holding of the Note or Coupon; or
- (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 (including, without limitation, the Directive adopted on 3rd June, 2003) or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (c) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; or
- (d) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the relevant holder would have been entitled to such additional amounts on presenting the relevant Note or Coupon for payment on the last day of the period of 30 days (whether or not it is in fact the case) assuming that day to have been a Presentation Date.

Notwithstanding the foregoing provisions, the Issuer shall only make such additional payments to the Noteholders or Couponholders to the extent and at such time as it shall have actually received an equivalent amount from Zenit under the Credit Facility Agreement.

To the extent that the Issuer does not receive from Zenit such equivalent amount in full, the Issuer shall account to each Noteholder or Couponholder (as the case may be) for an additional amount equivalent to a *pro rata* proportion of such additional amount (if any) as is actually received by, or for the account of, the Issuer pursuant to the provisions of the Credit Facility Agreement on the date of the receipt of, in the currency of, and subject to any conditions attaching to the payment of, such additional amount to the Issuer.

In these Terms and Conditions, “**Relevant Date**” means the date on which the payment in question first becomes due except that if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which (the full amount of the moneys having been so received) notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 15 (*Notices*).

Any reference in these Terms and Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 8 or any undertaking given in addition to, or in substitution for, this Condition 8 pursuant to the Trust Deed or the Credit Facility Agreement.

If the Issuer or Zenit becomes subject at any time to any taxing jurisdiction other than or in addition to the Federal Republic of Germany or the Russian Federation, as the case may be, references in these Terms and Conditions to the Federal Republic of Germany and/or the Russian Federation shall be construed as references to the Federal Republic of Germany and/or the Russian Federation and/or such other jurisdiction.

9. Prescription

Notes and Coupons will become void unless presented for payment within periods of ten years (in the case of principal and any additional amounts (if any)) and five years (in the case of interest) from the Relevant Date in respect of the Notes or, as the case may be, the Coupons, subject to the provisions of Condition 7 (*Payments*).

10. Replacement of Notes and Coupons

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent, or the Paying Agent in Luxembourg upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and, indemnity as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

11. Trustee and Paying Agents

- (a) *Indemnification of the Trustee:* The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances including provisions relieving it from taking action unless indemnified to its satisfaction.
- (b) *Trustee Contracting with the Issuer and/or Zenit:* The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*: (i) to enter into business transactions with the Issuer and/or Zenit and/or any subsidiary of the Issuer and/or Zenit and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or Zenit and/or any subsidiary of the Issuer and/or Zenit, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders or Couponholders and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.
- (c) *Trustee to have regard to the interests of Noteholders as a Class:* In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders or Couponholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholders be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 8 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 8 (*Taxation*) pursuant to the Trust Deed and/or Credit Facility Agreement.
- (d) *Paying Agents:* In acting under the Agency Agreement and in connection with the Notes and/or the Coupons, the Paying Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

12. Meetings of Noteholders; Modification, Waiver, Authorisation and Determination; Substitution

- (a) *Meetings of Noteholders:* The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the modification or abrogation by Extraordinary Resolution of any provision of the Credit Facility Agreement, these Terms and Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or the Trustee and upon

the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes shall be convened by the Issuer or the Trustee. The quorum at any meeting convened for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more persons present being or representing Noteholders whatever the principal amount of the Notes held or represented; provided, however, that certain matters set out in the Trust Deed (each, a “**Reserved Matter**”) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more persons present holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not at the meeting and on all Couponholders.

- (b) *Modification, waiver, authorisation and determination:* The Trustee may, without the consent of the Noteholders or the Couponholders, agree to any modification of these Terms and Conditions, the Trust Deed or the Credit Facility Agreement which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders or is of a formal, minor or technical nature or is to correct a manifest or proven error.

In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any breach or proposed breach of any of these Terms and Conditions or the Trust Deed by the Issuer or the Credit Facility Agreement by Zenit, or determine that (a) any event which would or might otherwise give rise to a right of acceleration under the Credit Facility Agreement or (b) any Relevant Event shall not be treated as such if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such modification, waiver, authorisation or determination shall be notified to the Noteholders in accordance with Condition 15 (*Notices*) as soon as practicable thereafter.

- (c) *Substitution:* The Trust Deed contains provisions under which any Successor in Business (as defined in the Trust Deed) of the Issuer may, without the consent of the Noteholders, assume the obligations of the Issuer as principal debtor under the Trust Deed and the Notes provided that certain conditions specified in the Trust Deed are fulfilled. The Issuer will give notice of such substitution to the Noteholders in accordance with Condition 15, and so long as the Notes are listed on the Luxembourg Stock Exchange it shall comply with applicable rules of the Luxembourg Stock Exchange in relation to such substitution.

13. Enforcement

- (a) *Enforcement by the Trustee:* At any time after an Event of Default (as defined in the Credit Facility Agreement) or a Relevant Event (as defined below) shall have occurred and be continuing, the Trustee may, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes and the Coupons, but it shall not be bound to do so unless:
 - (i) it has been so requested in writing by the holders of at least one-quarter in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and
 - (ii) it has been indemnified and/or provided with security to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

In the case of an Event of Default or a Relevant Event, the Trustee may, and shall if requested to do so by Noteholders holding at least one-quarter in principal amount of the Notes outstanding or if directed to do so by an Extraordinary Resolution and, in either case, subject to its being secured and/or indemnified to its satisfaction in the manner described above: (1) (in the case of an Event of Default) require the Issuer to declare all amounts payable under the Credit Facility Agreement by Zenit to be due and payable and do all such other acts in connection therewith that the Trustee may direct, or (2) (in the case of a Relevant Event) enforce the security created in the Trust Deed in favour of the Noteholders. Upon the Advance being repaid following an Event of Default, the Issuer shall redeem the Notes (in whole and not in part) on such date at their principal amount together with interest accrued to (but excluding) such redemption date and additional amounts (if any) and thereupon shall cease to be outstanding.

For the purposes of these Terms and Conditions, “**Relevant Event**” means any of: (1) the failure by the Issuer to make any payment of principal or interest or additional amounts (if any) on the Notes and/or Coupons when due, (2) the filing of an application for the institution for bankruptcy, insolvency or composition proceedings over the assets of the Issuer in the Federal Republic of Germany, (3) the filing of a notice of the Issuer with the Federal Banking Supervisory Authority (*Bundesaufsichtsstamt für das Kreditwesen*) pursuant to Section 46b of the Banking Act (*Kreditwesengesetz*) and (4) the taking of any action in furtherance of the dissolution (*Auflösung*) of the Issuer.

- (b) *Enforcement by the Noteholder*: No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and the failure is continuing.

14. Further Issues

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the issue price, issue date and/or first payment of interest on such further notes) and so that the same shall be consolidated and form a single series with the Notes.

In relation to any such further issue of notes to be consolidated and form a single series with the Notes, the Issuer will enter into a credit facility agreement supplemental to the Credit Facility Agreement with Zenit substantially on the same terms as the original Credit Facility Agreement.

15. Notices

All notices to the Noteholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Trustee may approve and, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, in one daily newspaper having general circulation in Luxembourg approved by the Trustee. It is expected that publication will normally be made in the *Financial Times* and the *Luxemburger Wort* or the *Tageblatt*. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or the relevant authority on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition 15.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Principal Paying Agent or, if the Notes are held in a clearing system, may be given through the clearing system in accordance with its standard rules and procedures and so long as the Notes are listed on the Luxembourg Stock Exchange a publication will be made in one daily newspaper having general circulation in Luxembourg.

16. Governing Law and Submission to Jurisdiction

- (a) *Governing law*: The Trust Deed, the Credit Facility Agreement, the Notes and the Coupons are governed by, and shall be construed in accordance with, English law.
- (b) *Jurisdiction*: The Issuer has in the Trust Deed irrevocably agreed for the benefit of the Trustee and the Noteholders and the Couponholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Notes or the Coupons and accordingly has submitted to the exclusive jurisdiction of the English courts.

The Issuer has also, in the Trust Deed, waived any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Trustee and the Noteholders and the Couponholders may take any suit, action or proceeding arising out of or in connection with the Trust Deed, the Notes or the Coupons respectively (together referred to as “**Proceedings**”) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

- (c) *Service of Process*: Process in England in respect of any Proceedings may be served on the Issuer by such process being delivered to its London Branch. In the event of the Issuer’s London Branch ceasing to exist, the Issuer will appoint a process agent as the Trustee may approve.

17. 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, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Notes and in the Global Notes which will apply to, and in some cases modify, the Conditions of the Notes while the Notes are represented by the Global Notes.

1. Exchange

The Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for definitive Notes only:

- (a) upon the happening of any Relevant Event (as defined in the Conditions);
- (b) if either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available; or
- (c) if the Issuer would suffer a disadvantage as a result of a change in laws or regulations (taxation or otherwise) or as a result of a change in the practices of Euroclear and/or Clearstream, Luxembourg which would not be suffered were the Notes in definitive form and a certificate to such effect signed by two members of the management board of the Issuer is given to the Trustee.

Thereupon (in the case of (a) and (b) above) the holder of the Permanent Global Note (acting on the instructions of one or more of the Accountholders (as defined in paragraph 4 below)) may give notice to the Issuer and (in the case of (c) above) the Issuer may give notice to the Trustee and the Noteholders, of its intention to exchange the Permanent Global Note for definitive Notes on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Permanent Global Note may or, in the case of (c) above, shall surrender the Permanent Global Note to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Note the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Permanent Global Note, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Notes.

For these purposes, "Exchange Date" means a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given and on which banks are open for general business in the place in which the specified office of the Principal Paying Agent is located and, except in the case of exchange pursuant to (b) above, in the place in which the relevant clearing system is located.

2. Payments

On and after 23rd July, 2003, no payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal, interest and additional amounts (if any) in respect of Notes represented by a Global Note will, subject as set out below, be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of such Global Note to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purposes. A record of each payment made will be endorsed on the appropriate part of the schedule to the relevant Global Note by or on behalf of the Principal Paying Agent, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Notes. Payments of interest on the Temporary Global Note (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership.

3. Notices

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 15 (*Notices*), provided that, so long as the Notes are listed on the Luxembourg Stock Exchange, the notice will be given by publication in a daily newspaper published in Luxembourg with general circulation in Luxembourg, if and to the extent that the rules of the Luxembourg Stock Exchange so require. Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

4. Accountholders

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Notes (each an “Accountholder”) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Notes for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders) other than with respect to the payment of principal, interest and additional amounts (if any) on such Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the relevant Global Note in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Note.

5. Prescription

Claims against the Issuer in respect of principal, interest and additional amounts (if any) on the Notes represented by a Global Note will be prescribed after 10 years (in the case of principal and additional amounts (if any)) and five years (in the case of interest) from the Relevant Date (as defined in Condition 8 (*Taxation*)).

6. Cancellation

Cancellation of any Note represented by a Global Note and required by the Terms and Conditions of the Notes to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Note on the relevant part of the schedule thereto.

7. Put Option

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, the option of the Noteholders provided for the Condition 6(c) (*Redemption at the Option of Noteholders*) may be exercised by an Accountholder giving notice to the Principal Paying Agent in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instructions by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Principal Paying Agent by electronic means) of the principal amount of the Notes in respect of which such option is exercised and at the same time presenting or procuring the presentation of the relevant Global Note to the Principal Paying Agent for notation accordingly within the time limits set forth in that Condition.

8. Euroclear and Clearstream, Luxembourg

References in the Global Notes and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee and, so long as the Notes are listed on the Luxembourg Stock Exchange, accepted by the Luxembourg Stock Exchange in accordance with its rules.

TERMS OF THE CREDIT FACILITY AGREEMENT

The instruments issued to the agreed funding source will be issued for the sole purpose of financing a loan to the Borrower on the terms of the Credit Facility Agreement. The following is the text of the Credit Facility Agreement (other than the Schedule) which has been entered into between the Lender and the Borrower.

THIS AGREEMENT (the “**Agreement**”) made the 10th day of June, 2003

BETWEEN

- (1) **OJSC BANK ZENIT**, a bank incorporated in the Russian Federation (the “**Borrower**”); and
- (2) **WESTLB AG**, a bank incorporated in the Federal Republic of Germany (the “**Lender**”).

WHEREAS

The Lender has at the request of the Borrower agreed to make available to the Borrower a credit facility in the amount of US\$125,000,000 on the terms and subject to the conditions of this Agreement.

It is agreed as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement the following terms have the meanings given to them in this Clause 1.1:

“**Account**” means an account of the Lender in the name of the Lender with JPMorgan Chase Bank, London Branch, Account Number 25129501 (Ref: OJSC Bank Zenit);

“**Advance**” means the advance of US\$125,000,000 made (or deemed to be made) by the Lender hereunder;

“**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, chief executive officer, chief operating officer, chief financial officer, member of the management board or any other person with an equivalent senior position (a) of such specified Person, (b) of any Subsidiary of such specified Person or (c) of any Person described in (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, provided that, for the purposes of this definition, beneficial ownership of 10 per cent. or more of the Voting Stock of a Person shall be deemed to be control; and the terms “**controlling**” and “**controlled**” have meanings correlative to the foregoing;

“**Agency**” means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not) of, or of the government of, Germany or Russia, as appropriate;

“**Basle Accord**” means the paper entitled “International Convergence of Capital Measurement and Capital Standards” dated July 1988 and prepared by the Basle Committee on Banking Regulations and Supervision, as amended in November 1991;

“**Capital Adequacy Requirement**” means a request or requirement relating to the maintenance of capital, in each case on or after 10th June, 2003, including one which makes any change to, or is based on any alteration in, the interpretation of the Basle Accord or which increases the amounts of capital required thereunder, other than a request or requirement made by way of implementation of the Basle Accord in the manner in which it is being implemented at 10th June, 2003;

“**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;

“**Central Bank**” means the Central Bank of Russia;

A “**Change of Control**” shall be deemed to have occurred at each time (whether or not approved by the board of directors of the Borrower) 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 Borrower or (b) the beneficial owner of more than 50 per cent. of the Voting Stock of the Borrower;

“Change of Control Payment Date” means, in respect of a Put Event, the date specified by the Lender on which any part of the Advance is to be prepaid in accordance with Clause 7.6 (*Prepayment upon a Put Event*), which date shall be not less than 30 days after such Put Event and shall be the date upon which the relevant instruments issued to the agreed funding source are to be redeemed;

“Change of Control Put Notice” means, in respect of a Put Event, a notice given by the Lender to the Borrower specifying the principal amount of instruments issued to the agreed funding source in respect of which it has received an exercise notice from the holders of the relevant instruments to redeem such instruments as a result of a Put Event and 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 10th June, 2003 and for this purpose the word **“law”** means all or any of the following whether in existence at 10th June, 2003 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:

- (a) 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);
- (b) 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
- (c) 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;

“Consolidated Tier 1 Capital” as of any date of determination means the sum of shareholder equity and accumulated reserves of the Borrower, in each case calculated in accordance with the Basle Accord, as determined from the consolidated balance sheet of the Borrower as of the end of the most recent IAS Fiscal Period;

“Consolidated Tier 1 Capital Adequacy Ratio” as of any date of determination means the ratio (expressed as a percentage) of (x) Consolidated Tier 1 Capital to (y) Risk Weighted Assets of the Borrower, in each case as determined from the consolidated balance sheet of the Borrower as of the end of the most recent IAS Fiscal Period preceding the date of determination;

“Default” means any event which is, or with the giving of notice would be and/or the passage of time would be, an Event of Default;

“Event of Default” means any circumstances described as such in Clause 15 (Events of Default);

“Facility” means the US\$125,000,000 term loan facility granted to the Borrower by the Lender in this Agreement;

“Fees Letter” means a letter from the Lender to the Borrower dated the date hereof setting out, *inter alia*, the Lender’s fees in connection with the Facility;

“Germany” shall mean the Federal Republic of Germany and any province or political sub-division of Agency thereof or therein;

“IAS” means the International Accounting Standards promulgated by the International Accounting Standards Committee (as amended, supplemented or re-issued from time to time);

“IAS Fiscal Period” means any fiscal period for which the Borrower or, with respect to any Significant Subsidiary, such Significant Subsidiary, has produced consolidated financial statements in accordance with IAS which have either been audited or reviewed by independent accountants of recognised international standing;

“Indebtedness” means any indebtedness, in respect of any Person for, or in respect of, monies borrowed or raised including, without limitation, 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 other similar instrument; 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 economic effect of a borrowing; and the amount of any liability in respect of any guarantee or indemnity for any of the items referred to above;

“Independent Appraiser” means any third party appraiser, which shall be an investment bank or an accounting firm of international standing, selected by the Borrower, *provided, however*, that such Independent Appraiser is not an Affiliate of the Borrower;

“Interest Payment Date” means 12th June and 12th December in each year in which the Facility remains outstanding;

“Interest Rate” means, save as otherwise provided herein, the interest rate specified in Clause 5.2 (*Calculation of Interest*);

“Lien” means any mortgage, deed of trust, pledge, encumbrance, easement, right-of-way, lien (statutory or otherwise), charge, hypothecation or other security interest or claim of any kind upon or with respect to any property of any kind, real or personal, movable or immovable, now owned or hereafter acquired (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement or lease in the nature thereof);

“Lowest Rating” means, in respect of any Rated Security or any corporate rating of the Borrower, the lowest rating assigned by a Rating Agency (or, where more than one Rating Agency has assigned an equivalent rating to such Rated Security or any corporate rating of the Borrower, the relevant Rating Agencies) and existing on the business day immediately preceding the commencement of the Relevant Period;

“Material Adverse Effect” means a material adverse effect on (a) the business, operations, property, condition (financial or otherwise) or prospects of the Borrower and its Subsidiaries taken as a whole; (b) the Borrower’s ability to perform or comply with its obligations under this Agreement or (c) the validity or enforceability of this Agreement or the rights or remedies of the Lender hereunder;

A **“Negative Ratings Event”** shall be deemed to have occurred:

- (a) if, during the period commencing upon or following the announcement or (in the absence of such an announcement) the occurrence of any reorganisation or any other similar transaction or series of transactions, or Change of Control, and ending on:
 - (i) the date which is six weeks after the date of such an announcement or occurrence, as the case may be, of the relevant reorganisation or other similar transaction or series of transactions, or Change of Control, the Lowest Rating shall be placed on “credit watch” or formal review (or the equivalent) with negative implications or a negative outlook or
 - (ii) the date which is six months after the date of such an announcement or occurrence, as the case may be, of the relevant reorganisation or other similar transaction or series of transactions, or Change of Control (such period, the **“Relevant Period”**), the Lowest Rating shall be downgraded or withdrawn; or
- (b) if at any time during the Relevant Period, any rating of the Rated Securities or any corporate rating of the Borrower assigned by any other Rating Agency and existing on the business day immediately preceding the commencement of the Relevant Period, shall be downgraded to a rating below the Lowest Rating (or its equivalent rating) or withdrawn by such Rating Agency;

“Officers’ Certificate” means a certificate signed on behalf of the Borrower by two officers of the Borrower at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower;

“Permitted Holders” means OJSC Tatneft, the beneficial owners of the Borrower existing on the date hereof on behalf of whom CJSC Stinol-Invest holds Capital Stock of the Borrower as nominee and SGI Enterprises Ltd;

“Permitted Liens” means:

- (a) Liens securing Indebtedness of a Person existing at the time that such Person is merged into or consolidated with the Borrower or a Subsidiary of the Borrower; provided that such Liens were not created in contemplation of such merger or consolidation and do not extend to any assets or property of the Borrower or any Subsidiary of the Borrower, other than the surviving Person and its Subsidiaries, including any renewal of or substitution for any such Lien permitted by this clause; provided, however, that with respect to such Liens incurred pursuant to this sub-clause the principal amount secured has not increased and the Liens have not been extended to any additional property (other than proceeds of the property in question);
- (b) Liens on assets or property acquired by the Borrower or a Subsidiary of the Borrower; provided that such Liens were not created in contemplation of such acquisition and do not extend to any other assets or property (other than proceeds of such acquired assets or property); including any renewal of or substitution for any such Lien permitted by this clause; provided, however, that with respect to such Liens incurred pursuant to this sub-clause the principal amount secured has not increased and the Liens have not been extended to any additional property (other than proceeds of the property in question);
- (c) Liens incurred, or pledges and deposits made in connection with workers’ compensation, unemployment insurance and other social security benefits, and leases, appeal bonds and other obligations of like nature incurred in the ordinary course of business;
- (d) Liens arising from operation of law;
- (e) Liens 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 Borrower has set aside on its books reserves to the extent required by IAS;
- (f) easements, rights of way, restrictions (including zoning restrictions), reservations, permits, servitudes, minor defects or irregularities in title and other similar charges or encumbrances, and Liens arising under leases or subleases granted to others, in each case not interfering in any material respect with the business of the Borrower or any of its Subsidiaries and existing, arising or incurred in the ordinary course of business;
- (g) (i) bankers’ Liens in respect of deposit or any other bank accounts in the name of the Borrower, whether at the Central Bank of Russia or otherwise, (ii) statutory landlords’ Liens, (iii) deposits 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 and other obligations of like nature (so long as, in each case with respect to items described in paragraphs (i), (ii) and (iii) above of this paragraph (g), such Liens (X) do not secure obligations constituting Indebtedness for borrowed money and (Y) are incurred in the ordinary course of business), and (iv) Liens arising from any judgement, decree or other order which does not constitute an Event of Default;
- (h) any Liens in favour of the Borrower or any Subsidiary of the Borrower;
- (i) any other Lien where the aggregate value of assets or revenues subject to such Lien does not exceed US\$10,000,000;
- (j) Liens arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market in connection with (a) contracts entered into for sales and purchases at market prices of precious metals or securities or for the financing of such sales and purchases, (b) the financing of companies primarily engaged in the production or trading of precious metals or minerals, provided that the Borrower has received collateral (consisting of cash or cash equivalents, promissory notes or third party guarantees) with a value that is at least equal to 85 per cent. of the financing, provided that the amount of all such financings in any fiscal year does not exceed US \$75 million, provided further that any amounts unused in any fiscal year shall be permitted to increase the amount permitted in the next succeeding year by an equivalent amount, (c) the establishment of margin deposits and similar securities in connection with interest rate and foreign currency hedging operations and trading in securities or (d) the Borrower’s foreign exchange dealings or other proprietary trading and financing activities, including Repos;
- (k) Liens in existence on the date of this Agreement;

- (l) Liens on any account of the Borrower held or maintained with an international financial institution outside of Russia, as a direct result of a loan or financing on behalf of any exporter, and into which account, while it is pledged, only the proceeds arising from such exports are paid, prior to such proceeds being returned to such exporter or applied towards repayment of such loan or financing, provided that the exporter shall acknowledge that it shall have no claim against the Borrower with respect to such proceeds if such Lien is enforced; and
- (m) Liens granted under any accounts receivable program pursuant to which the Borrower or any of its Subsidiaries pledges, sells or otherwise transfers or encumbers its accounts receivable, including to a trust, limited liability company, special purpose entity or other similar entity, provided that the aggregate amount of Liens in respect thereof shall not exceed 15 per cent. of gross assets of the Borrower and its Subsidiaries at any time;

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

“Put Event” means the occurrence of a Change of Control and a Negative Ratings Event in respect of that Change of Control;

“Rated Securities” means the instruments issued to the agreed funding source, so long as such instruments shall have an effective rating from any Rating Agency and, if there is no such rating, all unsecured and unsubordinated debt of the Borrower having an initial maturity of one year or more which is rated by any Rating Agency;

“Rating Agency” means Standard & Poor’s Rating Services, a division of the McGraw Hill Companies, Inc., Moody’s Investors Service, Inc. or Fitch Ratings, Ltd, or any of their respective successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Borrower, from time to time with the prior written approval of the trustee;

“Repayment Date” means 12th June, 2006;

“Repo” means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities borrowing agreement or any agreement relating to securities which is similar in effect to any of the foregoing, and, for purposes of this definition, the term **“securities”** means any capital stock, share, debenture or other debt or equity instrument, or other derivative, whether issued by any private or public company, any government or agency or instrumentality thereof or any supranational, international or multilateral organisation;

“Risk Weighted Assets” means a sum of consolidated assets and off-balance sheet exposures of the Borrower each multiplied by a weight in accordance with their relative risk for the Borrower. For the purposes of calculation, the Borrower will allocate its assets and off-balance sheet exposures into five risk categories and will apply weights of 0 per cent., 10 per cent., 20 per cent., 50 per cent. and 100 per cent. respectively as recommended in the Basle Accord;

“Russia” means the Russian Federation and any province or political sub-division or Agency thereof or therein;

“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 determine to be customary for the settlement of international transactions in New York City of the type contemplated hereby;

“Significant Subsidiary” means a Subsidiary of the Borrower (a) whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated accounts, whose total consolidated assets or gross consolidated revenues, as the case may be) represent not less than 10 per cent. of the total consolidated assets or the gross consolidated revenues of the Borrower and its Subsidiaries, all as calculated by reference to the most recent IAS Fiscal Period of such Subsidiary and of the Borrower or (b) to which is transferred all or substantially all the assets and undertakings of a Subsidiary of the Borrower which immediately prior to such transfer is a Significant Subsidiary;

“Subsidiary” of any specified Person means any other Person, (a) in the case of a corporation, of which at least 50 per cent. of the total voting power of the Voting Stock 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;

“**trustee**” means any Person named as such in any agreements or deeds governing the issuance of instruments to the agreed funding source; 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 Interpretation

Any reference in this Agreement to:

the “**Lender**” or the “**Borrower**” shall be construed so as to include its and any subsequent successors, assignees and chargees in accordance with their respective interests;

“**agreed funding source**” shall mean any Person to whom the Lender owes any Indebtedness incurred in respect of the funding of the Advance;

a “**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;

the “**equivalent**” on any given date in one currency (the “**first currency**”) of an amount denominated in another currency (the “**second currency**”) is a reference to the amount of the first currency which could be purchased with the amount of the second currency at the spot rate of exchange quoted on the relevant Reuters page or, where the first currency is (i) roubles and the second currency is (ii) US dollars (or vice versa), by the Central Bank at or about 10.00 a.m. (New York time or, as the case may be, Moscow time) on such date for the purchase of the first currency with the second currency;

a “**month**” is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next succeeding calendar month save that, where any such period would otherwise end on a day which is not a business day, it shall end on the next succeeding business day, unless that day falls in the next calendar month, in which case it shall end on the immediately preceding business day, provided that, if a period starts on the last business day in a calendar month or if there is no numerically corresponding day in the month in which that period ends, that period shall end on the last business day in that later month (and references to “**months**” shall be construed accordingly);

“**repay**” (or any derivative form thereof) shall, subject to any contrary indication, be construed to include “**prepay**” (or, as the case may be, the corresponding derivative form thereof); and

“**VAT**” shall be construed as a reference to value added tax, including any similar tax which may be imposed in place thereof from time to time.

Unless stated otherwise, an accounting term not otherwise defined shall have the meaning assigned to it in accordance with IAS.

1.3 Currency Symbols

“**US\$**”, “**US dollars**” and “**dollars**” denote the lawful currency of the United States of America and “**roubles**” denotes the lawful currency of Russia.

1.4 Statutes

Any reference in this Agreement to a statute shall be construed as a reference to such statute as the same may have been, or may from time to time be, amended or re-enacted.

1.5 Headings

Clause and Schedule headings are for ease of reference only.

1.6 Amended Documents

Save where the contrary is indicated, any reference in this Agreement to this Agreement, the Fees Letter or any other agreement, deed or document shall be construed as a reference to this Agreement, the Fees Letter or, as the case may be, such other agreement, deed or document as the same may have been, or may from time to time be, amended, varied, novated or supplemented.

2. THE FACILITY

2.1 Grant of the Facility

The Lender grants to the Borrower, upon the terms and subject to the conditions hereof, a single disbursement term loan facility in the amount of US\$125,000,000.

2.2 Purpose and Application

The Facility is intended to be applied for the general corporate purposes of the Borrower, including for the extension of medium-term funding. Without affecting the obligations of the Borrower in any way, the Lender shall not be obliged to concern itself with such application.

3. AVAILABILITY OF THE FACILITY

The Facility will be available by way of a single Advance which will be made by the Lender to the Borrower, and the Borrower will draw down the Advance, on 12th June, 2003 (or such later date as may otherwise be agreed by the parties to this Agreement) (the “**Advance Date**”) by payment of the Advance in accordance with the following payment instructions: ING Bank N.V., Vienna Branch, Vienna; swift code INGBATWW account number: 471 2906; for the account of the Borrower if:

- (a) the Lender has confirmed to the Borrower that it has received all of the documents listed in the First Schedule (*Condition Precedent Documents*) hereto and that each is in form and substance satisfactory to the Lender, save as the Lender may otherwise agree;
- (b) the Lender has received funding of the Advance from an agreed funding source, and has received the fees payable pursuant to the Fees Letter; and
- (c) no event has occurred or circumstance has arisen which would constitute a Default or Event of Default and the representations and warranties set out in Clause 11 (*Representations and Warranties of the Borrower*) are true on the Advance Date and immediately after the Advance is made.

4. INTEREST PERIODS

The period for which the Advance is outstanding shall be divided into successive periods, each of which (other than the first, which shall commence on (and shall include) 12th June, 2003) or any later date agreed pursuant to Clause 3 (*Availability of the Facility*) shall start on (and shall include) an Interest Payment Date and shall end on (but shall exclude) the first, or next following, Interest Payment Date (each, an “**Interest Period**”).

5. PAYMENT AND CALCULATION OF INTEREST

5.1 Payment of Interest

Not later than 10.00 a.m. (New York City time) one business day prior to each Interest Payment Date the Borrower shall, in respect of the relevant Interest Period, pay accrued interest (calculated to the last day of such relevant Interest Period) on the outstanding principal amount of the Advance at the end of such relevant Interest Period to the Account.

5.2 Calculation of Interest

The amount of interest payable for any Interest Period (other than the first Interest Period) shall be calculated by applying the rate of 9.25 per cent. per annum to the outstanding principal amount of the Advance at the end of the relevant Interest Period, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). When interest is required to be calculated in respect of any other period, it shall 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, it is hereby agreed that interest will be payable in respect of the first Interest Period commencing on (and including) 12th June, 2003 and running to (but excluding) 12th December, 2003.

6. REPAYMENT

Not later than 10.00 a.m. (New York City time) one business day prior to the Repayment Date, the Borrower shall repay in full the outstanding principal amount of the Advance and, to the extent not already paid in accordance with Clause 5.1 (*Payment of Interest*), pay all interest accrued in respect of the last Interest Period (calculated to the last day of the last Interest Period) to the Account.

7. PREPAYMENT

7.1 Prepayment for Tax Reasons

The Borrower may, if it is required to pay any additional amounts under Clause 8.1 (*Tax Gross-up*), or make any payment by way of indemnity under Clause 8.3 (*Tax Indemnity*), and such payment cannot be avoided by the Borrower taking reasonable measures available to it, subject to giving to the Lender not less than 30 business days' nor more than 90 days' prior notice to that effect (and, following the execution of any agreements or deeds entered into in connection with an agreed funding source, to the trustee), including an Officers' Certificate of the Borrower to the effect that the Borrower would be required to pay such additional amounts or indemnity and that such payment cannot be avoided by the Borrower taking reasonable measures available to it, and providing documentary evidence thereof, prepay the whole (but not part only) of the outstanding principal amount of the Advance on the date specified in the notice, together with any amounts then payable under Clauses 8.1 (*Tax Gross-up*) or 8.3 (*Tax Indemnity*) and pay the accrued and unpaid interest on such outstanding principal amount up to and excluding such prepayment date.

The trustee shall be entitled to accept such Officers' Certificate as sufficient evidence of the satisfaction of the conditions precedent set out above in respect of such additional amounts or indemnity.

7.2 Prepayment for Reasons of Increased Costs

The Borrower may, if it is required to make any payment by way of indemnity under Clause 10.1 (*Increased Costs*), subject to giving to the Lender not less than 30 business days' prior notice to that effect, prepay the whole (but not part only) of the outstanding principal amount of the Advance on the date specified in the notice and pay the accrued and unpaid interest on such outstanding principal amount up to and excluding such prepayment date, together with any amounts then payable under Clause 10.1 (*Increased Costs*).

7.3 Notice of Prepayment

Any notice of prepayment given by the Borrower pursuant to Clauses 7.1 (*Prepayment for Tax Reasons*) or 7.2 (*Prepayment for Reasons of Increased Costs*) shall be irrevocable, shall specify the date upon which such prepayment is to be made and shall oblige the Borrower to make such prepayment on such date.

7.4 Costs of Prepayment

The Borrower shall, not later than 10:00 a.m. (New York City time) one business day prior to the date of prepayment, pay all accrued interest (calculated to the date of prepayment) and all other amounts owing to the Lender hereunder. The Borrower shall indemnify the Lender on demand against any costs and expenses reasonably incurred and properly documented by the Lender on account of any prepayment made in accordance with this Clause 7 (*Prepayment*).

7.5 No Other Repayments and no Reborrowing

The Borrower shall not repay the whole or any part of the amount of the outstanding principal amount of the Advance except at the times and in the manner expressly provided for in this Agreement. No amount prepaid under this Agreement may subsequently be reborrowed.

7.6 Purchase of Instruments Issued to the Agreed Funding Source

The Borrower may purchase any instruments issued to the agreed funding source at any time in the open market. If any such instruments are surrendered by the Borrower to the Lender (as issuer of such instruments) for cancellation, against such surrender and cancellation the Lender shall credit the Borrower with the prepayment on the date(s) of such surrender and cancellation or respective surrenders and cancellations of an amount of the Advance equal to the principal amount of such surrendered and cancelled instruments. Any such amount of the Advance prepaid shall reduce the outstanding principal amount of the Advance by the same amount.

7.7 Prepayment upon a Put Event

- (a) To the extent that a Put Event has occurred and the Lender is required in accordance with the terms of the instruments issued to the agreed funding source to redeem any or all of such instruments, the Borrower shall, having been given a Change of Control Put Notice at least

two business days prior to the Change of Control Payment Date, 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.

- (b) Promptly, and in any event within 5 calendar days after the date of the Put Event, the Borrower shall deliver to the Lender (and, following the execution of the agreements entered into in connection with the agreed funding source, to the trustee) a written notice in the form of an Officers' Certificate, which notice shall be irrevocable (but may, in respect of subclause (ii), be amended), stating:
 - (i) that a Put Event 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 IAS 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.

8. TAXES

8.1 Tax Gross-up

All payments by the Borrower to the Lender hereunder shall be made without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by any taxing authority of or in Russia or Germany, unless such deduction or withholding is required by law. In that case, the payment by the Borrower in respect of which such deduction or withholding is required to be made shall be increased to the extent necessary to ensure that, after the making of the required deduction or withholding, the Lender receives and retains (free from any liability in respect of any such deduction or withholding) a net sum equal to the sum which it would have received and so retained had no such deduction or withholding been made or required to be made. If the Lender or Borrower becomes subject at any time to any taxing jurisdiction other than or in addition to Germany or Russia, as the case may be, references in this Clause 8 (*Taxes*) and Clause 9 (*Tax Receipts*) to Germany and/or Russia shall be construed as references to Germany and/or Russia and/or such other jurisdiction.

8.2 Payments

The Borrower shall take all reasonable steps to ensure that all payments made under this Agreement are exempt from deduction or withholding of tax, including provision of such information as the Lender may require.

8.3 Tax Indemnity

Without prejudice to the provisions of Clause 8.1 (*Tax Gross-up*),

- (a) if the Lender is required to make any payment on account of tax (other than taxes on income payable by the Lender on the fees payable to it by the Borrower in accordance with the Fees Letter) imposed by any taxing authority of or in Russia or Germany; or
- (b) if any deduction or withholding is required to be made by the Lender on any payment made or to be made by the Lender in respect of its funding of the Advance from an agreed funding source,

and as a consequence thereof, the Lender is required to pay, or would be required to pay but for the limited recourse nature of its obligations in respect of the instruments issued to the agreed funding source, any additional amounts to or for the account of an agreed funding source, or otherwise on or in relation to any sum received or receivable by it hereunder (including, without limitation, any sum received or receivable under this Clause 8 (*Taxes*)) or any liability in respect of any such payment is asserted, imposed, levied or assessed against the Lender, the Borrower shall, within 30 days of demand made by the Lender, indemnify the Lender against such properly documented payment or liability, together with any interest, penalties, costs and expenses payable or incurred in connection therewith.

8.4 Tax Claims

If the Lender intends to make a claim pursuant to Clause 8.3 (*Tax Indemnity*), it shall notify the Borrower thereof; provided that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its affairs.

8.5 Tax Credits and Tax Refunds

- (a) If an additional amount is paid under Clauses 8.1 (*Tax Gross-up*) or 8.3 (*Tax Indemnity*) by the Borrower for the benefit of the Lender and the Lender, in its reasonable opinion, determines that it has received or been granted a credit against, a relief or remission for, or a repayment of, any tax, then, if and to the extent that the Lender, in its reasonable opinion, determines that such credit, relief, remission or repayment is in respect of or calculated with reference to the deduction or withholding giving rise to such additional payment or, in the case of an additional payment made pursuant to Clause 8.3 (*Tax Indemnity*), with reference to the liability, expense or loss to which the payment giving rise to the additional payment relates, the Lender shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to the Borrower such amount as the Lender shall, in its reasonable opinion, have concluded to be attributable to such deduction or withholding or, as the case may be, such liability, expense or loss, provided that the Lender shall not be obliged to make any payment under this Clause 8.5 in respect of such credit, relief, remission or repayment until the Lender is, in its reasonable opinion, satisfied that its tax affairs for its tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled. Any such payment shall, in the absence of manifest error and subject to the Lender specifying in writing in reasonable detail the calculation of such credit, relief, remission or repayment and of such payment and providing relevant supporting documents evidencing such matters, be conclusive evidence of the amount due to the Borrower hereunder and shall be accepted by the Borrower in full and final settlement of its rights of reimbursement hereunder in respect of such deduction or withholding. Nothing contained in this Clause 8.5 shall interfere with the right of the Lender to arrange its tax affairs generally in whatever manner it thinks fit nor oblige the Lender to disclose any information relating to its tax affairs generally or any computations in respect thereof.
- (b) If as a result of a failure to obtain relief from deduction or withholding of any tax imposed by Russia or Germany (i) such tax is deducted or withheld by the Borrower and pursuant to Clause 8.1 (*Tax Gross-up*) an increased amount is paid by the Borrower to the Lender in respect of such deduction or withholding and (ii) following the deduction or withholding of tax as referred to above the Borrower applies on behalf of the Lender to the relevant Russian or German tax authorities for a tax refund and such tax refund is credited by the Russian or German tax authorities to a bank account of the Lender, the Lender shall as soon as reasonably possible notify the Borrower of the receipt of such tax refund and promptly transfer the entire amount of the tax refund to a bank account of the Borrower specified for that purpose by the Borrower.

8.6 Qualifying Lender

The Lender represents that it 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**”). The Lender shall make reasonable and timely efforts to assist the Borrower to obtain relief from deduction or withholding of Russian income tax pursuant to such double tax treaty, including its obligations under Clause 8.8 (*Delivery of Forms*). The Lender makes no representation as to the application or interpretation of any double taxation treaty between Germany and Russia.

8.7 Exceptions

The Lender agrees promptly, upon becoming aware of such, to notify the Borrower 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 Borrower shall

not be liable to pay to the Lender under Clauses 8.1 (*Tax Gross-up*) or 8.3 (*Tax Indemnity*) 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.

8.8 Delivery of Forms

The Lender shall within 30 days of the request of the Borrower (to the extent it is able to do so under applicable law including Russian laws) from time to time, deliver to the Borrower such duly completed application form and, if required, other forms, together with a power of attorney authorising the Borrower to make the relevant filings with the Russian tax authorities and such other information as may need to be duly completed and delivered by the Lender to enable the Borrower 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 and, if required, other forms referred to in this Clause 8.8 shall be duly signed by the Lender and stamped or otherwise approved by the competent tax authority in Germany and the power of attorney shall be duly signed and apostilled or otherwise legalised. If a relief from deduction or withholding of Russian tax or a tax refund under this Clause 8.8 has not been obtained and further to an application of the Borrower to the relevant Russian tax authorities the latter requests the Lender's rouble bank account details, the Lender shall at the request of the Borrower (a) use reasonable efforts to procure that such rouble bank account of the Lender is duly opened and maintained, and (b) thereafter furnish the Borrower with the details of such rouble bank account.

9. TAX RECEIPTS

9.1 Notification of Requirement to Deduct Tax

If, at any time, the Borrower is required by law to make any deduction or withholding from any sum payable by it hereunder (or if thereafter there is any change in the rates at which or the manner in which such deductions or withholdings are calculated), the Borrower shall promptly notify the Lender.

9.2 Evidence of Payment of Tax

If the Borrower makes any payment hereunder in respect of which it is required to make any deduction or withholding, it shall pay the full amount required to be deducted or withheld to the relevant tax or other authority (subject to any right which the Borrower may have to contest such payment) within the time allowed for such payment under applicable law and shall deliver to the Lender, within 30 days after it has made such payment to the applicable authority, such evidence as it can obtain using reasonable efforts issued by such authority evidencing the payment to such authority of all amounts so required to be deducted or withheld in respect of such payment.

10. CHANGES IN CIRCUMSTANCES

10.1 Increased Costs

If, by reason of (a) any Change of Law and/or (b) compliance with any Capital Adequacy Requirement or any other request from or requirement of the Central Bank, any central bank or other fiscal, monetary or other authority which on or after the date hereof has effect in Russia, Germany or the United States:

- (i) the Lender incurs an additional cost as a result of the Lender's entering into or performing its obligations (including its obligation to make the Advance) under this Agreement other than any such cost incurred as a result of any increase in the rate of tax payable by the Lender on its income or as a result of any taxes, withholding or deduction, as the case may be referred to in Clause 8.1 (*Tax Gross-up*) or 8.3 (*Tax Indemnity*); or
- (ii) the Lender becomes liable to make any additional payment on account of tax or otherwise on or calculated by reference to the amount of the Advance and/or to any sum received or receivable by it hereunder other than any such tax on the Lender's income or any tax, withholding or deduction as the case may be referred to in Clause 8.1 (*Tax Gross-up*) or Clause 8.3 (*Tax Indemnity*),

then the Borrower shall, from time to time within 30 days of demand of the Lender, pay to the Lender amounts sufficient to hold harmless and indemnify it from and against, as the case may be, such properly documented (1) cost or (2) liability, provided that the Lender will not be entitled to indemnification where such additional cost or liability arises as a result of the negligence, fraud or wilful default of the Lender.

10.2 Increased Costs Claims

If the Lender intends to make a claim pursuant to Clause 10.1 (*Increased Costs*), it shall promptly notify the Borrower thereof and provide a description in writing in reasonable detail of the relevant reason (as described in Clause 10.1 (*Increased Costs*) above), including a description of the relevant affected jurisdiction or country and the date on which the change in circumstances took effect. This written description shall demonstrate the connection between the change in circumstance and the additional costs and shall be accompanied by relevant supporting documents evidencing the matters described therein, provided that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its or any other Person's affairs.

10.3 Illegality

If, at any time after the date of this Agreement, it is unlawful for the Lender to make, fund or allow to remain outstanding the Advance made or to be made by it hereunder or to maintain its agreed funding source of the Advance then the Lender shall, promptly after becoming aware of the same, deliver to the Borrower a notice (setting out in reasonable detail the nature and extent of the relevant circumstances) to that effect and:

- (a) if the Advance has not then been made, the Lender shall not thereafter be obliged to make the Advance; and
- (b) if the Advance is then outstanding and the Lender so requires, the Borrower shall, on the latest date permitted by the relevant law or such earlier date as the Borrower elects (of which notice of such election must be given not less than 20 days prior to such earlier date), repay the whole (but not part only) of the outstanding principal amount of the Advance together with accrued interest (up to but excluding the date of such payment) thereon and all other amounts owing to the Lender hereunder.

10.4 Mitigation

If circumstances arise which would result in:

- (a) any payment falling due to be made to the Lender or for its account pursuant to Clause 10.3 (*Illegality*);
- (b) any payment falling due to be made by the Borrower pursuant to Clause 8.1 (*Tax Gross-up*); or
- (c) a claim for indemnification pursuant to Clause 8.3 (*Tax Indemnity*) or Clause 10.1 (*Increased Costs*),

then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or the Borrower's obligations under any of the above mentioned provisions, the Lender shall promptly upon becoming aware of the same notify the Borrower thereof and, in consultation with the Borrower and to the extent it can lawfully do so and without prejudice to its own position, take reasonable steps to remove such circumstances or mitigate the effects of such circumstances including (without limitation) by the change of its lending office or transfer of its rights or obligations under this Agreement to another bank, provided that the Lender shall be under no obligation to take any such action if, in its opinion, to do so might have any adverse effect upon its business, operations or financial condition or might be in breach of any arrangements which it may have made with an agreed funding source.

11. REPRESENTATIONS AND WARRANTIES OF THE BORROWER

As of the date hereof, the Borrower makes the representations and warranties set out in Clause 11.1 (*Status*) to Clause 11.13 (*Compliance with Laws*) (inclusive) and acknowledges that the Lender has entered into this Agreement in reliance on those representations and warranties.

11.1 Status

It has been duly incorporated and is validly existing under the law of its jurisdiction of incorporation, is not in liquidation or receivership and has full power and authority to own, lease and operate its properties and conduct its business as currently conducted and is able lawfully to execute and perform its obligations under this Agreement.

11.2 Due Authorisation

It has duly authorised, executed and delivered this Agreement, and this Agreement constitutes a legal, valid and binding obligation of the Borrower enforceable in accordance with its terms, except that the enforcement thereof may be limited by (a) bankruptcy, insolvency, fraudulent transfer, reorganisation, moratorium and other similar laws relating to or affecting creditors' rights generally and (b) general equitable principles (whether considered in a proceeding in equity or at law).

11.3 Governmental Approvals

All actions or things required to be taken, fulfilled or done by laws or regulations (including, without limitation, the obtaining of any consent, approval (including exchange control approval), authorisation, order, licence or qualification of or with any court or governmental agency), and all registrations, filings or notarisations required by laws or regulations, in order to ensure (a) the Borrower is able to own its assets and carry out its business, (b) the due execution, delivery and performance by the Borrower of this Agreement and (c) the validity or enforceability against the Borrower of this Agreement have been obtained, fulfilled or done and are in full force and effect.

11.4 *Pari Passu* Obligations

The obligations of the Borrower under this Agreement will rank at least *pari passu* in right of payment with all other unsecured and unsubordinated obligations of the Borrower, except as otherwise provided by mandatory provisions of applicable law.

11.5 Governing Law

As a matter of Russian law, the Russian courts will observe and give effect to the choice of English law as the governing law of this Agreement, and a judgment rendered against the Borrower by a Treaty Court or an arbitration award rendered against the Borrower in England would be recognised and enforced by the courts of Russia without re-examination of the issues. For the purposes of this representation and warranty, "**Treaty Court**" means a competent court of a jurisdiction with which Russia has entered into an international agreement providing for the mutual recognition and enforcement without re-examination of the issues in Russia of foreign court judgments.

11.6 Validity and Admissibility in Evidence

All acts, conditions and things required to be done, fulfilled and performed (other than by the Lender) to make this Agreement admissible in evidence in Russia (whether in arbitration proceedings or otherwise) have been done, fulfilled and performed.

11.7 Valid and Binding Obligations

The obligations expressed to be assumed by the Borrower in this Agreement are legal, valid and binding, and enforceable against it in accordance with its terms, except that the enforcement thereof may be limited by (a) bankruptcy, insolvency, fraudulent transfer, reorganisation, moratorium and other similar laws relating to or affecting creditors' rights generally and (b) general equitable principles (whether considered in a proceeding in equity or at law).

11.8 No Stamp Taxes

Under the laws of Russia in force at the date hereof, the execution, delivery and enforceability of this Agreement is not subject to any tax, duty, fee or other charge including, but not limited to, any registration or transfer tax, stamp duty or similar levy.

11.9 No Events of Default or Default

No event has occurred or circumstance has arisen which would constitute a Default or Event of Default or a default (howsoever described) under any other agreement or instrument evidencing Indebtedness of the Borrower and no such event will occur upon or as a result of the making of the Advance.

11.10 No Material Proceedings

Except as described in the Offering Circular relating to the instruments issued to the agreed funding source dated 10th June, 2003 (the “**Offering Circular**”), there are no lawsuits, litigation or other legal or administrative or arbitration proceedings current or pending or, to the best of the knowledge and belief of the Borrower, threatened before any court, tribunal, arbitration panel or Agency which might (a) prohibit the execution and delivery of this Agreement or the Borrower’s compliance with its obligations hereunder or (b) adversely affect the right and power of the Borrower to enter into this Agreement or (c) have a Material Adverse Effect and which might affect the investment decision of the agreed funding source.

11.11 No Material Adverse Change

Except as described in the Offering Circular, since 31st December, 2002 there has been no material adverse change in the condition (financial or otherwise), business prospects, properties, shareholders’ equity or results of operations of the Borrower and its Subsidiaries, taken as a whole, and there has been no change which might otherwise adversely affect the investment decision of the agreed funding source.

11.12 Execution of Agreement

Its execution and delivery of this Agreement and its exercise of its rights and performance of its obligations hereunder does not and will not:

- (a) conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, any indenture, trust deed, mortgage or other contract, agreement or instrument or treaty or order to which the Borrower is a party or by which it, or any of its properties or assets, is bound;
- (b) infringe any existing applicable law, rule, regulation, judgment, order or decree of any government, governmental body or court in Russia binding upon the Borrower or be contrary to the provisions of its constitutional documents or any resolution of its shareholders or
- (c) give rise to any event of default or moratorium in respect of any of the obligations of the Borrower or the creation of any lien, encumbrance or other security interest (howsoever described) in respect of any of the assets of the Borrower.

11.13 Compliance with Laws

Neither the entry into nor performance by the Borrower of its obligations under this Agreement will violate any laws, regulations or directives of governmental authorities having the force of law and, to the best of the knowledge and belief of the Borrower, the Borrower is in compliance in all material respects with all applicable provisions of law.

11.14 Repetition

Each of the representations and warranties contained in Clause 11 (*Representations and Warranties of the Borrower*) shall be deemed to be repeated by the Borrower on the Advance Date and each of Clauses 11.1 (*Status*), 11.2 (*Due Authorisation*) and 11.5 (*Pari Passu Obligations*) shall be deemed to be repeated by the Borrower on each Interest Payment Date.

12. REPRESENTATIONS AND WARRANTIES OF THE LENDER

The Lender makes the representations and warranties set out in Clause 12.1 (*Status and Due Authorisation*) to Clause 12.4 (*Consents and Approvals*) (inclusive) and acknowledges that the Borrower has entered into this Agreement in reliance on those representations and warranties.

12.1 Status and Due Authorisation

The Lender is duly incorporated under the laws of Germany and has full power and capacity to execute this Agreement, and any other agreements and deeds relating to the agreed funding source, and to undertake and perform the obligations expressed to be assumed by it therein and the Lender has taken all necessary action to approve and authorise the same.

12.2 Execution of Agreement

The execution of this Agreement, and any other agreements or deeds relating to the instruments issued to the agreed funding source, and the undertaking and performance by the Lender of the obligations expressed to be assumed by it therein will not conflict with, or result in a breach of or default under, the laws of England and Germany or any agreement, deed 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.

12.3 Valid and Binding Obligations

This Agreement, and any other agreements or deeds relating to the instruments issued to the agreed funding source, constitute legal, valid and binding obligations of the Lender.

12.4 Consents and Approvals

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

13. FINANCIAL INFORMATION

The Borrower shall supply or procure to be supplied to the Lender (in sufficient copies as may reasonably be required by the Lender) all such information as the Luxembourg Stock Exchange (or any other or further stock exchange or stock exchanges or any other relevant authority or authorities on which the instruments issued to the agreed funding source may, from time to time, be listed or admitted to trading) may require in connection with the listing or admittance to trading on such stock exchange or relevant authority of the instruments issued to the agreed funding source.

14. COVENANTS

The covenants in this Clause 14 remain in force from the date of this Agreement for so long as any amount is or may be outstanding under this Agreement.

14.1 Maintenance of Legal Validity

The Borrower shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents and make or cause to be made all registrations, recordings and filings required in or by the laws and regulations of Russia to enable it lawfully to enter into and perform its obligations under this Agreement and to ensure the legality, validity, enforceability or admissibility in evidence in Russia of this Agreement.

14.2 Untrue Representations

Before the making of the Advance, the Borrower shall notify the Lender of the occurrence of any event which results in or may reasonably be expected to result in any of the representations and warranties contained in Clause 11 (*Representations and Warranties of the Borrower*) being untrue at or before the time of the making of such Advance.

14.3 Notification of Events of Default and Defaults

The Borrower shall promptly on becoming aware thereof inform the Lender of the occurrence of a Default or any Event of Default and, upon receipt of a written request to that effect from the Lender, confirm to the Lender that, save as previously notified to the Lender or as notified in such confirmation, no Default or Event of Default has occurred.

14.4 Claims *Pari Passu*

The Borrower 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 the other unsecured and unsubordinated creditors of the Borrower, except as otherwise provided by mandatory provisions of applicable law.

14.5 Negative Pledge

The Borrower shall not and shall not permit any of its Subsidiaries to, directly or indirectly, create, incur or suffer to exist any Liens, other than Permitted Liens, on any of its/their assets, now owned or hereafter acquired, securing any Indebtedness, unless the Advance is secured equally and rateably with such other Indebtedness.

14.6 Mergers

The Borrower shall not (A) 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 (B) participate in any other type of similar transaction or series of transactions, if any such reorganisation or other type of similar transaction or series of transactions would result in (i) a Material Adverse Effect or (ii) a Negative Ratings Event.

14.7 Disposals

The Borrower shall not and shall ensure that none of its Subsidiaries shall sell, lease, transfer or otherwise dispose of, to a Person other than the Borrower or a Subsidiary of the Borrower, as the case may be, by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets which together constitute more than 10 per cent. of the gross assets of the Borrower and its Subsidiaries on a consolidated basis determined by reference to the balance sheet date for the Borrower's most recent IAS Fiscal Period, unless such transaction(s) is/are (a) on an arm's-length basis and on commercially reasonable terms and (b) has been approved by a resolution of the management board of the Borrower resolving that the transaction complies with the requirements of this Clause 14.7 and such resolution has been adopted by a majority of the members of the management board disinterested with respect to such transaction or series of transactions or, if there are insufficient disinterested members, by an Independent Appraiser. For the avoidance of doubt, nothing in this Clause 14.7 shall prohibit payments made in connection with the Advance, or any disposition of cash made for fair market value (in the reasonable opinion of the Borrower or its Subsidiary, as the case may be).

14.8 Transactions with Affiliates

The Borrower shall not and shall ensure that none of its Subsidiaries, directly or indirectly, 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 of the Borrower or any of its Subsidiaries (an "**Affiliate Transaction**") including intercompany loans unless the terms of such Affiliate Transaction are no less favourable to the Borrower, 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 Borrower or any of its Subsidiaries.

With respect to an Affiliate Transaction involving aggregate exposure in excess of US\$10,000,000 (or its equivalent in the currency in which the Affiliate Transaction is incurred), the terms of the Affiliate Transaction shall be set forth in writing and a majority of the members of the management board of the Borrower disinterested with respect to such Affiliate Transaction shall have determined in good faith that the criteria set forth in the paragraph above are satisfied and have approved the relevant Affiliate Transaction, as evidenced by a resolution of the management board and the Borrower shall deliver to the Lender a written opinion from an Independent Appraiser to the effect that such Affiliate Transaction is fair, from a financial point of view, to the Borrower, provided, however, in no event shall the aggregate exposure to all Affiliates exceed 35 per cent. of the Borrower's assets on a consolidated basis, determined by reference to the balance sheet date for the Borrower's most recent IAS Fiscal Period.

This Clause 14.8 does not apply (a) to any Affiliate Transaction between the Borrower, and any of its Subsidiaries or between any Subsidiaries of the Borrower, (b) to customary compensation or employee benefit arrangements with any officer or director of the Borrower, or a Subsidiary of the Borrower, as the case may be, arising as a result of their employment contract, (c) transactions existing on the date hereof and of the type described in the Offering Circular made pursuant to written agreements and arrangements, including any amendment or modification thereof, provided that such amendment or modification is not more disadvantageous to the Lender in any material respect than the original transaction, and any similar transactions after the date hereof provided that such transactions are in the ordinary course of business, are no less favourable to the Borrower

than those that could be obtained in a comparable arm's length transaction with a Person that is not an Affiliate of the Borrower or any of its Subsidiaries and are of the type described in the Offering Circular, (d) transactions described in paragraph (l) of the definition of Permitted Liens and (e) loans, advances and guarantees (but not any forgiveness of such loans, advances or guarantees) to officers, directors and employees of the Borrower or any Subsidiary of the Borrower for travel, entertainment, moving and other relocation expenses, in each case made in the ordinary course of business, provided that such loans, advances and guarantees do not exceed US\$1,000,000 in the aggregate at any one time outstanding (or its equivalent in any other currency or currencies).

14.9 Maintenance of Authorisations

The Borrower shall 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, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in Russia for the execution, delivery or performance of this Agreement or for the validity or enforceability thereof.

14.10 Maintenance of Property

The Borrower shall and shall ensure that its Subsidiaries shall, cause all property used in the conduct of its or their 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 necessary repairs, renewals, replacements, betterments and improvements thereof, all as, in the judgement of the Borrower or any Subsidiary of the Borrower, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times except where the failure to do so does not have a Material Adverse Effect.

14.11 Payment of Taxes and Other Claims

Subject to Clause 8.1, the Borrower shall and shall ensure that its Subsidiaries shall, pay or discharge or cause to be paid or discharged, before the same shall become overdue, (a) all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of the Borrower and its Subsidiaries and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law give rise to a Lien (other than a Permitted Lien) upon the property of the Borrower or any of its Subsidiaries; provided, however, that none of the Borrower nor any Subsidiary of the Borrower 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 IAS 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 US\$5,000,000 (or its equivalent in the relevant currency).

14.12 Withholding Tax Exemption

The Borrower 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 Borrower with the documents required under Russian laws for the relief of the Lender from Russian withholding tax.

14.13 Maintenance of Insurance

The Borrower shall and shall ensure that each of its Subsidiaries will, keep those of their properties which are of an insurable nature insured with insurers 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.

14.14 Financial Information

- (a) The Borrower hereby undertakes that it shall deliver to the Lender within six months after the end of each of its financial years, copies of the Borrower's audited consolidated financial statements for such financial year, prepared in accordance with IAS consistently applied with the corresponding financial statements for the preceding period.

- (b) The Borrower hereby undertakes that it shall deliver to the Lender within four months after the end of the second quarter of each of its financial years, copies of the Borrower's unaudited consolidated financial statements for six months, prepared in accordance with IAS consistently applied with the corresponding financial statements for the preceding period.
- (c) The Borrower hereby undertakes that it shall deliver to the Lender, without undue delay, such additional information regarding the financial position or the business of the Borrower and its Subsidiaries, taken as a whole, as the Lender may reasonably request including providing certificates to the trustee as contemplated in the agreements or deeds relating to the instruments issued to the agreed funding source.

14.15 Financial Covenants

The Borrower hereby undertakes that the Consolidated Tier 1 Capital Adequacy Ratio of the Borrower and its Subsidiaries, determined on a consolidated basis, will not decline below 14 per cent.

14.16 Officers' Certificate

- (a) The Borrower shall deliver to the Lender within 15 days of any written request by the Lender and with each set of financial statements delivered pursuant to Clause 14.14 (*Financial Information*), a written notice in the form of an Officers' Certificate in the form set out in the Second Schedule hereto stating whether any Default or Event of Default has occurred and is continuing and, if it has occurred, what action the Borrower is taking or proposes to take with respect thereto.
- (b) The Borrower shall deliver to the Lender a certificate of its auditors stating that it is in compliance with Clause 14.15 (*Financial Covenants*) with each set of financial statements delivered pursuant to Clause 14.14 (*Financial Information*).

14.17 Financial Testing

The financial covenant set out in Clause 14.15 (*Financial Covenants*) shall be tested by reference to each of the financial statements and/or each Officers' Certificate delivered pursuant to Clause 14.16 (*Officers' Certificate*).

14.18 Restricted Payments

- (a) Subject to sub-paragraph (b) below, the Borrower shall not, and shall not permit any of its Subsidiaries to, directly or indirectly:
 - (i) declare or pay dividends, in cash or otherwise, or make any other distributions (whether by way of redemption, acquisition or otherwise) in respect of its share capital, other than dividends, payments or distributions payable to the Borrower or a Subsidiary of the Borrower; or
 - (ii) voluntarily purchase, redeem or otherwise retire for value any Capital Stock of the Borrower or subordinated debt of the Borrower or any Subsidiary of the Borrower, any such action being referred to herein as a "**Restricted Payment**".
- (b) The Borrower and any Subsidiary of the Borrower may make a Restricted Payment if at the time of such payment no Default or Event of Default has occurred or would result therefrom and the aggregate amount of all Restricted Payments in the Borrower's most recent IAS Fiscal Period does not exceed 50 per cent. of the Borrower's consolidated net profit for such period.

14.19 Limitation on restrictions on distributions from Subsidiaries

The Borrower shall not, and shall not permit any of its Subsidiaries to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any of its Subsidiaries to (a) pay dividends or make any other distributions on its share capital; (b) make any loans or advances or pay any Indebtedness owed to the Borrower; or (c) transfer any of its property or assets to the Borrower other than in each case encumbrances or restrictions existing under this Agreement, any agreement or deed entered into in respect of instruments issued to an agreed funding source and any other agreement in effect prior to 10th June, 2003, and advised in writing to the Lender.

15. EVENTS OF DEFAULT

Each of Clause 15.1 (*Failure to Pay*) to Clause 15.8 (*Business*) describes circumstances which constitute an Event of Default for the purposes of this Agreement. Clause 15.9 (*Acceleration and Cancellation*) and Clause 15.10 (*Amounts Due on Demand*) deal with the rights of the Lender after the occurrence of an Event of Default. For the avoidance of doubt, Defaults and Events of Default under Clauses 15.1 (*Failure to Pay*) to Clause 15.8 (*Business*) shall include any event which under the laws of any relevant jurisdiction would have an analogous effect to any of the events referred to therein.

15.1 Failure to Pay

The Borrower fails to pay any sum due from it hereunder at the time, in the currency and in the manner specified herein, and such failure is not remedied within 5 business days of the due date for payment.

15.2 Obligations

The Borrower defaults in the performance or observance of any of its obligations other than that set out in Clause 15.1 (*Failure to Pay*) or in Clause 7.7 (*Prepayment Upon a Put Event*) under or in respect of this Agreement and such default (if capable of being remedied) is not remedied within 15 days after the Lender has given written notice thereof to the Borrower.

15.3 Warranties

Any representation or warranty of the Borrower or any statement deemed to be made by the Borrower in this Agreement, or in any other document, certificate or notice delivered by the Borrower in connection with this Agreement, or any agreement or deed in connection with the issue of instruments to the agreed funding source proves to have been inaccurate, incomplete or misleading in any material respect in the sole opinion of the Lender at the time it was made or repeated or deemed to have been made or repeated and is not remedied within 15 days.

15.4 Cross Default

Any Indebtedness of the Borrower or any of its Subsidiaries shall become due and payable prior to the stated maturity thereof other than at the option of the debtor following a default of the Borrower or any of its Subsidiaries, or the Borrower or any of its Subsidiaries shall fail to make any payment of principal in respect of any Indebtedness of the Borrower or any of its Subsidiaries on the date on which such payment is due and payable or at the expiration of any grace period originally applicable thereto or any guarantee or indemnity given by the Borrower or any of its Subsidiaries in respect of Indebtedness shall not be honoured when due and called upon; provided that the aggregate amount of the relevant Indebtedness in respect of which one or more of the events mentioned in this Clause 15.4 shall have occurred equals or exceeds US\$5,000,000 (or its equivalent in any other currency or currencies);

15.5 Validity and Illegality

The validity of this Agreement is contested by the Borrower or any agency or entity acting on behalf of the Borrower (with the Borrower's consent) or the Borrower shall deny any of its obligations under this Agreement or it is, or will become, unlawful for the Borrower to perform or comply with any of its obligations under or in respect of this Agreement or any of such obligations shall become unenforceable or cease to be legal, valid and binding.

15.6 Authorisations

- (a) Any regulation, decree, consent, approval, licence or other authority necessary to enable the Borrower to enter into or perform its obligations under this Agreement or for the validity or enforceability thereof shall expire or be withheld, revoked or terminated or otherwise cease to remain in full force and effect or shall be modified in a manner which adversely affects any rights or claims of the Lender.
- (b) In respect of the Borrower and any of its Significant Subsidiaries that are Russian Persons, the occurrence of any of the following events: (i) the Borrower or any of its Significant Subsidiaries fails or is unable to pay its debts generally as they become due; (ii) revocation of the general banking licence of the Borrower or, if applicable, of any of its Significant Subsidiaries; (iii) any of the Borrower, or any of its Significant 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 Borrower, or any of its Significant Subsidiaries as the case may be; (iv) the institution of the supervision (*nablyudeniye*), external management (*vneshneye upravleniye*), bankruptcy management (*konkursnoye proizvodstvo*) of any of the Borrower or any of its Significant Subsidiaries, as such terms with Russian transliteration are defined in the Federal Law of Russia No. 127-FZ “On Insolvency (Bankruptcy)” of 26 October 2002 (as amended or replaced from time to time); (e) the institution of the financial rehabilitation (*finansovoye ozdorovlenie*), pursuant to the request of the Central Bank, temporary administration (*vremennoye upravlenie*) or reorganisation (*reorganizatsiya*) with respect to the Borrower or any of its Significant Subsidiaries as such terms with Russian transliteration 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) and/or (v) any judicial liquidation in respect of the Borrower or any of its Significant Subsidiaries.

- (c) In respect of the Significant Subsidiaries of the Borrower that are not Russian Persons, any of such Significant Subsidiaries (i) fails or is unable to pay its debts as they become due, or (ii) commences bankruptcy proceedings or any other action for a relief under any law affecting creditors’ rights similar to bankruptcy law or (iii) a court of competent jurisdiction enters an order for relief or a decree in an involuntary case in bankruptcy or any other such action or proceeding or for the appointment of a receiver in respect of the Borrower or any of its Significant Subsidiaries or any of their property and such order or decree remains unstayed and in effect for 60 days or (iv) has an involuntary case in bankruptcy commenced against it, and the petition for commencement of such bankruptcy case is not discharged within 60 days.
- (d) The shareholders of the Borrower shall have approved any plan of liquidation or dissolution of the Borrower.

15.7 Judgments

The aggregate amount of unsatisfied judgments, decrees or orders of courts or other appropriate law-enforcement bodies for the payment of money against the Borrower and Subsidiaries of the Borrower in the aggregate exceeds US\$5,000,000, or the equivalent thereof in any other currency or currencies and there is a period of 60 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.

15.8 Business

The Borrower or any of its Subsidiaries ceases to carry on the principal business it carried on at the date hereof.

15.9 Acceleration

Upon the occurrence of an Event of Default or at any time thereafter, the Lender may by written notice to the Borrower declare the outstanding principal amount of the Advance to be immediately due and payable (whereupon the same shall become so payable together with accrued interest thereon up to but excluding such date and any other sums then owed by the Borrower hereunder) or declare the outstanding principal amount of the Advance to be due and payable (whereupon the same shall become so payable together with accrued interest thereon up to but excluding the relevant date and any other sums then owed by the Borrower hereunder) on demand of the Lender.

15.10 Amounts Due on Demand

If, pursuant to Clause 15.9 (*Acceleration*), the Lender declares the outstanding principal amount of the Advance to be due and payable on demand of the Lender, then, and at any time thereafter, the Lender may by written notice to the Borrower require repayment of the outstanding principal amount of the Advance on such date as it may specify in such notice (whereupon the same shall become due and payable on such date together with accrued interest thereon up to but excluding such date and any other sums then owed by the Borrower hereunder) or withdraw its declaration with effect from such date as it may specify in such notice.

16. DEFAULT INTEREST AND INDEMNITY

16.1 Default Interest Periods

If any sum due and payable by the Borrower hereunder is not paid on the due date therefor in accordance with the provisions of Clause 18 (*Payments*) or if any sum due and payable by the Borrower under any judgment of any court in connection herewith is not paid on the date of such judgment, the period beginning on such due date or, as the case may be, the date of such judgment and ending on the date upon which the obligation of the Borrower to pay such sum (the balance thereof for the time being unpaid being herein referred to as an “**unpaid sum**”) is discharged shall be divided into successive periods, each of which (other than the first, which shall commence on and shall include the day on which such unpaid sum is initially due and payable and unpaid) shall start on the last day of the preceding such period and the duration of each of which shall (except as otherwise provided in this Clause 16 (*Default Interest and Indemnity*)) be selected by the Lender (but shall in any event not be longer than one month).

16.2 Default Interest

During each such period relating thereto as is mentioned in Clause 16.1 (*Default Interest Periods*) an unpaid sum shall accrue interest for each day it remains unpaid at a rate per annum equal to the Interest Rate.

16.3 Payment of Default Interest

Any interest which shall have accrued under Clause 16.2 (*Default Interest*) in respect of an unpaid sum shall be due and payable and shall be paid by the Borrower at the end of the period by reference to which it is calculated or on such other dates as the Lender may specify by written notice to the Borrower.

16.4 Borrower's Indemnity

The Borrower undertakes to indemnify the Lender against any reasonably incurred and properly documented cost, claim, loss, expense (including legal fees) or liability, together with any VAT thereon, which it may sustain or incur as a consequence of the occurrence of any Event of Default, Default or any other default by the Borrower in the performance of any of the obligations expressed to be assumed by it in this Agreement.

17. CURRENCY OF ACCOUNT AND PAYMENT

17.1 Currency of Account

Dollars is the currency of account and payment for each and every sum at any time due from the Borrower hereunder.

17.2 Currency Indemnity

If any sum due from the Borrower under this Agreement or any order or judgment given or made in relation hereto has to be converted from the currency (the “**first currency**”) in which the same is payable hereunder or under such order or judgment into another currency (the “**second currency**”) for the purpose of (a) making or filing a claim or proof against the Borrower, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation hereto, the Borrower shall indemnify and hold harmless the Lender from and against any loss suffered or reasonably incurred as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which the Lender may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

18. PAYMENTS

18.1 Payments to the Lender

On each date on which this Agreement requires an amount denominated in dollars to be paid by the Borrower, the Borrower shall make the same available to the Lender by payment in dollars and in Same-Day Funds not later than 10:00 a.m. (New York City time) one business day prior to such date (or in such other funds as may for the time being be customary in London for the settlement in London of international banking transactions in dollars) to the Account. Without prejudice to its obligations under Clause 5.1 (*Payments of Interest*), the Borrower shall procure that, before 10:00 a.m. (local time) on the fourth Banking Day before the due date of each payment made by it under this Agreement, the bank effecting payment on its behalf confirms to the Lender or to such person as the Lender may direct by tested telex or authenticated SWIFT message the payment instructions relating to such payment. For these purposes, “local time” and “Banking Day” have the meanings given to them in any agency agreement entered into in connection with the issuance of instruments to the agreed funding source.

18.2 Alternative Payment Arrangements

If, at any time, it shall become impracticable (by reason of any action of any governmental authority or any change of law, exchange control regulations or any similar event) for the Borrower to make any payments hereunder in the manner specified in Clause 18.1 (*Payments to the Lender*), then the Borrower may agree with the Lender alternative arrangements for such payments to be made provided that, in the absence of any such agreement, the Borrower shall be obliged to make all payments due to the Lender in the manner specified herein.

18.3 No Set-off

All payments required to be made by the Borrower hereunder shall be calculated without reference to any set-off or counterclaim and shall be made free and clear of and without any deduction for or on account of any set-off or counterclaim.

19. COSTS AND EXPENSES

19.1 Transaction Expenses and Fees

The Borrower agrees that it shall pay an amount in respect of the arrangement fee of the Lender as specified in the Fees Letter.

19.2 Preservation and Enforcement of Rights

The Borrower shall, from time to time on demand of the Lender and following receipt from the Lender of a description in writing in reasonable detail of the relevant costs and expenses, together with the relevant supporting documents evidencing the matters described therein, reimburse the Lender for all costs and expenses (including legal fees) together with any VAT thereon properly incurred in or in connection with the preservation and/or enforcement of any of its rights under this Agreement (except where the relevant claim is successfully defended by the Borrower).

19.3 Stamp Taxes

The Borrower shall pay all stamp, registration and other similar duties or taxes to which this Agreement or any judgment given against the Borrower in connection herewith is or at any time may be subject and shall, from time to time on demand of the Lender, indemnify the Lender against any properly documented liabilities, losses, costs, expenses and claims resulting from any failure to pay or any delay in paying any such duty or tax in connection therewith.

19.4 Lender's Costs

The Borrower shall, from time to time on demand of the Lender (and without prejudice to the provisions of Clause 19.2 (*Preservation and Enforcement of Rights*) and Clause 16.4 (*Borrower's Indemnity*)) compensate the Lender at such daily and/or hourly rates as the Lender shall from time to time reasonably determine for the time and expenditure, all costs and expenses (including telephone, fax, copying, travel and personnel costs) reasonably incurred and properly documented by the Lender in connection with its taking such action as it may deem appropriate or in complying with any request by the Borrower in connection with:

- (1) the granting or proposed granting of any waiver or consent requested hereunder by the Borrower;
- (2) any actual breach by the Borrower of its obligations hereunder; or
- (3) any amendment or proposed amendment hereto requested by the Borrower.

20. ASSIGNMENTS AND TRANSFERS

20.1 Binding Agreement

This Agreement shall be binding upon and enure to the benefit of each party hereto and its or any subsequent successors and assigns.

20.2 No Assignments and Transfers by the Borrower

The Borrower shall not be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder.

20.3 Assignments by the Lender

- (a) Prior to an Event of Default, the Lender may, subject to the prior written consent of the Borrower (such consent not to be unreasonably withheld or delayed) at any time assign all or any of its rights and benefits hereunder or transfer all or any of its rights, benefits and obligations hereunder:
 - (i) in favour of the trustee; or
 - (ii) to any company which, as a result of any amalgamation, merger, corporate reorganisation or similar transaction or series of transactions or which, as a result of any agreement with the Lender (or any previous substitute) owns beneficially the whole or substantially the whole of the undertaking, property and assets owned by the Lender prior to such amalgamation, merger, corporate reorganisation or similar transaction or series of transactions or agreement coming into force and where, in the case of any company which will own the whole or substantially the whole of the undertaking, property or assets of the Lender, the substitution of that company as principal debtor in relation to the agreed funding source would not be materially prejudicial to the interests of the agreed funding source.
- (b) On or following an Event of Default, the Lender may, by notice to the Borrower, assign all or any of its rights and benefits hereunder or transfer all or any of its rights, benefits and obligations hereunder to any assignee or transferee appointed in connection with the agreed funding source.

21. CALCULATIONS AND EVIDENCE OF DEBT

21.1 Basis of Accrual

Default interest shall accrue from day to day and shall be calculated on the basis of a year 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.

21.2 Evidence of Debt

The Lender shall maintain in accordance with its usual practice accounts evidencing the amounts from time to time lent by and owing to it hereunder; in any legal action or proceeding arising out of or in connection with this Agreement, in the absence of manifest error and subject to the provision by the Lender to the Borrower of written information describing in reasonable detail the calculation or computation of such amounts together with the relevant supporting documents evidencing the matters described therein, the entries made in such accounts shall be conclusive evidence of the existence and amounts of the obligations of the Borrower therein recorded.

21.3 Change of Circumstance Certificates

A certificate signed by two authorised signatories of the Lender describing in reasonable detail (a) the amount by which a sum payable to it hereunder is to be increased under Clause 8.1 (*Tax Gross-up*) or (b) the amount for the time being required to indemnify it against any such cost, payment or

liability as is mentioned in Clause 8.3 (*Tax Indemnity*) or Clause 10.1 (*Increased Costs*) shall, in the absence of manifest error, be *prima facie* evidence of the existence and amounts of the specified obligations of the Borrower.

22. REMEDIES AND WAIVERS, PARTIAL INVALIDITY

22.1 Remedies and Waivers

No failure by the Lender to exercise, nor any delay by the Lender in exercising, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

22.2 Partial Invalidity

If, at any time, any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

23. NOTICES; LANGUAGE

23.1 Communications in Writing

Each communication to be made hereunder shall be made in writing and, unless otherwise stated, shall be made by fax, telex, or letter.

23.2 Delivery

Any communication or document to be made or delivered by one person to another pursuant to this Agreement shall (unless that other person has by 15 days' written notice to the same specified another address or fax number) be made or delivered to that other party at the fax number or address identified with its signature below and shall be effective when left at or delivered to that address (in the case of a letter) or when received by the addressee (in the case of a fax).

23.3 Language

This Agreement shall be signed in English but a Russian version may be prepared. If a Russian version is prepared, in the event of a conflict, the English language version shall prevail. Each communication and document made or delivered by one party to another pursuant to this Agreement shall be in the English language or accompanied by a translation thereof into English certified (by an officer of the person making or delivering the same) as being a true and accurate translation thereof.

24. LAW AND JURISDICTION

24.1 English Law

This Agreement is governed by, and shall be construed in accordance with, English law.

24.2 Jurisdiction

Subject to Clause 24.3, the Borrower agrees for the benefit of the Lender that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with this Agreement and accordingly submit to the exclusive jurisdiction of the courts of England.

24.3 Process Agent

The Lender may take any suit, action or proceedings (together referred to as "**Proceedings**") against the Borrower in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions. The Borrower appoints Law Debenture Corporate Services Limited at its registered office for the time being in England, to accept service of any Proceedings on its behalf.

24.4 Arbitration

If any dispute or difference of whatever nature howsoever arises from or in connection with this Agreement (or any supplement, modifications or additions thereto) (each a "**Dispute**"), the Lender may elect, by notice in writing to the Borrower, to settle such claim by arbitration in accordance

with the following provisions. The Borrower hereby agrees that (regardless of the nature of the Dispute) any Dispute may be settled by arbitration in accordance with the UNCITRAL Arbitration Rules (the “**Rules**”) as at present in force by a panel of three arbitrators (or a sole arbitrator as the parties may agree) appointed in accordance with the Rules. The seat of any reference to arbitration shall be London, England. The procedural law of any reference to arbitration shall be English law. The language of any arbitral proceedings shall be English. The appointing authority for the purposes set forth in Article 7(2) of the Rules shall be the London Court of International Arbitration.

25. 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, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

AS WITNESS the hands of the duly authorised representatives of the parties hereto the day and year first before written.

TAXATION

The following is a general description of certain Russian and German tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

Russian Federation

Taxation of the Notes

General

The following is a general summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of the Notes, as well as the taxation of payments on the Loan. The summary is based on the laws of Russia and the interpretations thereof by the Russian Ministry of Taxes and Levies, in effect on the date of this Offering Circular, and is subject to change possibly with retroactive effect. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal authorities of Russia. Nor does the summary seek to address the availability of double tax treaty relief in respect of the Notes, and it should be noted that there may be practical difficulties involved in claiming such 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 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 a permanent establishment in Russia.

The Russian tax treatment of interest payments made by Zenit to the Issuer under the Credit Facility Agreement may affect the holders of the Notes. See "Taxation of Interest on the Loan" below.

Non-Resident Holders

A non-resident holder of a Note will not be subject to any Russian taxes on receipt from the Issuer of amounts payable in respect of principal or interest on the Note, subject to the discussion below under "Taxation of Interest on the Loan".

A non-resident holder generally should not be subject to any Russian taxes in respect of gains or other income realised on a redemption, or other disposition of the Notes outside of Russia provided that the proceeds of such disposition are not received from a source within Russia.

A non-resident holder that is a legal person or organisation generally should not be subject to withholding tax on any gain realised on the sale or other disposition of the Notes even if the proceeds are received from a source within Russia, although there is some uncertainty regarding the treatment of the portion of such gain which is attributable to accrued interest on the Notes. The proceeds attributable to accrued interest may be taxed at a rate of 20 per cent. The taxation of the accrued interest may create a tax liability even where a capital loss was realised upon the disposition of the Notes. Non-resident holders that are legal persons or organisations should contact their own tax advisers with respect to this possibility.

A non-resident holder who is a physical person will not be subject to Russian taxation on income or capital gains if the disposition of their holdings takes place outside of Russia. If the Notes are disposed of to a resident of Russia and payment is made within or from Russia, the proceeds from such disposition may be regarded for personal income tax purposes as income from a source within Russia. If the disposition proceeds are payable by a Russian organisation, an individual entrepreneur or a Russian permanent establishment of a foreign organisation, the payer may be required to withhold Russian tax at a rate of 30 per cent., from the gross proceeds less available cost deductions (including original purchase price). If the disposition proceeds are payable by a Russian individual that is not an entrepreneur, Russian tax is not

required to be deducted at source, but is payable by the Noteholder directly. 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 and the currency of sale and rubles. Non-resident holders who are physical persons should consult their own tax advisers with respect to this possibility.

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 be extremely difficult, if not impossible.

Resident Holders

A holder of a Note who is a physical or legal person resident in Russia is subject to all applicable Russian taxes.

Taxation of Interest on the 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 a rate of 20 per cent., subject to reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on professional advice Zenit has received, it believes that payments of interest on the Loan should not be subject to withholding under the terms of the double taxation treaty between Russia and the Federal Republic of Germany. However, there can be no assurance that such exemption from withholding tax under the treaty will be obtained. If, as a result of the enforcement by the Trustee of the security granted to it by the Issuer by way of the security interests in the Trust Deed, interest under the Loan becomes payable to the Trustee, the benefit of the double tax treaty between Russia and the Federal Republic of Germany would cease and payments of interest may be subject to Russian withholding tax.

Prior to January 1, 2002, a claim for treaty relief from Russian withholding tax was subject to preliminary approval by the Russian tax authorities after review of relevant contracts. As of January 1, 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 Issuer's eligibility for treaty relief in greater detail during tax audits.

If the payments under the Loan are subject to any withholding (as a result of which the Issuer would reduce payments under the Notes in the amount of such withholding), Zenit is obliged to increase payments as may be necessary so that the net payments received by the Issuer 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 Zenit fails to increase the payments, such failure would constitute an Event of Default under the Credit Facility Agreement. If Zenit is obliged to increase payments, it may prepay the 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 is payable in Russia in respect of the Loan.

Federal Republic of Germany

The following is a general discussion of certain German income tax consequences of the acquisition, ownership and disposition of Notes. This summary is based on the laws currently in force and as applied in practice on the date of this document, which are subject to change, possibly with retroactive effect. The information provided below does not purport to be a complete, exhaustive or final summary of the tax law and practice currently applicable in the Federal Republic of Germany. Investors or other interested parties are required to obtain individual tax advice in connection with the acquisition and holding, as well as the sale or repayment, of Notes.

Resident Holders

Under German law, as currently in effect, payments of interest on the Notes to persons who are residents of Germany (that is, persons whose residence, customary place of abode, seat or place of management is located in Germany) are subject to German personal or corporate income tax and a solidarity surcharge of 5.5 per cent. on such taxes. In case of a corporate investor and in cases where the Notes are, e.g., part of a German trade or business of an individual or a partnership interest may be also subject to trade tax. If the Notes are kept or administered in a domestic securities deposit account by a German financial institution, which term includes a German branch of a foreign financial institution but excludes a foreign branch of a German financial institution, interest payments in respect of such Notes will be subject to a 30 per cent. advance interest income tax (*Zinsabschlagsteuer*) and a 5.5 per cent. solidarity surcharge on such tax. As a

result, such payments will be subject to a total withholding tax charge of 31.65 per cent. The *Zinsabschlagsteuer* and solidarity surcharge withheld from such payments are later credited as prepayments against the German personal or corporate income tax and the respective solidarity surcharge of the recipient.

If a holder sells a Note during a current interest period, the accrued interest received in connection therewith and credited separately (*Stückzinsen*) will also be subject to 30 per cent. *Zinsabschlagsteuer* and 5.5 per cent. solidarity surcharge, as above creditable against the personal or corporate income tax. *Stückzinsen* paid by a holder upon the purchase of a Note reduces the personal or corporate income tax base and, under certain circumstances, the taxable base for *Zinsabschlagsteuer* and solidarity surcharge.

The taxation of interest may be subject to change. The government has drafted a bill to introduce, for individuals, a new form of final withholding tax on interest (*Zinsabgeltungssteuer*) of 25 per cent. plus a 5.5 per cent. solidarity surcharge thereon, resulting in an aggregate withholding tax of 26.375 per cent. According to these plans, interest income would only be subject to income tax at individual rates, if the individual income tax rate is lower than 25 per cent. and if the individual taxpayer applies for the taxation on individual rates. However, whether and to what extent the planned changes will be enacted is subject to the legislative process and cannot be predicted in advance.

Capital gains realised by an individual tax resident of Germany upon the sale or other disposition of Notes that are not classified as financial innovations and do not form part of a German trade or business are not subject to German personal income tax if the gains are realised more than one year after the acquisition of Notes. As there is no uniform view regarding the classification of financial innovations for German tax purposes, it may be the case that the Notes are considered financial innovations. In such case any gain on the sale or other disposition of Notes is taxable for individuals regardless of the holding period, and is in principal subject to *Zinsabschlagsteuer* as well as a solidarity surcharge. Capital gains realised by corporate taxpayers upon the disposition of Notes, or as part of a German trade or business for an individual or a partnership, are subject to corporate income tax, the solidarity surcharge thereon and possibly trade tax.

Non-Resident Holders

Payments of interest, including accrued interest, to persons who are not tax residents of Germany and have no connection with Germany other than the receipt of payments in respect of the Notes are in general exempt from the *Zinsabschlagsteuer* and solidarity surcharge.

If the interest from a Note that is kept or administered in a German securities deposit account by a German financial institution, which term includes a German branch of a foreign financial institution but excludes a foreign branch of a German financial institution, is received by persons who are not residents of Germany and who is taxable in Germany only with respect to certain German source income, and if, according to German tax law, such interest falls into a category of taxable income from German sources (e.g., income effectively connected with a German trade or business) which is subject to a limited income tax liability on a special basis, the 30 per cent. *Zinsabschlagsteuer* and the 5.5 per cent. solidarity surcharge are applicable but can be credited against the German personal or corporate income tax liability of such non-residents.

It is still unclear whether the planned changes, described above, will affect the taxation of interests earned by non-resident holders. Gains realised by persons who are not tax residents of Germany from the sale or other disposition of Notes that are not held as part of a permanent establishment or fixed base in Germany will not be subject to tax in Germany.

Other Taxes

No stamp, issue, registration, or similar taxes or duties will be payable in Germany in connection with the issuance, delivery or execution of the Notes.

EU Directive on the taxation of savings income

On June 3, 2003, the European Council of Economics and Finance Ministers agreed on proposals under which Member States will be required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, except that, for a transitional period, Belgium, Luxembourg and Austria will instead be required to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). Subject to certain conditions of the directive being met, the provisions of the directive will be effective as of January 1, 2005.

SUBSCRIPTION AND SALE

ING Bank N.V., London Branch, WestLB AG, BankTuranAlem, Bayerische Hypo- und Vereinsbank AG, Joint Stock Commercial Bank Moscow Business World, Parex Bank and Standard Bank London Limited (the “Managers”) have, pursuant to a Subscription Agreement (the “Subscription Agreement”) dated June 10, 2003, jointly and severally agreed to subscribe or procure subscribers for the Notes at the issue price of 100 per cent. of the principal amount of Notes less a combined management, underwriting and selling commission of 0.7 per cent. of the principal amount of the Notes. Each of Zenit and the Issuer has agreed to indemnify the Managers against certain liabilities incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment to the Issuer.

The Managers and their respective affiliates have from time to time performed and may in the future perform various financial advisory, commercial banking and investment banking services for Zenit and its affiliates, for which they received or will receive customary fees.

United States

The Notes 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. Notes in bearer form are subject to U.S. tax law requirements and may not be sold, offered or delivered within the United States or its possessions or to a United States person except in certain transactions permitted by U.S. tax regulations.

Prior to the expiration of a 40-day distribution compliance period commencing on the closing date, the Notes may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons and any such sales conducted by a broker/dealer (whether or not it is participating in the offering) may violate the registration requirements of the Securities Act. Thereafter, the Notes 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, or not subject to, the registration requirements of the Securities Act. Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (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 that it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

United Kingdom

Each Manager has represented and agreed that, except as permitted by the Subscription Agreement:

- (i) it has not offered or sold and, prior to the expiry of the period of six months from the closing 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 businesses 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 (as amended);
- (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 the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or Zenit; 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.

The Russian Federation

Each Manager has represented and agreed that it has not offered or sold or otherwise transferred and will not offer or sell or otherwise transfer the Notes as part of their initial distribution to or for the benefit of any person (including legal entities) that are resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except in compliance with Russian law. The Notes may not be sold or offered to or for the benefit of any

person (including legal entities) that are resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except in compliance with Russian law.

The Federal Republic of Germany

Each Manager has represented and agreed that the Notes have not been and will not be offered, sold or publicly promoted or advertised in the Federal Republic of Germany other than in compliance with the German Securities Selling Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*) of December 13, 1990, as amended, or any other laws applicable in the Federal Republic of Germany governing the issue, offering and sale of securities.

The Republic of Italy

Each Manager has represented that it will not offer, sell or deliver any Notes or distribute copies of the Offering Circular or any other document relating to the Notes in the Republic of Italy other than to professional investors (*operatori qualificati*), as defined in Article 31, paragraph 2 of CONSOB Regulation No. 11522 of July 1, 1998 (“Regulation No. 11522”), as recently amended, pursuant to Article 30, paragraph 2 and Article 100 of the Italian Financial Act (Legislative Decree No. 58 of February 24, 1998) (“Decree No. 58”) and in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations, provided, however, that any such offer, sale or delivery of the Notes or distribution of copies of this Offering Circular or any other document relating to the Notes in the Republic of Italy must be:

- (a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of September 1, 1993 (“Decree No. 385”), Decree No. 58, Regulation No. 11522, as amended, and any other applicable laws and regulations;
- (b) in compliance with Article 129 of Decree No. 385 and the implementing instructions of the Bank of Italy, pursuant to which the issue, trading or placement of securities in Italy is subject to prior notification to the Bank of Italy, unless an exemption, depending, *inter alia*, on the amount of the issue and characteristics of the securities, applies. Pursuant to Section 129 of Decree No. 385, the offer, sale or transfer of the Notes to Italian investors is conditioned upon obtaining authorisation from the Bank of Italy; and
- (c) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

The Notes may not be placed, sold or offered to individuals resident in Italy neither in the primary or in the secondary market.

The Republic of France

Each of the Managers and the Issuer has represented and agreed that it has not offered or sold, and will not offer or sell, directly or indirectly any Notes to the public in the Republic of France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in the Republic of France, this document or any other offering material relating to the Notes, and that such offers, sales and distributions have been and shall only be made in France to qualified investors (*investisseurs qualifiés*) acting for their own account, all as defined in and in accordance with Articles L.411-1 and L.411-2 of the *Code monétaire et financier* and *décret* no. 98-880 dated October 1, 1998.

Singapore

The Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore (the “MAS”) under the Securities and Futures Act 2001 (Act 42 of 2001) of Singapore (the “Securities and Futures Act”). Accordingly, the Notes may not be offered or sold or made the subject of an invitation for subscription or purchase nor may the Offering Circular or any other document or material in connection with the offer or sale or invitation for subscription or purchase of such Notes be circulated or distributed, whether directly or indirectly, to the public or any member of the public in Singapore other than (1) to an institutional investor or other person falling within Section 274 of the Securities and Futures Act, (2) to a sophisticated investor (as defined in Section 275 of the Securities and Futures Act) and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (3) otherwise than pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Kazakhstan

Each Manager has agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy or sell the Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in Kazakhstan except in compliance with the laws of Kazakhstan.

General

No action has or will be taken in any jurisdiction by the Issuer, Zenit or any of the Managers that would, or is intended to, permit a public offer of the Notes or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Accordingly, each Manager has undertaken to the Issuer and Zenit that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

THE BANKING SECTOR AND BANKING REGULATION IN THE RUSSIAN FEDERATION

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 December 2, 1990 as amended on April 26, 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 July 10, 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 CBR are federal property. According to the latest available data, as of December 31, 2002, the CBR’s assets amounted to RUR2.2 billion (U.S.\$69.1 million at the exchange rate of RUR31.83 per U.S.\$1.00) and its gold reserves, as of January 3, 2003, amounted to U.S.\$48 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 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 February 3, 1996 (as amended) (the “Banking Law”) and “On Currency Regulation and Currency Control”, dated October 9, 1992 (as amended) (the “Currency 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 the issue of money and from 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 rubles; provision of cash and settlement services of banks; providing banks with guarantees; 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 of the Russian Federation domestic state debt.

Exchange control	Regulation of dealing and settlements in rubles; regulation of foreign currency operations; administration of the gold and currency reserves; establishment of regimes for ruble and foreign currency accounts of residents and non-residents in Russia.
Licencing	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 temporary administration to 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 and 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 (*e.g.*, the Ministry of Finance) are largely inactive in relation to banks. The Association of Russian Banks, consisting of 476 banks and credit organisations (as of April 1, 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. Licencing

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 October 1, 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. Starting from the end of September 2001, the minimum capital requirement is set to amount of euro 5 million for newly founded banks and, starting from the end of February 2002, euro 5 million for banks founded by foreign banks under Directive of the CBR No. 586-u, dated June 24, 1999 (with further amendments).

Banks with capital of euro 5 million and more 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., starting from February 1, 2000.

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 current CBR reserve and liquidity requirements are as follows:

- Mandatory reserve requirements in the amount of 10 per cent. in respect of funds in rubles 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 ruble 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.

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 October 24, 1997. Despite certain differences, such accounting statements represent a close approximation to International Accounting Standards.

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 relaxation of controls over companies and inter-bank settlements, a small group of dependent, a few 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 1,773 as of December 31, 2002.

On August 17, 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 December 31, 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.

A draft law “On Mandatory Insurance of Individuals’ Deposits” setting forth a deposit insurance scheme for retail depositors and the Foreign Exchange Bill are currently being considered by the State Duma. See “Certain Risk Factors – Risks Relating to Zenit’s Business and Industry – If pending legislation giving Russian residents greater freedom to engage in financial transactions abroad is enacted, Zenit may lose business” and “Certain Risk Factors – Risks Relating to Zenit’s Business and Industry – Russian banking reforms and their effect on banking regulation and supervision may have a negative impact on Zenit”.

GENERAL INFORMATION

1. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg with a Common Code of 017038842. The International Securities Identification Number for the Notes is XS0170388424.
2. In connection with the application for the Notes to be listed on the Luxembourg Stock Exchange, a copy of a legal notice relating to the issue of the Notes and a copy of Zenit's charter in the English language will be deposited prior to listing with the *Registre de Commerce et des sociétés, Luxembourg* where it may be inspected and copies obtained upon request. Copies (and English translations where the documents in question are not in English) of the following documents may be inspected at and are available from the specified offices of the Paying Agents during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) so long as any of the Notes is listed on the Luxembourg Stock Exchange:
 - (a) the Agency Agreement;
 - (b) the Trust Deed, which includes the forms of the Global Notes and the definitive Notes;
 - (c) the consolidated audited financial statements of Zenit in respect of each of the financial years ended December 31, 2002, 2001 and 2000. Zenit currently prepares audited consolidated accounts on an annual basis. Zenit currently does not publish any non-consolidated or interim financial statements;
 - (d) copies of the authorisations listed below;
 - (e) the Credit Facility Agreement;
 - (f) the most recent quarterly reports of Zenit to the CBR and the Federal Commission on the Securities Markets; and
3. The Credit Facility Agreement and the Subscription Agreement have been approved and authorised by a resolution of the Management Board dated May 30, 2003.
4. Save as disclosed in this Offering Circular, since December 31, 2002 there has been no material adverse change or any development involving a prospective material adverse change in the condition (financial or otherwise), general affairs or prospects of Zenit that is material in the context of the issue of the Notes.
5. Zenit has obtained all necessary consents, approvals and authorisations in Russia in connection with the Loan.
6. Zenit's IFRS Financial Statements as at and for the year ended December 31, 2002 included in this document have been audited by Ernst & Young (CIS) Limited, independent auditors, who have expressed an unqualified opinion on those statements, as stated in their report appearing herein. Zenit's IFRS Financial Statements as at and for the years ended December 31, 2000 and December 31, 2001 have been audited by ZAO PricewaterhouseCoopers, independent auditors, who have expressed an unqualified opinion on the IFRS Financial Statements as at and for the year ended December 31, 2001, but who have expressed a qualified opinion on the IFRS Financial Statements as at and for the year ended December 31, 2000 due to the accounting treatment of forward foreign exchange contracts that resulted in an understatement of net income in 2000. See Note 28 to the IFRS Financial Statements included elsewhere in this document for further details.
7. No consents, approvals, authorisations or orders of any regulatory authorities are required by the Issuer under the laws of the Federal Republic of Germany for the maintaining of the Loan or for the issue and performance of the Notes.
8. There are no lawsuits, litigation or other legal or administrative or arbitration proceedings against or affecting Zenit, current or pending or, to the best of the knowledge and belief of Zenit, threatened before any court, tribunal, arbitration panel or agency which may have or have had in the 12 months preceding the date of this document, a significant effect on Zenit's financial position.
9. The Trust Deed will provide, *inter alia*, that the Trustee may act and/or rely on the opinion or advice of or a certificate or any information obtained from any lawyer, banker, valuer, surveyor, broker, auctioneer, accountant, auditor or other expert (whether or not addressed to the Trustee), notwithstanding that such opinion, advice certificate or information contains a monetary or other limit on any of the above-mentioned persons in respect thereof.

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of Bank ZENIT:

We have audited the consolidated balance sheet of Bank ZENIT (the “Bank”) as of December 31, 2002, and the related consolidated statements of income, shareholders’ equity, and cash flows for the year then ended. These financial statements are the responsibility of the Bank’s management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Bank for the years ended December 31, 2001 and 2000, were audited by other auditors whose report dated May 24, 2002 expressed an unqualified opinion on the 2001 financial statements, and whose report dated May 11, 2001 expressed a qualified opinion on the 2000 financial statements due to the accounting treatment of forward foreign exchange contracts that resulted in an understatement of net income. See Note 28 for further details.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed above, the financial statements of the Bank as of December 31, 2001 and 2000, and for the years then ended were audited by other auditors. In applying IAS 29, the Bank applied the 2002 Russian consumer price index (“CPI”) to restate the 2001 and 2000 financial statement amounts as described in Note 4. The Bank also changed its presentation currency during 2002 from the Russian Ruble to the U.S. dollars. We have audited the restatement of the 2001 and 2000 financial statement amounts for the 2002 change in the general purchasing power of the Russian Ruble and their translation to US Dollars for presentation purposes. Our procedures included (a) ensuring that the Bank applied the proper 2002 CPI to restate the 2001 and 2000 amounts, (b) ensuring that the Bank applied the correct exchange rate to translate the 2001 and 2000 amounts to US Dollars, and (c) testing the mathematical accuracy of the restatement for the 2002 CPI and translation from Russian Rubles to US Dollars. In our opinion, the restatement and translation are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2001 and 2000 financial statements of the Bank other than with respect to such restatement and translation and, accordingly, we do not express an opinion or any other form of assurance on the 2001 and 2000 financial statements taken as a whole.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bank ZENIT as of December 31, 2002, and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as published by the International Accounting Standards Board.

We draw attention to Note 30 to the accompanying financial statements. A substantial portion of the Bank’s assets is due from related parties, and significant components of the Bank’s liabilities and earnings are derived from activities with related parties.

Ernst & Young (CIS) Limited

April 16, 2003

Bank ZENIT**Consolidated Balance Sheets**

(Thousands of U.S. dollars – Presentation Purposes Only)

		December 31,		
	Note	2002	2001	2000
Assets				
Cash and cash equivalents.....	5	76,309	50,849	34,098
Mandatory cash balances with the Central Bank of the Russian Federation		41,078	32,593	28,243
Precious metals	6	3,047	12,516	189
Due from other banks	7	65,780	60,514	63,512
Trading securities	8	79,895	165,626	71,048
Available for sale securities	9	41,189	499	288
Loans and advances to customers	10	388,552	330,978	208,070
Accrued interest income.....		4,322	8,908	8,691
Amounts receivable under forward contracts	28	—	—	31,166
Premises and equipment	11	21,696	2,335	2,696
Other assets	12	5,269	6,994	1,851
Total assets		727,137	671,812	449,852
Liabilities				
Due to other banks	13	102,578	103,075	48,359
Customer accounts	14	322,499	261,226	250,622
Debt securities issued	15	153,513	138,634	23,315
Obligations under forward contracts	28	—	—	35,889
Other borrowed funds	16	1,700	23,685	4,621
Accrued interest expense		10,852	3,850	1,918
Other liabilities	17	745	3,430	4,787
Deferred tax liability	24	3,998	5,322	1,911
Total liabilities		595,885	539,222	371,422
Shareholders' equity				
Share capital	18	99,203	99,203	62,375
Retained earnings and other reserves	19	32,049	33,387	16,055
Total shareholders' equity		131,252	132,590	78,430
Total liabilities and shareholders' equity		727,137	671,812	449,852

Signed on behalf of the Board of Directors on April 16, 2003

Sokolov A.A.
Chairman of the Board

Rudik S.V.
Financial Director

The notes set out on pages F-7 to F-36 form an integral part of these consolidated financial statements.

Bank ZENIT**Consolidated Statements of Income**

(Thousands of U.S. dollars – Presentation Purposes Only)

	Note	Year ended December 31,		
		2002	2001	2000
Interest income	20	69,896	63,179	41,077
Interest expense	20	(33,956)	(17,968)	(16,588)
Net interest income		35,940	45,211	24,489
Provision for loan impairment	7, 10	(2,047)	(10,938)	(8,867)
Net interest income after provision for loan impairment		33,893	34,273	15,622
Net income from dealing in precious metals		1,840	1,090	925
Gains less losses arising from trading securities....		5,103	11,495	12,874
Gains less losses arising from dealing in foreign currencies		7,002	6,264	6,931
Foreign exchange translation gains less losses		2,941	2,202	3,066
Fee and commission income	21	13,616	12,528	10,074
Fee and commission expense	21	(1,926)	(2,595)	(3,247)
Other operating income		2,272	3,471	2,701
Net revenues		64,741	68,728	48,946
Operating expenses	22	(34,010)	(27,160)	(22,978)
Net financial results from domestic index forwards	28	—	3,971	(1,152)
Reversal of allowances for losses on credit related commitments	28	—	279	1,150
Loss on initial recognition of financial assets	9	(1,156)	—	—
Monetary loss		(18,226)	(14,164)	(10,221)
Profit before taxation and exceptional item		11,349	31,654	15,745
Exceptional item – Interest on Nostro accounts ..	23	—	—	3,075
Profit before income tax expense		11,349	31,654	18,820
Income tax expense	24	(3,913)	(13,087)	(7,391)
Net profit		7,436	18,567	11,429

The notes set out on pages F-7 to F-36 form an integral part of these consolidated financial statements.

Bank ZENIT**Consolidated Statements of Changes in Shareholders' Equity**

(Thousands of U.S. dollars – Presentation Purposes Only)

	Share capital	Retained earnings and other reserves	Total shareholders' equity
Balance at January 1, 2000	38,128	6,251	44,379
Net profit	—	11,429	11,429
Share issue	24,247	—	24,247
Dividends	—	(1,625)	(1,625)
Balance at December 31, 2000 (as previously reported)	62,375	16,055	78,430
Effect of adopting of IAS 39 on loans and advances due from other banks (Note 7), net of taxation	—	83	83
Effect of adopting of IAS 39 on loans and advances to customers (Note 10), net of taxation	—	492	492
Effect of adopting of IAS 39 on credit related commitments (Note 28), net of taxation	—	37	37
Balance at December 31, 2000, adjusted	62,375	16,667	79,042
Translation movement (Note 4)	—	437	437
Net profit	—	18,567	18,567
Share issue	36,828	—	36,828
Dividends	—	(2,284)	(2,284)
Balance at December 31, 2001	99,203	33,387	132,590
Translation movement (Note 4)	—	357	357
Net profit	—	7,436	7,436
Distributions (Note 25)	—	(5,577)	(5,577)
Dividends	—	(3,554)	(3,554)
Balance at December 31, 2002	99,203	32,049	131,252

The notes set out on pages F-7 to F-36 form an integral part of these consolidated financial statements.

Bank ZENIT**Consolidated Statements of Cash Flows**

(Thousands of U.S. dollars – Presentation Purposes Only)

		Year ended December 31,		
	Note	2002	2001	2000
Cash flows from operating activities				
Interest received on loans		55,369	51,874	33,014
Interest paid		(24,003)	(15,894)	(15,457)
Interest received on securities.....		13,636	9,704	4,655
Income received from dealing in securities and foreign currencies		14,560	10,278	6,931
Income received from dealing in precious metals		1,729	479	820
Fees and commissions received		12,413	12,528	10,074
Fees and commissions paid		(1,775)	(2,595)	(3,247)
Other operating income received		1,948	3,550	2,701
Operating expenses paid		(31,129)	(27,548)	(20,988)
Income tax paid		(6,660)	(9,373)	(5,480)
Operating activities before changes in operating assets and liabilities		36,088	33,003	13,023
Net cash increase (decrease) from operating assets and liabilities				
Mandatory CBRF cash balances.....		(12,762)	(9,509)	(19,641)
Precious metals.....		7,827	(12,533)	4,166
Due from other banks.....		(12,807)	(3,635)	(49,375)
Trading securities.....		64,003	(88,799)	(62,478)
Loans and advances to customers.....		(103,440)	(177,054)	(102,027)
Other assets.....		2,310	(5,741)	1,348
Due to other banks		13,026	63,546	26,051
Customer accounts		95,543	47,273	109,913
Debt securities issued		33,067	123,231	(3,396)
Other liabilities.....		(1,853)	(404)	(1,331)
Net cash from (used in) operating activities.....		121,002	(30,622)	(83,747)
Cash flows from investing activities				
Purchase and funding of premises and equipment		(19,452)	(246)	(410)
Purchase of available for sale securities		(41,911)	—	—
Proceeds from sales of available for sale securities.....		—	301	—
Proceeds from sale of equipment.....		—	—	3
Net cash from (used in) investing activities		(61,363)	55	(407)
Cash flows from financing activities				
Issuance of ordinary shares	18	—	36,828	24,247
Other borrowed funds proceeds.....		—	20,938	—
Other borrowed funds payments		(18,877)	—	—
Dividends paid		(3,554)	(2,284)	(1,625)
Distributions to shareholder.....	25	(5,577)	—	—
Net cash from (used in) financing activities		(28,008)	55,482	22,622
Effect of exchange rate changes on cash and cash equivalents				
		650	1,350	9,612
Effect of inflation on cash and cash equivalents		(6,821)	(9,514)	(5,444)
Net increase in cash and cash equivalents		25,460	16,751	(57,364)
Cash and cash equivalents, beginning.....		50,849	34,098	91,462
Cash and cash equivalents, ending	5	76,309	50,849	34,098

The notes set out on pages F-7 to F-36 form an integral part of these consolidated financial statements.

Bank ZENIT

Notes to Consolidated Financial Statements – December 31, 2002

(Thousands of U.S. dollars – Presentation Purposes Only (unless otherwise noted, see Note 3))

1. Principal Activities

These consolidated financial statements include the financial statements of Bank ZENIT and its special purpose entities (“SPEs”). Bank ZENIT and its SPEs are hereinafter collectively referred to as the “Bank”.

Bank ZENIT is a commercial bank owned by shareholders whose liability is limited. Bank ZENIT has been registered in the Russian Federation to carry out banking and foreign exchange activities since 1995, and obtained a full banking licence issued by the Central Bank of the Russian Federation (“CBRF”) in 1996. The Bank’s principal business activity is commercial banking operations within the Russian Federation.

The Bank has five branches in the Russian Federation. The Bank’s registered office is located in Moscow at Bannyi Pereulok, 9. The average number of employees during the year was 703 (2001 and 2000: 554 and 450, respectively).

The SPEs, registered in Cyprus, are used by the Bank mainly to manage its securities portfolio. The SPEs are regulated by applicable company law in Cyprus. These SPEs are not legally owned by the Bank. However, they have been consolidated with Bank ZENIT as certain activities of the SPEs are conducted according to the Bank’s specific business needs so that it obtains benefits from the SPEs’ operations.

The major shareholder of the Bank is Open Joint Stock Company Tatneft (OAO Tatneft), which owns 50.0 per cent. plus one share of the share capital of Bank ZENIT.

2. Operating Environment

The economy of the Russian Federation continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country; a low level of liquidity in the public and private debt and equity markets; and relatively high inflation.

Additionally, the banking sector in the Russian Federation is particularly affected by adverse currency fluctuations and economic conditions. Furthermore, the need for further developments in bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks. The political stabilisation beginning in 2000 and continuing through 2002 has been a positive contributing factor to the further development of the political and legal environment.

The prospects for future economic stability are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political developments, that are beyond the Bank’s control.

In addition, economic conditions continue to limit the volume of activity in Russia’s financial markets. Market quotations may not be reflective of securities values that would be determined in an efficient, active market involving willing buyers and willing sellers. Management has therefore used the best available information to adjust market quotations to reflect the best estimate of fair values where considered necessary.

3. Basis of Presentation

The consolidated financial statements of the Bank are prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board. The consolidated financial statements are based on and prepared from the Bank’s accounting records, which are maintained in accordance with the relevant legislation and regulations for banks in the Russian Federation, and from the accounting records of its SPEs, which maintain their accounting records in accordance with the applicable company law of the country of their residence. These consolidated financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with IFRS.

The Bank’s measurement currency is the Russian Ruble (“RUR”) as the majority of the Bank’s transactions are denominated, measured, or funded in RUR. Transactions in other currencies are treated as transactions in foreign currencies. The consolidated financial statements as of December 31, 2001 and 2000, and for the years then ended were previously presented in RUR. Beginning in 2002, the consolidated

financial statements are presented in thousands of US Dollars (“\$” or “USD”), except per share amounts. The change in presentation currency to U.S. dollars is due to the Bank’s increased focus on international markets. Amounts for 2001 and 2000 have been translated to USD, following the application of the necessary hyperinflation restatement.

The Bank’s assets, liabilities and equity items and income and expense items were translated at the year-end 2002 RUR/USD exchange rate of 31.78. Before translation into the presentation currency, U.S. dollars, the RUR balances for all periods presented were restated in order to express them in terms of the purchasing power of the RUR as of December 31, 2002.

As at January 1, 2001, the Bank adopted IAS 39 “Financial Instruments: Recognition and Measurement” (“IAS 39”). The financial effects of adopting IAS 39 are reported in the consolidated statement of changes in shareholders equity. IAS 39 has been applied prospectively in accordance with the requirements of the Standard. Further information relating to the effect of the adoption of IAS 39 is presented in the relevant accounting policies and disclosures for financial assets and liabilities.

4. Significant Accounting Policies

Consolidated financial statements. The accompanying consolidated financial statements include SPEs. The SPEs are not legally owned by the Bank. They have been consolidated as certain activities of the SPEs are being conducted according to the Bank’s specific business needs so that it obtains benefits from the SPEs’ operations. The SPEs include Zerama Holding Ltd., Zetex Holding Ltd., ZB Holding Ltd. and Whill Co. Trading Ltd. The SPEs are registered in Cyprus and used by the Bank mainly to manage its securities portfolio.

Intercompany transactions, balances and unrealised surpluses and deficits on transactions between the Bank and consolidated companies have been eliminated upon consolidation. Where necessary, accounting policies for the SPEs have been changed to ensure consistency with the policies adopted by the Bank.

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash within a day. Short-term inter-bank placements, beyond overnight deposits, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature are excluded from cash and cash equivalents.

Mandatory balances with the CBRF. Mandatory balances with the CBRF represent mandatory reserve deposits which are not available to finance the Bank’s day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the cash flow statement.

Precious metals. Gold and other precious metals are recorded at market value at the balance sheet date.

Trading securities. At January 1, 2001 the Bank adopted IAS 39 and classified part of its securities portfolio as “trading” securities. Trading securities are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer’s margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. The Bank classifies securities into trading securities if it has an intention to sell them within one year after purchase.

Trading securities are initially recognized at cost (which includes transaction costs) and subsequently re-measured at fair value based on their market value or after the application of various valuation methodologies, including assumptions as to the future realisability of these securities. In determining market value, trading securities are valued at the last trade price if quoted on an exchange or, if traded over-the-counter, at the last bid price.

Changes in fair values are recorded within gains less losses arising from trading securities in the statement of income in the period in which the change occurs. Coupon and interest earned on trading securities are reflected in the statement of income as interest income on securities. Dividends received are included in dividend income.

Prior to the adoption of IAS 39, trading securities have also been treated by the Bank as part of its trading portfolio. Government securities and corporate shares were carried at market value. The values for other securities were derived either from market quotations or from the Management’s assessment of the future realisability of these securities. Certain securities, for which there was no readily attainable market value or those securities for which Management had determined that the available quotation did not depict their true market value, were fair valued by Management. Changes in market values were

recorded within gains less losses arising from securities in the statement of income in the period in which the change occurred. Coupon and interest earned on trading securities were reflected in the consolidated statement of income as interest income on securities. Dividends received were included in dividend income.

Regular way sales of securities are recognised at trade date, which is the date when the Bank commits to purchase or sell the asset. Other purchases and sales are recognised as derivative forward transactions until settlement.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included into trading securities. The corresponding liability is presented within due to other banks or customer accounts. Securities purchased under agreements to resell (“reverse repurchase”) are recorded as loans and advances to banks or customers as appropriate. The difference between the sale and repurchase prices is treated as interest and accrued over the life of the repurchase agreements using the effective yield method.

Securities lent to counterparts are retained in the consolidated financial statements. Securities borrowed are not recognised in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses arising from trading securities in the consolidated statement of income. The obligation to return them is recorded at fair value as a trading liability.

Originated loans and advances and allowances for loan impairment. Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down are categorised as loans originated by the Bank and are carried at amortised cost less allowance for loan impairment.

Loans and advances are recognised when cash is advanced to borrowers.

A credit risk allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect the amounts due. The allowance is equal to the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the instrument’s interest rate at inception.

The allowance for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component and the credit ratings assigned to the borrowers, and reflect the current economic environment in which the borrowers operate.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after the necessary legal procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are treated as income.

If the required allowance for loan impairment subsequently decreases due to an event occurring after the write-down, the release of the allowance is credited to the “provision for loan impairment” line in the consolidated statement of income.

The Bank does not enter into transactions for purchases of loans with third parties.

Prior to the adoption of IAS 39, loans and advances were stated at the principal amounts outstanding net of allowance for losses on loans and advances.

Available for sale securities. At January 1, 2001 the Bank adopted IAS 39 and classified part of its securities as “available for sale”. This classification includes investment securities which Management intends to hold for an indefinite period of time, that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Management determines the appropriate classification of its investment securities at the time of purchase.

Available for sale securities are initially recognised at cost (which includes transaction costs) and subsequently re-measured to fair value based on quoted bid prices. Certain available for sale securities for which there is no available external independent quotation have been fair valued by Management. Fair value has been determined after the application of various valuation methodologies, including assumptions as to amounts to be realised on settlement. Realised and unrealised gains and losses arising from changes in the fair value of available for sale securities are included in the consolidated statement of income in the period in which they arise. Coupon and interest earned on available for sale securities are reflected in the consolidated statement of income as interest income on securities. Dividends received are included in dividend income.

Prior to the adoption of IAS 39, available for sale securities were treated by the Bank as part of its trading portfolio and recognised in the financial statements in accordance with the accounting policies for trading securities described above.

Other credit related commitments. In the normal course of business, the Bank enters into other credit related commitments including loan commitments, letters of credit and guarantees. Specific provisions are made against other credit related commitments when losses are considered probable.

Premises and equipment. Premises and equipment is stated at cost, restated to the equivalent purchasing power of the Russian Ruble at December 31, 2002, as described below, less accumulated depreciation and allowance for impairment, where required. Where the carrying value of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the statement of income. The estimated recoverable amount is the higher of an asset's net selling price and its value in use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Premises	25-50
Furniture and fixtures	2-5
Computers and office equipment	5
Motor vehicles.....	4

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and are taken into account in determining net profit. Repairs and maintenance are charged to the consolidated statement of income when the expenditure is incurred.

Finance leases. When assets are purchased under a financial lease, the present value of the lease payments ("net investment in the lease") is recognised as payable. The difference between the gross payable and the present value of the payable is recognised as a future finance charge. The finance charge is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return. The net investment in the lease and the related obligations to purchase the asset are recorded when the lease contract is signed. Any advance payments made by the lessee prior to commencement of the lease reduce the net investment in the lease.

Promissory notes. Promissory notes issued by the Bank to its customers, more commonly known as "veksels", carry a fixed date of repayment. These may be issued against cash deposits or as a payment instrument, which the customer can discount in the over-the-counter secondary market. Promissory notes issued by the Bank are recognised initially at cost, being their issue proceeds net of transaction costs incurred. Subsequently, promissory notes issued are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the consolidated statement of income over the period of the security issue using the effective yield method.

Prior to adoption of IAS 39, promissory notes issued by the Bank were recorded at nominal value with the corresponding discount recorded within other assets and amortised to the consolidated statement of income over the period of maturity of the security. The Bank also purchases promissory notes from its customers or in the market. These promissory notes are included in trading securities, available for sale securities, loans and advances to customers or in due from other banks, depending on their substance and subsequently re-measured and accounted in accordance with the accounting policies described above for those categories of assets.

Borrowings. Borrowings are recognised initially at 'cost', being their issue proceeds net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the consolidated statement of income over the period of the borrowings using the effective yield method.

Dividends. Dividends payable are not accounted for until they have been ratified at the Bank's Annual General Meeting. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

Income taxes. Taxation has been provided for in the consolidated financial statements in accordance with legislation currently in force in Russia and Cyprus. Charge for taxation in the consolidated statement of income for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year, using the tax rates enacted at the balance sheet date. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Income and expense recognition. Interest income and expense are recognised in the consolidated statement of income on an accruals basis. Interest income is not fully recognised when it is overdue and/or in situations where Management believes it is not collectible. Interest income includes coupons earned on fixed income securities and accrued discount. Commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognised at the time the products are received or the service is provided.

Foreign currency translation. Transactions denominated in foreign currency are recorded at the exchange rate ruling on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the consolidated statement of income using the exchange rate ruling on that date.

Monetary assets and liabilities denominated in foreign currency are translated into Russian Rubles at the official exchange rate of the CBRF at the balance sheet date. Foreign currency gains and losses arising from the translation of assets and liabilities are reflected in the consolidated statement of income as foreign exchange translation gains less losses. As at December 31, 2002 the principal rate of exchange used for translating foreign currency balances was \$1.00 = RUR31.78 (2001: \$1.00 = RUR30.14; 2000: \$1.00 = RUR28.16). Exchange restrictions and controls exist relating to converting Russian Rubles into other currencies. At present, the Russian Ruble is not a convertible currency outside of the Russian Federation.

In accordance with IAS 21 “The Effects of Changes in Foreign Exchange Rates”, the balance sheets of foreign SPEs whose operations are not integral to those of the parent have been translated into Russian Rubles at the applicable year end exchange rate as required by IAS 21. Their statements of income are translated into Russian Rubles at exchange rates effective as of the date of transaction.

In accordance with IAS 21, the exchange difference arising from the use of the different exchange rates forms part of the Bank’s net investment in a foreign entity and is included as a component of equity in the consolidated financial statements until the disposal of these entities, at which time it should be recognised as income or expense. This exchange difference is reflected within the translation movement in the consolidated statement of changes in shareholders’ equity.

Derivative financial instruments. Derivative financial instruments including foreign exchange contracts, forward rate agreements, currency swaps and other derivative financial instruments are initially recognised in the consolidated balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models, options pricing models or using the spot rate at the year end as the basis as appropriate. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives are included in gains less losses arising from dealing in foreign currency, gains less losses arising from trading securities and gains less losses from dealing in precious metals depending on the related contracts. The Bank does not enter into derivative instruments for hedging purposes.

The August 1998 economic crisis and the subsequent legal uncertainty over derivative contracts have necessitated the Bank to modify its accounting policy with regard to domestic index forwards as described below.

Gains and losses on domestic index forwards have been calculated applying the exchange rate on the contractual maturity date. Where settlements have been negotiated with counterparts, the gain or loss has been recognised based on the settlement amounts. For contracts which have not been settled, Management has recognised the gain or loss at the amount at which they believe the contract could be settled. When the Bank had contracts to both buy and sell foreign currencies with the same counterpart, the gains and losses have been offset.

Trust activities. Assets and liabilities held by the Bank in its own name, but for the account of third parties, are not reported on the consolidated balance sheet. Commissions received from such business are shown as fees and commissions received in the consolidated statement of income.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Accounting for the effects of hyperinflation. Russia continues to experience relatively high levels of inflation and is considered to be hyperinflationary as defined by IAS 29 “Financial Reporting in Hyperinflationary Economies” (“IAS 29”). Accordingly, adjustments and reclassifications made for the purposes of IFRS presentation include the restatement, in accordance with IAS 29, for changes in the general purchasing power of the Russian Ruble. IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. IFRS indicates that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The application of IAS 29 results in an adjustment to the consolidated statement of income for the loss of purchasing power of the Russian Ruble. This gain or loss on net monetary position is calculated as the difference resulting from the restatement of non-monetary assets, shareholders’ equity and profit and loss account items. Corresponding figures for the years ended December 31, 2001 and 2000 have also been restated for the changes in the general purchasing power of the Russian Ruble at December 31, 2002.

The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index (“CPI”), published by the Russian Statistics Agency. The inflation indices for the six years ended December 31, 2002, and the respective conversion factors are as follows:

	Index	Conversion Factor
1997	11.0%	4.596
1998	84.4%	4.141
1999	36.5%	2.245
2000	20.2%	1.645
2001	18.9%	1.369
2002	15.1%	1.151

Monetary assets and liabilities as of December 31, 2002 are not restated because they are already expressed in terms of the monetary unit current as of December 31, 2002. Non-monetary assets and liabilities as of December 31, 2002 (items which are not expressed in terms of the monetary unit current at December 31, 2002) are restated by applying the relevant conversion factor. The effect of inflation on the Bank’s net monetary position is included in the consolidated statement of income as a monetary gain or loss.

Premises and equipment have been indexed by the change in the general price index from the date of purchase or from the date of the last revaluation. Where indexation is applied, an assessment has been made of the potential impairment and diminution in the carrying value of these assets and, where applicable, such assets have been reduced to their recoverable amounts.

Components of equity have been indexed by the change in the general price index from the approximate date of transactions resulting in movement in equity.

Amounts included in the consolidated statement of income have been indexed by the change in the general price index based on the following assumptions:

- Inflation has occurred evenly over the year; and
- Income and expenditures have accrued evenly over the year except for charges against profit for aggregate movements in:
 - provisions for loan impairment; and
 - provision for impairment of amounts receivable under forward contracts.

Such movements have been treated, for the purposes of this calculation, as occurring at period end.

Effective from January, 1, 2003, international accounting and financial reporting bodies have determined that the Russian Federation no longer meets the criteria of IAS 29 for hyperinflation. Beginning in 2003 and for future periods, the Bank will cease applying IAS 29 to current periods and only

recognise the cumulative impact of hyperinflation indexing through December 31, 2002, on non-monetary elements of the financial statements. Monetary items and results of operations will be reported at actual, nominal amounts.

Provisions. Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the obligation can be made.

Pension costs. The Bank contributes to the Russian Federation state pension schemes, social insurance, obligatory medical insurance in respect of its employees. The Bank's pension scheme contributions are expensed as incurred. The contributions are included into staff costs.

Operating leases. Payments made under operating leases are charged against income in equal instalments over the period of the lease.

Reclassifications. The following reclassifications have been made to conform 2001 and 2000 balances to the 2002 presentation.

2001	2000	Previously reported	As reclassified	Comment
499	288	Other assets	Available-for-sale securities	Separate line presented
2,335	2,696	Other assets	Premises and equipment	Separate line presented
4,457	2,637	Operating expenses	Income tax expense	Actual substance of expense
5,540	—	Loans and advances to customers	Due from other banks	Cash cover for letters of credit
—	39,441	Offset	Due from other banks; Customer accounts	Cash cover for letters of credit

5. Cash and Cash Equivalents

	2002	2001	2000
Cash balances with the CBRF (other than mandatory reserve deposits)	33,853	11,265	10,438
Correspondent accounts and overnight deposits with other banks:			
– Russian Federation	6,275	3,341	294
– Other countries	27,597	25,915	17,025
Cash on hand	8,584	10,328	6,341
Total cash and cash equivalents	76,309	50,849	34,098

As of December 31, 2002, the Bank placed \$21,944 (2001 and 2000: \$24,302 and \$14,769, respectively) on current accounts with two internationally recognised OECD banks that are the main counterparts for international settlements.

6. Precious Metals

	2002	2001	2000
Gold	2,909	12,309	72
Silver	17	151	49
Other	121	56	68
Total precious metals	3,047	12,516	189

The Bank is also engaged in forward transactions with precious metals, as described in Note 28.

7. Due from Other Banks

	2002	2001	2000
Current loans.....	65,031	60,098	64,003
Overdue loans	871	1,014	—
Less: Allowance for impairment.....	(122)	(598)	(491)
Total due from other banks	65,780	60,514	63,512

Movements in the allowance for loan impairment are as follows:

	2002	2001	2000
Allowance for impairment at January 1	598	491	255
Adjustment on adoption of IAS 39	—	(83)	—
(Reversal) provision for loan impairment	(398)	268	279
Effect of inflation	(78)	(78)	(43)
Allowance for impairment at December 31.....	122	598	491

As of December 31, 2002, inter-bank loans include \$50,095 placed with three OECD banks and \$3,146 placed with a Russian bank. As of December 31, 2001, inter-bank time deposits and loans include \$23,236 placed with three OECD banks and \$5,432 placed in Russian bank. As of December 31, 2000, inter-bank time deposits and loans include \$26,462 placed with three OECD banks and \$8,130 placed in three Russian banks.

8. Trading Securities

	2002	2001	2000
RUR denominated securities			
Corporate bonds.....	12,999	27,143	6,499
Promissory notes.....	8,590	12,937	13,377
Municipal bonds.....	4,977	9,312	—
Corporate shares.....	608	30	277
Federal loan bonds (OFZ)	91	—	2,093
US Dollar and other currencies denominated securities			
Corporate Eurobonds	16,377	54,610	8,925
Russian Federation Eurobonds	2,385	—	296
Vnesheconombank 3.0% coupon bonds (VEB)	484	2,042	274
US Dollar denominated securities sold under repurchase agreements			
Tatneft ADRs	23,737	3,882	—
Vnesheconombank 3.0% coupon bonds (VEB)	9,647	22,173	—
Corporate Eurobonds	—	33,497	16,883
Russian Federation Eurobonds	—	—	22,424
Total trading securities	79,895	165,626	71,048

Corporate bonds held at December 31, 2002 consist of RUR-denominated bonds issued by large Russian companies engaged primarily in energy, telecommunications, and chemical industries and maturing from October 2003 to November 2005. The annual coupon rates on these securities range from 11.8 per cent. to 24.0 per cent., and yields to maturity from 3.9 per cent. to 19.5 per cent.

Promissory notes held at December 31, 2002, are RUR-denominated promissory notes of major Russian companies engaged primarily in energy and banking purchased at a discount to nominal value and maturing from January 2003 to May 2004. Average yield to maturity on these promissory notes is 15.5 per cent.

Municipal bonds held at December 31, 2002, are RUR-denominated bonds issued by the Moscow government. The Bank's portfolio of municipal bonds matures from March 2004 to September 2005. The annual coupon rate on these bonds is 15.0 per cent., and yield to maturity is 13.3 per cent.

Corporate shares include quoted equity shares of Russian companies and banks.

OFZ bonds held at December 31, 2002, are RUR-denominated government securities issued by the Ministry of Finance of the Russian Federation and are stated at market value. OFZ bonds are issued at a discount to face value, and have maturity from May 2003 through January 2004, and an average coupon rate of 10.0 per cent.

Corporate Eurobonds held at December 31, 2002, are USD-denominated securities issued by Russian and Kazakh companies and banks and are freely tradable internationally. The annual coupon rates on the corporate Eurobonds vary from 10.0 per cent. to 11.5 per cent. The corporate Eurobonds mature from June 2004 to January 2009, and the average yields to maturity vary from 7.2 per cent. to 11.0 per cent.

VEB bonds held at December 31, 2002, are USD-denominated bearer securities which are commonly referred to as "MinFin bonds". The bonds are purchased at a discount to nominal value and carry an annual coupon of 3.0 per cent. The bonds mature from May 2008 to May 2011, and have a yield to maturity of 9.5 per cent.

Russian Federation Eurobonds held at December 31, 2002, are USD-denominated bearer securities. These bonds are purchased at a discount to nominal value and carry an annual coupon of 5.0 per cent. The bonds mature in March 2030, and have a yield to maturity of 7.2 per cent.

9. Available for Sale Securities

	2002	2001	2000
RUR denominated securities			
Corporate shares.....	22,873	499	288
Promissory notes.....	16,748	—	—
Corporate bonds.....	1,568	—	—
Total available for sale securities.....	41,189	499	288

Promissory notes held at December 31, 2002 are RUR-denominated promissory notes of large Russian companies engaged primarily in energy, military and chemical industries maturing from January 2003 to July 2010. Average yield to maturity on these promissory notes was 8.2 per cent. Promissory notes include RUR-denominated notes of a Russian chemical company with carrying value of \$4,658 restructured during 2002 on which the Bank recognised a loss of \$1,156 upon initial recognition of the restructured notes.

Corporate shares at December 31, 2002 include shares of Russian companies and banks owned by the Bank through other companies who hold the legal title on those shares.

Management intends to hold available for sale securities for an indefinite period of time that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

10. Loans and Advances to Customers

	2002	2001	2000
Current loans.....	399,934	354,998	231,881
Overdue loans	19,593	12,473	7,502
Less: Allowance for loan impairment	(30,975)	(36,493)	(31,313)
Total loans and advances to customers	388,552	330,978	208,070

Movements in the allowance for loan impairment are as follows:

	2002	2001	2000
Allowance for loan impairment at January 1	36,493	31,313	27,300
Adjustment on adoption of IAS 39	—	(492)	—
Loan impairment charge	2,445	10,670	8,588
Write offs	(3,175)	(13)	—
Effect of inflation	(4,788)	(4,985)	(4,575)
Allowance for loan impairment at December 31	<u>30,975</u>	<u>36,493</u>	<u>31,313</u>

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2002		2001		2000	
	Amount	%	Amount	%	Amount	%
Trade	108,740	26%	98,041	27%	69,597	29%
Manufacturing	72,861	17%	25,534	7%	40,029	17%
Food	71,565	17%	48,746	13%	10,847	5%
Oil and gas	54,381	13%	103,151	28%	79,264	33%
Agricultural	22,488	5%	18,602	5%	15,549	6%
Mining	20,292	5%	—	—	—	—
Finance	22,074	5%	35,438	10%	3,713	2%
Telecommunications ..	6,167	1%	7,098	2%	—	—
Individuals	4,188	1%	3,607	1%	5,741	2%
Other	36,771	10%	27,254	7%	14,643	6%
Total loans and advances to customers (gross amount)	<u>419,527</u>	<u>100%</u>	<u>367,471</u>	<u>100%</u>	<u>239,383</u>	<u>100%</u>

Aggregate non-performing loans on which contractual interest is not being accrued were \$27,825 as of December 31, 2002. Unrecognised contractual interest related to such loans totalled \$7,158 as of December 31, 2002.

11. Premises and Equipment

	2002	2001	2000
Premises	18,644	21	29
Computers and equipment	1,811	1,076	1,427
Motor vehicles	1,276	738	964
Furniture and fixtures	1,234	1,065	1,411
Assets under construction	22	—	—
Less – Accumulated depreciation	(1,291)	(565)	(1,135)
Total premises and equipment	<u>21,696</u>	<u>2,335</u>	<u>2,696</u>

At December 31, 2002, premises and equipment include an office building and certain equipment with total cost of \$21,551 (2002 net book value of \$20,685, and 2001 and 2000 net book value of \$1,683 and \$1,943, respectively). The building and equipment are legally owned by other companies that are related parties to the Bank. For tax optimisation purposes, the Bank has provided purchase funding to the companies that hold legal title, and subsequently entered into lease agreements for the use of the building and equipment. For purposes of these financial statements, the substance of these transactions has been reported and the lease payments made to the related parties have been classified as depreciation of the underlying assets and occupancy and maintenance expenses.

The movement of premises and equipment during 2002:

	Premises	Computers and equipment	Motor vehicles	Furniture and fixtures	Assets under construction	Total
Cost						
December 31, 2001	21	1,076	738	1,065	—	2,900
Additions	18,623	735	575	169	22	20,124
Disposals	—	—	(37)	—	—	(37)
December 31, 2002	18,644	1,811	1,276	1,234	22	22,987
Accumulated depreciation						
December 31, 2001	(1)	(271)	(232)	(61)	—	(565)
Charge	(89)	(287)	(171)	(205)	—	(752)
Disposals	—	—	26	—	—	26
December 31, 2002	(90)	(558)	(377)	(266)	—	(1,291)
Net book value						
December 31, 2001	20	805	506	1,004	—	2,335
December 31, 2002	18,554	1,253	899	968	22	21,696

12. Other Assets

	2002	2001	2000
Trade debtors and prepayments	1,801	3,331	250
Prepaid taxes	1,543	32	600
Plastic card settlements	798	618	413
Other	1,055	457	38
Settlements on sale of securities	—	2,460	345
Balances arising from derivative financial instruments with securities and precious metals	72	96	205
Total other assets	5,269	6,994	1,851

13. Due to Other Banks

	2002	2001	2000
Term deposits	96,043	84,113	33,412
Correspondent accounts and overnight deposits of other banks	6,535	18,962	14,947
Total due to other banks	102,578	103,075	48,359

Included in amounts due to other banks is \$56,950 of correspondent accounts and term deposits from five customers (2001: \$74,667 and 2000: \$34,144) representing 56 per cent. of the outstanding balance.

Included in term deposits due to other banks is \$22,324 (2001 and 2000: \$61,031 and \$20,407) that represents the amounts payable to other banks in connection with security repurchase transactions.

14. Customer Accounts

	2002	2001	2000
State and public organisations			
— Current/settlement accounts.....	3,692	16,506	4,593
— Term deposits.....	—	1,883	4,350
Other legal entities			
— Current/settlement accounts.....	122,152	141,653	173,163
— Term deposits.....	124,168	64,702	48,427
Individuals			
— Current/demand accounts	12,057	10,429	4,868
— Term deposits.....	60,430	26,053	15,221
Total customer accounts	322,499	261,226	250,622

Term deposits of other legal entities include at December 31, 2001 and 2000: \$13,157 and \$7,590, respectively, that represent the amounts payable to customers in connection with securities repurchase transactions. There were no repurchase transactions with customers at December 31, 2002.

Economic sector concentrations within customer accounts:

	2002		2001		2000	
	Amount	%	Amount	%	Amount	%
Finance.....	109,972	34	78,531	30	58,463	23
Individuals	72,487	22	36,482	14	20,089	8
Manufacturing.....	57,714	18	23,222	9	42,912	17
Oil and gas.....	48,752	15	77,390	30	87,063	35
Trade	17,947	6	25,640	10	15,883	7
Other.....	15,627	5	19,961	7	26,212	10
Total customer accounts	322,499	100	261,226	100	250,622	100

Included in customer accounts are deposits of \$13,108 at December 31, 2002 (2001 and 2000: \$7,449 and \$72,926, respectively) held as collateral for irrevocable commitments under import letters of credit.

As of December 31, 2002, the Bank has a single customer with term deposits and current accounts totaling \$35,024 (2001 and 2000: \$27,630 and \$50,260, respectively).

15. Debt Securities Issued

	2002	2001	2000
Promissory notes.....	80,987	90,008	23,315
Certificates of deposit.....	72,526	48,626	—
Total debt securities issued	153,513	138,634	23,315

16. Other Borrowed Funds

	2002	2001	2000
Term borrowings from shareholders	1,700	1,856	4,621
Syndicated loan from non-resident banks.....	—	21,829	—
Total other borrowed funds	1,700	23,685	4,621

In 2001, the Bank attracted a term loan facility of \$21,829 (\$20,000 nominal) in the form of a syndicated loan provided by a consortium of foreign banks. The contractual maturity of the syndicated loan was June 7, 2002, and the annual interest rate was 6.03 per cent. The loan was collateralised by Tatneft Finance PLC Eurobonds that an SPE of the Bank held in trust on behalf of a non-resident third party (refer to Note 28). In June 2002, the syndicated loan was fully repaid.

17. Other Liabilities

	2002	2001	2000
Taxation payable	317	797	647
Obligations under finance lease contracts	10	1,522	2,123
Other	418	288	178
Trade creditors	—	779	13
Settlements on conversions	—	44	—
Settlements on securities	—	—	1,451
Provision for impairment – credit related commitments.....	—	—	375
Total other liabilities.....	745	3,430	4,787

18. Share Capital

Statutory capital authorised, issued and fully paid comprises:

	2002			2001			2000		
	Number of shares	Nominal amount	Inflation adjusted amount	Number of shares	Nominal amount	Inflation adjusted amount	Number of shares	Nominal amount	Inflation adjusted amount
Ordinary shares.....	2,000,000,000	62,924	99,203	2,000,000,000	62,924	99,203	1,000,000,000	31,462	62,375
Share capital			99,203			99,203			62,375

Ordinary shares have a nominal value of 1 Russian Ruble per share, have equal rights and carry one vote each.

During 2001, the Bank increased its share capital to \$99,203. The increase of nominal RUR 1,000,000 thousand or \$36,828 (comprising 1,000,000,000 shares) was received in cash. On November 30, 2001, the Bank registered its share issue prospectus with the CBRF.

During 2000, the Bank increased its share capital to \$62,375. The increase of nominal RUR 550,000 thousand or \$24,247 (comprising 550,000,000 shares) was received in cash. On November 17, 2000, the Bank registered its share issue prospectus with the CBRF.

On December 27, 2002, shareholders approved an amendment to the Bank's charter to increase the authorised ordinary common shares by 10,000,000,000 shares of RUR1.00 each. The Bank is in the process of registering this increase in shares with the CBR.

19. Retained Earnings and Other Reserves

In accordance with the Russian Law on Banks and Banking Activity, the Bank must distribute its profits as dividends or transfer them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules as of December 31, 2002, were (amounts nominal, non-inflated due to their statutory nature) RUR 706,720 thousand or \$22,235 (2001 and 2000: RUR 425,596 thousand or \$13,390 and RUR 253,690 thousand or \$7,982, respectively).

20. Interest Income and Expense

	2002	2001	2000
Interest income			
Loans and advances to customers	52,943	46,004	29,225
Securities	11,103	10,843	6,490
Due from other banks	5,064	4,325	1,803
Interest received from Nostro accounts.....	786	2,007	3,559
Total interest income	<u>69,896</u>	<u>63,179</u>	<u>41,077</u>
Interest expense			
Term deposits of legal entities	11,542	6,712	10,345
Promissory notes.....	7,254	3,955	1,654
Deposit certificates	5,978	318	—
Term placements of banks.....	4,557	4,746	2,787
Term deposits of individuals	4,558	1,908	1,560
Other borrowed funds	67	329	242
Total interest expense	<u>33,956</u>	<u>17,968</u>	<u>16,588</u>
Net interest income	<u>35,940</u>	<u>45,211</u>	<u>24,489</u>

21. Fee and Commission Income and Expense

	2002	2001	2000
Operations with foreign currencies.....	4,207	4,674	3,960
Settlement transactions	3,787	3,806	4,598
Investment banking	2,227	808	—
Cash transactions	1,346	1,193	632
Guarantees issued	1,323	842	713
Cash collection	138	166	123
Transactions with securities.....	137	73	48
Other	451	966	—
Total fee and commission income	<u>13,616</u>	<u>12,528</u>	<u>10,074</u>
Settlement transactions	1,381	1,945	1,839
Operations with foreign currencies.....	180	221	994
Cash collection	167	134	138
Transactions with securities.....	49	196	197
Other	149	99	79
Total fee and commission expense	<u>1,926</u>	<u>2,595</u>	<u>3,247</u>
Fee and commission income, net	<u>11,690</u>	<u>9,933</u>	<u>6,827</u>

22. Operating Expenses

	2002	2001	2000
Staff costs	14,548	13,094	9,374
Operating taxes	4,723	2,937	1,983
Advertising and marketing	4,439	1,083	1,315
Administrative	2,920	1,330	1,643
Occupancy and maintenance	2,894	1,340	725
Rent	1,595	1,611	1,718
Depreciation	752	238	1,066
Telecommunications	488	547	759
Charitable contributions	227	2,801	456
Other	1,424	2,179	3,939
Total operating expenses	34,010	27,160	22,978

23. Exceptional Item – Interest on Nostro Accounts

In February 2001, the Bank received \$3,075 in the form of interest on its Nostro account balances held with a number of non-resident correspondent banks.

As it was only in 2000, when the discussions with counterparts reached a stage when receipt of interest could be recognised with any degree of certainty, the amount received in 2001 for the periods through to 1999 was recognised in the 2000 statement of income as an exceptional item.

24. Income Taxes

Income tax expense is comprised of the following:

	2002	2001	2000
Current tax charge	5,237	9,676	5,480
Deferred taxation movement due to:			
Origination and reversal of temporary differences	(1,324)	7,625	1,689
Effect of increase (reduction) in tax rate	—	(4,214)	222
Income tax expense	3,913	13,087	7,391

The income tax rate applicable to the majority of the Bank's income is 24.0 per cent. (2001 and 2000: 43.0 per cent. and 38.0 per cent., respectively). Effective January 1, 2001, the tax rate increased from 38.0 per cent. to 43.0 per cent. Effective January 1, 2002, the income tax rate decreased to 24.0 per cent.

Reconciliation between the expected and the actual income tax expense is provided below.

	2002	2001	2000
IFRS profit before taxation	11,349	31,654	18,820
Theoretical tax charge at the applicable statutory rate	2,724	13,612	7,152
Tax effect of items not deductible or assessable for tax purposes:			
Income which is exempt from taxation	(3,789)	(5,073)	(1,241)
Non-taxable gain arising from forward operations	—	(1,708)	751
Non-taxable revaluation gain	(1,000)	(1,002)	(438)
Non-deductible loss arising from foreign exchange operations	2,171	—	—
Non-deductible loss provisions	855	3,109	(4,730)
Non temporary elements of monetary loss	4,312	5,686	2,964
Other non deductible expenses	191	6,077	2,984
Other items	20	(1,075)	(89)
Effect of the change in tax rate	—	(4,214)	222
Income taxed at different rates	(873)	(2,021)	(184)
Inflation effect on deferred tax balance	(698)	(304)	—
Income tax expense	3,913	13,087	7,391

Differences between the carrying value of assets and liabilities for IFRS and taxation purposes give rise to temporary differences. The tax effect of these temporary differences:

	2002	2001	2000
Tax effect of deductible temporary differences			
Accruals	861	509	908
Fair valuation of trading securities	648	—	—
Provision for investments available for sale	—	—	80
Premises and equipment	—	—	262
Other	12	92	1,569
Allowance for loan impairment	—	—	5,842
Gross deferred tax asset	1,521	601	8,661
Tax effect of taxable temporary differences			
Allowance for loan impairment	(4,844)	(1,198)	—
Premises and equipment	(417)	(16)	—
Foreign exchange gain	—	(2,165)	—
Fair valuation of trading securities	—	(1,545)	(6,638)
Accruals	—	(527)	(3,738)
Fair valuation of precious metals.....	—	(167)	—
Other	(258)	(305)	(196)
Gross deferred tax liability	(5,519)	(5,923)	(10,572)
Total net deferred tax liability	(3,998)	(5,322)	(1,911)

25. Dividends

	2002	2001	2000
Ordinary dividends			
Proposed and paid during the year	3,554	2,284	1,625
Dividends per share (USD)	0.00178	0.00114	0.00163

Dividends are declared and paid in Russian Rubles. During 2002, the Bank also made distributions to its major shareholder of \$5,577.

26. Geographical Analysis and Currency Risk

Geographical analysis

The geographical analysis of the Bank's assets and liabilities as of December 31, 2002 is set out below:

	Russia	OECD	Non OECD	Total
Assets				
Cash and cash equivalents.....	48,712	27,519	78	76,309
Mandatory cash balances with the Central Bank of the Russian Federation	41,078	—	—	41,078
Precious metals	3,047	—	—	3,047
Due from other banks	6,847	58,933	—	65,780
Trading securities	79,895	—	—	79,895
Securities available for sale	41,189	—	—	41,189
Loans and advances to customers	387,139	514	899	388,552
Accrued interest income.....	4,213	109	—	4,322
Premises and equipment	21,696	—	—	21,696
Other assets	5,269	—	—	5,269
Total assets	639,085	87,075	977	727,137

	<u>Russia</u>	<u>OECD</u>	<u>Non OECD</u>	<u>Total</u>
Liabilities				
Due to other banks	47,175	50,583	4,820	102,578
Customer accounts	235,465	15,176	71,858	322,499
Debt securities issued	150,763	2,350	400	153,513
Other borrowed funds	—	1,700	—	1,700
Accrued interest expense	9,845	977	30	10,852
Other liabilities	745	—	—	745
Deferred tax liability	3,998	—	—	3,998
Total liabilities	<u>447,991</u>	<u>70,786</u>	<u>77,108</u>	<u>595,885</u>
Net balance sheet position at December 31, 2002 ..	<u>191,094</u>	<u>16,289</u>	<u>(76,131)</u>	<u>131,252</u>

The geographical analysis of the Bank's assets and liabilities as of December 31, 2001 is set out below:

	<u>Russia</u>	<u>OECD</u>	<u>Non OECD</u>	<u>Total</u>
Assets				
Cash and cash equivalents.....	24,933	25,877	39	50,849
Mandatory cash balances with the Central Bank of the Russian Federation	32,593	—	—	32,593
Precious metals	12,516	—	—	12,516
Due from other banks	24,052	36,462	—	60,514
Trading securities	165,626	—	—	165,626
Securities available for sale	499	—	—	499
Loans and advances to customers	323,046	2,554	5,378	330,978
Accrued interest income.....	8,908	—	—	8,908
Premises and equipment	2,335	—	—	2,335
Other assets	6,994	—	—	6,994
Total assets	<u>601,502</u>	<u>64,893</u>	<u>5,417</u>	<u>671,812</u>
Liabilities				
Due to other banks	39,302	61,279	2,494	103,075
Customer accounts	211,185	43,030	7,011	261,226
Debt securities issued	133,204	—	5,430	138,634
Other borrowed funds	—	23,685	—	23,685
Accrued interest expense	3,850	—	—	3,850
Other liabilities	3,430	—	—	3,430
Deferred tax liability	3,157	—	2,165	5,322
Total liabilities	<u>394,128</u>	<u>127,994</u>	<u>17,100</u>	<u>539,222</u>
Net balance sheet position at December 31, 2001 ..	<u>207,374</u>	<u>(63,101)</u>	<u>(11,683)</u>	<u>132,590</u>

The geographical analysis of the Bank's assets and liabilities as of December 31, 2000 is set out below:

	Russia	OECD	Non OECD	Total
Assets				
Cash and cash equivalents.....	17,073	17,025	—	34,098
Mandatory cash balances with the Central Bank of the Russian Federation	28,243	—	—	28,243
Precious metals	189	—	—	189
Due from other banks	17,901	45,573	38	63,512
Trading securities	71,048	—	—	71,048
Securities available for sale	288	—	—	288
Loans and advances to customers	206,217	1,853	—	208,070
Accrued interest income.....	8,484	206	1	8,691
Amounts receivable under forward contracts.....	31,166	—	—	31,166
Premises and equipment	2,696	—	—	2,696
Other assets	1,851	—	—	1,851
Total assets	385,156	64,657	39	449,852
Liabilities				
Due to other banks	25,583	21,570	1,206	48,359
Customer accounts	235,675	10,724	4,223	250,622
Debt securities issued	23,315	—	—	23,315
Obligations under forward contracts	35,889	—	—	35,889
Other borrowed funds	—	4,621	—	4,621
Accrued interest expense	1,484	433	1	1,918
Other liabilities	4,787	—	—	4,787
Deferred tax liability	1,911	—	—	1,911
Total liabilities	328,644	37,348	5,430	371,422
Net balance sheet position at December 31, 2000 ..	56,512	27,309	(5,391)	78,430

Currency analysis.

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. At year-end, the Bank had balances in Russian Rubles, U.S. dollars and other currencies. Other currencies represent mainly amounts in Euro and clearing currencies.

At December 31, 2002, the Bank has the following positions in currencies:

	<u>RUR</u>	<u>USD</u>	<u>Other currencies</u>	<u>Total</u>
Assets				
Cash and cash equivalents.....	40,150	28,170	7,989	76,309
Mandatory CBRF cash balances	41,078	—	—	41,078
Precious metals	3,047	—	—	3,047
Due from other banks	6,847	53,889	5,044	65,780
Trading securities	27,265	49,917	2,713	79,895
Securities available for sale	41,189	—	—	41,189
Loans and advances to customers	147,134	234,184	7,234	388,552
Accrued interest income.....	1,564	2,475	283	4,322
Premises and equipment	21,696	—	—	21,696
Other assets	4,595	650	24	5,269
Total assets	<u>334,565</u>	<u>369,285</u>	<u>23,287</u>	<u>727,137</u>
Liabilities				
Due to other banks	26,052	72,353	4,173	102,578
Customer accounts	96,303	212,190	14,006	322,499
Debt securities issued	106,516	46,747	250	153,513
Other borrowed funds	—	1,700	—	1,700
Accrued interest expense	6,171	4,611	70	10,852
Other liabilities	435	309	1	745
Deferred tax liability	3,998	—	—	3,998
Total liabilities	<u>239,475</u>	<u>337,910</u>	<u>18,500</u>	<u>595,885</u>
Net balance sheet position	<u>95,090</u>	<u>31,375</u>	<u>4,787</u>	<u>131,252</u>
Off-balance sheet net notional position	<u>3,023</u>	<u>(11,534)</u>	<u>8,511</u>	<u>—</u>
Credit commitments	<u>14,519</u>	<u>21,148</u>	<u>23,442</u>	<u>59,109</u>

At December 31, 2001, the Bank has the following positions in currencies:

	RUR	USD	Other currencies	Total
Assets				
Cash and cash equivalents.....	20,369	25,727	4,753	50,849
Mandatory CBRF cash balances	32,593	—	—	32,593
Precious metals	12,516	—	—	12,516
Due from other banks	24,059	31,748	4,707	60,514
Trading securities	49,422	116,204	—	165,626
Securities available for sale	499	—	—	499
Loans and advances to customers	154,960	175,749	269	330,978
Accrued interest income.....	5,191	3,678	39	8,908
Premises and equipment	2,335	—	—	2,335
Other assets	3,802	3,185	7	6,994
Total assets	305,746	356,291	9,775	671,812
Liabilities				
Due to other banks	24,061	78,525	489	103,075
Customer accounts	105,867	145,782	9,577	261,226
Debt securities issued	94,331	44,303	—	138,634
Other borrowed funds	—	23,685	—	23,685
Accrued interest expense	1,945	1,902	3	3,850
Other liabilities	2,729	700	1	3,430
Deferred tax liability	5,322	—	—	5,322
Total liabilities	234,255	294,897	10,070	539,222
Net balance sheet position	71,491	61,394	(295)	132,590
Off-balance sheet net notional position	(6,120)	11,536	(5,416)	—
Credit commitments	8,144	8,379	19,040	35,563

At December 31, 2000, the Bank has the following positions in currencies:

	RUR	USD	Other currencies	Total
Assets				
Cash and cash equivalents.....	17,097	15,324	1,677	34,098
Mandatory CBRF cash balances	28,243	—	—	28,243
Precious metals	—	—	189	189
Due from other banks	16,578	38,926	8,008	63,512
Trading securities	22,247	48,801	—	71,048
Securities available for sale	288	—	—	288
Loans and advances to customers	116,078	91,992	—	208,070
Accrued interest income.....	2,448	6,223	20	8,691
Amounts receivable under forward contracts.....	31,166	—	—	31,166
Premises and equipment	2,696	—	—	2,696
Other assets	1,440	411	—	1,851
Total assets	238,281	201,677	9,894	449,852
Liabilities				
Due to other banks	12,751	34,946	662	48,359
Customer accounts	107,982	133,017	9,623	250,622
Debt securities issued	9,458	13,740	117	23,315
Obligations under forward contracts	35,889	—	—	35,889
Other borrowed funds	—	4,621	—	4,621
Accrued interest expense	815	1,087	16	1,918
Other liabilities	4,283	483	21	4,787
Deferred tax liability	1,911	—	—	1,911
Total liabilities	173,089	187,894	10,439	371,422
Net balance sheet position	65,192	13,783	(545)	78,430
Off-balance sheet net notional position	24,257	3,638	—	27,895
Credit commitments	22,034	16,794	11,915	50,743

The off-balance sheet, net notional positions represent notional currency positions on deliverable forward and spot contracts entered into during 2002, 2001 and 2000. Impairment allowances and provisions have been matched with the respective currencies.

The Bank has extended loans and advances denominated in foreign currencies. Depending on the revenue sources of the borrower, the appreciation of foreign currencies against the Russian Ruble may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

27. Interest Rate, Liquidity, Market and Credit Risks

Interest rate risk. The Bank is exposed to interest rate price risk, principally as a result of issuing loans and advances to customers and other banks, at fixed interest rates, in amounts and for periods, which differ from those of term deposits and other borrowed funds at fixed interest rates.

In practice, interest rates are generally fixed on a short-term basis, normally at three month intervals. Also, interest rates that are contractually fixed on both assets and liabilities are often renegotiated to reflect current market conditions.

The table below summarises the effective average year end interest rates, by major currencies, for monetary financial instruments outstanding as of December 31, 2002, 2001 and 2000. The analysis has been prepared on the basis of weighted average interest rates for the various financial instruments using year end contractual rates.

	2002		2001		2000	
	USD	RUR	USD	RUR	USD	RUR
Assets						
Cash and cash equivalents	0.7	0.9	3.1	—	3.6	—
Due from other banks	1.5	13.2	1.9	32.4	6.5	8.4
Trading securities.....	8.1	12.7	37.1	28.8	33.0	24.9
Loans and advances to customers.....	14.0	18.3	16.8	20.4	14.7	19.2
Liabilities						
Due to other banks	7.0	4.0	3.7	19.8	5.8	7.5
Customer term deposits	5.8	12.0	8.8	12.6	7.7	12.0
Debt securities issued	8.0	10.0	5.6	11.3	4.5	9.0
Other borrowed funds.....	11.1	—	6.4	—	11.5	—

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The liquidity risk is managed by the Asset/Liability Committee of the Bank. The tables below present assets and liabilities as December 31, 2002, 2001 and 2000 by their remaining contractual maturity. Some of the assets, however, may be of a longer-term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

The liquidity position of the Bank as of December 31, 2002 is set out below.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Overdue/ no stated maturity	Total
Assets						
Cash and cash equivalents	76,309	—	—	—	—	76,309
Mandatory CBRF cash balances	41,078	—	—	—	—	41,078
Precious metals	3,047	—	—	—	—	3,047
Due from other banks	34,714	3,511	26,163	521	871	65,780
Trading securities	79,895	—	—	—	—	79,895
Securities available for sale	2,263	8,153	22,267	6,264	2,242	41,189
Loans and advances to customers	63,856	175,301	100,889	41,127	7,379	388,552
Accrued interest income	3,684	420	119	99	—	4,322
Premises and equipment	—	—	—	—	21,696	21,696
Other assets	4,422	484	—	—	363	5,269
Total assets	<u>309,268</u>	<u>187,869</u>	<u>149,438</u>	<u>48,011</u>	<u>32,551</u>	<u>727,137</u>
Liabilities						
Due to other banks	57,389	30,207	9,162	5,820	—	102,578
Customer accounts	235,520	52,631	33,302	1,046	—	322,499
Debt securities issued	65,069	19,776	32,428	36,240	—	153,513
Other borrowed funds	—	—	—	1,700	—	1,700
Accrued interest expense	6,248	1,791	1,452	1,361	—	10,852
Other liabilities	317	293	6	—	129	745
Deferred tax liability	—	—	—	—	3,998	3,998
Total liabilities	<u>364,543</u>	<u>104,698</u>	<u>76,350</u>	<u>46,167</u>	<u>4,127</u>	<u>595,885</u>
Net liquidity gap	<u>(55,275)</u>	<u>83,171</u>	<u>73,088</u>	<u>1,844</u>	<u>28,424</u>	<u>131,252</u>
Cumulative liquidity gap at December 31, 2002	<u>(55,275)</u>	<u>27,896</u>	<u>100,984</u>	<u>102,828</u>	<u>131,252</u>	
Cumulative liquidity gap at December 31, 2001	<u>82,400</u>	<u>123,582</u>	<u>155,958</u>	<u>125,270</u>	<u>132,590</u>	

The liquidity position of the Bank as of December 31, 2001 is set out below.

	Less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Overdue/ no stated maturity	Total
Assets						
Cash and cash equivalents	50,849	—	—	—	—	50,849
Mandatory CBRF cash balances	32,593	—	—	—	—	32,593
Precious metals	12,516	—	—	—	—	12,516
Due from other banks	47,878	10,346	938	384	968	60,514
Trading securities.....	165,626	—	—	—	—	165,626
Securities available for sale	—	—	—	—	499	499
Loans and advances to customers.....	36,989	155,986	73,884	61,481	2,638	330,978
Accrued interest income	6,334	21	4	2,549	—	8,908
Premises and equipment	—	—	—	—	2,335	2,335
Other assets	2,732	2,540	—	—	1,722	6,994
Total assets	<u>355,517</u>	<u>168,893</u>	<u>74,826</u>	<u>64,414</u>	<u>8,162</u>	<u>671,812</u>
Liabilities						
Due to other banks	54,434	48,393	248	—	—	103,075
Customer accounts	209,905	20,871	29,967	483	—	261,226
Debt securities issued	7,766	34,371	6,392	90,105	—	138,634
Other borrowed funds.....	—	21,830	—	1,855	—	23,685
Accrued interest expense.....	819	1,189	338	1,504	—	3,850
Other liabilities.....	193	1,057	183	1,155	842	3,430
Deferred tax liability	—	—	5,322	—	—	5,322
Total liabilities	<u>273,117</u>	<u>127,711</u>	<u>42,450</u>	<u>95,102</u>	<u>842</u>	<u>539,222</u>
Net liquidity gap	<u>82,400</u>	<u>41,182</u>	<u>32,376</u>	<u>(30,688)</u>	<u>7,320</u>	<u>132,590</u>
Cumulative liquidity gap at December 31, 2001	<u>82,400</u>	<u>123,582</u>	<u>155,958</u>	<u>125,270</u>	<u>132,590</u>	
Cumulative liquidity gap at December 31, 2000	<u>3,465</u>	<u>44,660</u>	<u>62,223</u>	<u>72,824</u>	<u>78,430</u>	

The liquidity position of the Bank as of December 31, 2000 is set out below.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Overdue/ no stated maturity	Total
Assets						
Cash and cash equivalents	34,098	—	—	—	—	34,098
Mandatory CBRF cash balances	28,243	—	—	—	—	28,243
Precious metals	189	—	—	—	—	189
Due from other banks	24,970	8,827	24,598	4,138	979	63,512
Trading securities.....	71,048	—	—	—	—	71,048
Securities available for sale	—	—	—	—	288	288
Loans and advances to customers.....	45,736	63,834	44,963	51,684	1,853	208,070
Accrued interest income	1,891	6,329	313	158	—	8,691
Amounts receivable under forward contracts.....	31,166	—	—	—	—	31,166
Premises and equipment	—	—	—	—	2,696	2,696
Other assets	1,529	20	—	—	302	1,851
Total assets	238,870	79,010	69,874	55,980	6,118	449,852
Liabilities						
Due to other banks	19,793	569	—	27,997	—	48,359
Customer accounts	164,559	29,126	45,923	11,014	—	250,622
Debt securities issued	12,301	5,409	5,398	207	—	23,315
Obligations under forward contracts	35,889	—	—	—	—	35,889
Other borrowed funds.....	—	—	—	4,621	—	4,621
Accrued interest expense.....	733	566	604	15	—	1,918
Other liabilities.....	2,130	234	386	1,525	512	4,787
Deferred tax liability	—	1,911	—	—	—	1,911
Total liabilities	235,405	37,815	52,311	45,379	512	371,422
Net liquidity gap.....	3,465	41,195	17,563	10,601	5,606	78,430
Cumulative liquidity gap at December 31, 2000	3,465	44,660	62,223	72,824	78,430	
Cumulative liquidity gap at December 31, 1999	(15,874)	(17,462)	4,022	32,185	44,379	

The entire portfolio of trading securities is classified within demand and less than one month as the portfolio is of a dealing nature and Management believes this is a more accurate portrayal of its liquidity position. Mandatory cash balances with the CBRF are included within demand and less than one month as the majority of liabilities to which this balance relates to is also included within this category.

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but also may reduce or create losses in the event that unexpected movements arise. The Bank's interest rate sensitivity analysis based on the re-pricing of the Bank's assets and liabilities does not differ significantly from the maturity analysis disclosed in the table above.

Management believes that in spite of a substantial portion of balances on current account of legal entities being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these deposits provide a long-term and stable source of funding for the Bank.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products that are exposed to general and specific market movements. The Asset/Liability Committee of the Bank sets limits on the value of risk that may be accepted, which is monitored on a regular basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Credit risk. The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, borrower and industry sector are approved quarterly by the Board of Directors.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

The Bank's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

28. Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank are received. Management is of the opinion that no material unaccrued losses will be incurred and accordingly, no provision for such contingent liabilities has been made in these consolidated financial statements.

Tax legislation. Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgement of business activities, Management's judgement of the Bank's business activities may not coincide with the interpretation of the same activities by tax authorities.

Transfer pricing legislation, which was introduced from January 1, 1999, provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect to controlled transactions, provided that the transaction price differs from the market price by more than 20 per cent. Controlled transactions include transactions with related parties, and transactions with third parties if the price differs on similar transactions with two different counterparts by more than 20 per cent. There is no formal guidance as to how these rules should be applied in practice.

Current Russian tax legislation is principally based on the formal manner in which transactions are documented and the underlying accounting treatment as prescribed by Russian Accounting Rules. Accordingly, there are opportunities for banks to structure transactions to take advantage of opportunities in the Russian tax legislation to restructure income and expenses in order to reduce the overall effective tax rate. The consolidated statement of income as presented in these consolidated financial statements includes reclassifications to reflect the underlying economic substance of those transactions.

The Bank's Management is confident that this ongoing restructuring of taxable income and deductible expenses is unlikely to result in additional tax liabilities. Accordingly, no provision for a potential tax liability, with regard to these transactions, has been recognised in the consolidated financial statements.

If a particular treatment was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest, which can be significant. Tax years remain open to review by the tax authorities for three years.

Operating lease commitments. Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2002	2001	2000
Not later than one year	322	56	364
Later than one year and not later than five years	—	1,124	69
Later than five years.....	—	740	—
Total operating lease commitments	322	1,920	433

Credit related commitments. The credit related commitments comprise loan commitments, letters of credit and guarantees. The contractual commitments represent the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless. In general, the Bank's import letters of credit are collateralised with cash deposits or collateral pledged to the Bank and accordingly the Bank normally assumes minimal risk. Outstanding credit related commitments are as follows:

	2002	2001	2000
Import letters of credit.....	14,163	4,677	15,208
Guarantees issued	44,946	30,886	35,910
Less: provision for losses on credit related commitments.....	—	—	(375)
Total credit related commitments	59,109	35,563	50,743

The Bank has also received export letters of credit for settlement. Total amount open as of December 31, 2002, 2001 and 2000 was \$91,051, \$38,405 and \$1,256, respectively.

Movements in the provision for losses on credit related commitments are as follows:

	2002	2001	2000
Provision for impairment, beginning	—	375	1,831
Adjustment on adoption of IAS 39	—	(37)	—
Reversal of provision for losses on credit related commitments	—	(279)	(1,150)
Effect of inflation	—	(59)	(306)
Provision for impairment	—	—	375

Management evaluated the likelihood of possible losses arising from credit related commitments and concluded that provisions were not necessary as of December 31, 2002 and 2001 (2000: \$375). This provision is included in other liabilities. The total outstanding contractual amount of guarantees, letters of credit, and undrawn credit lines does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Derivatives. At December 31, 2001 the Bank had outstanding forward foreign exchange contracts with Russian and foreign banks whereby it had agreed to buy or sell RUR in exchange for another currency at an exchange rate agreed to at the date of the contract. Some of these contracts were entered into prior to August 17, 1998 and matured during 1998 but have not yet been settled. The Bank has been able to settle outstanding contracts related to 1998 with a few counterparts and any resultant gains or losses have been recorded in the consolidated statement of income.

The Bank has calculated the exposure on outstanding contracts using the exchange rates ruling on the maturity dates of the contracts as the Bank has historically settled domestic derivatives in RUR. Principal or agreed amount of contracts for which the date of maturity is past due and settlement has not been completed as of December 31, 2001, totalled \$371,126 for the purchase of foreign currency with total gains of \$122,366 and \$262,820 for sale of foreign currency with total losses of \$74,172.

A summary of the Bank's claims and obligations as of December 31, 2000, with respect to contracts entered into during 1998 is set out below.

	Loss	Gain
Domestic counterpart losses and gains	74,172	122,366
Losses offset by counterpart gains	(38,283)	—
Gains offset by counterpart losses	—	(38,283)
Subtotal before provision for uncollectable gains	35,889	84,083
Less: provision for uncollectable gains	—	(52,917)
Obligations and claims on index forward exchange contracts at		
December 31, 2000	35,889	31,166

Provision for uncollectable gains of \$25,353 was recorded in 1999 and an additional provision of \$31,814, less impact of inflation of \$4,250 was recorded in 2000.

The Civil Code of the Russian Federation stipulates a three-year period for commencing action to enforce contracts. This period expired during 2001. On the basis of independent external legal advice regarding the enforceability of these contracts under Russian law, market practices and the activities of other participants in the derivatives market in Russia, as well as a significant passage of time, Management is of the opinion that these contracts with domestic banks are no longer legally enforceable, and that therefore no losses will arise for the Bank as a result of these contracts.

Management of the Bank has therefore not recorded any liabilities in respect of these contracts in the consolidated financial statements of the Bank for the years ended December 31, 2002 and 2001. Previously recorded liabilities, receivables and provisions under these contracts have been derecognised resulting in a derecognised loss of \$3,971 that was recorded in the Bank's 2001 consolidated statement of income.

The table below summarises the movement in the Bank's obligations with respect to the forward exchange contracts during 2001:

Receivables on unsettled contracts	84,083
Provision for uncollectable gains	(52,917)
Liabilities on unsettled contracts	(35,889)
Effect of inflation	752
Derecognised loss to be recognised in 2001	(3,971)

The Bank also engages in transactions with other derivative financial instruments. The Bank engages in transactions with forward contracts with securities and precious metals. Foreign exchange and other derivative financial instruments are generally traded in an over-the-counter market with professional market counterparts on standardised contractual terms and conditions.

The table below includes contracts with maturity dates subsequent to December 31, 2002. These contracts were executed during December 2002 and mature within six months.

	Domestic			Foreign		
	Principal or agreed amount	Unrealised Loss	Unrealised Gain	Principal or agreed amount	Unrealised Loss	Unrealised Gain
Deliverable forwards						
Precious metals						
– sale of precious metals	(552)	—	8	(3,935)	—	74
– purchase of precious metals	300	(3)	—	851	(14)	—
Foreign currency						
– sale of foreign currency	—	—	—	(2,812)	(1)	—
– purchase of foreign currency	—	—	—	—	—	—
Securities						
– purchase of securities	2,118	—	24	1,645	(27)	—
Spot						
Foreign currency						
– sale of foreign currency	(2,103)	—	3	—	—	—
– purchase of foreign currency	—	—	—	—	—	—
Precious metals						
– sale of precious metals	(680)	—	8	—	—	—
Total	<u>(917)</u>	<u>(3)</u>	<u>43</u>	<u>(4,251)</u>	<u>(42)</u>	<u>74</u>

The unrealised gain (loss) in the table above reflects the fair value adjustment of derivatives as of December 31, 2002. As of December 31, 2001, the Bank has recorded a net loss of \$44 within gains less losses arising from dealing in foreign currency, net gain of \$77 which is included within gains less losses arising from dealing in precious metals, and a net gain of \$19 which is included within gains less losses arising from trading securities. As of December 31, 2000, the Bank recorded a net gain totaling \$205.

Fiduciary assets. These assets are not included in the Bank's balance sheet as they are not assets of the Bank and are held in custody or safekeeping for customers. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories:

	2002 Nominal value	2001 Nominal value	2000 Nominal value
Corporate bonds	46,111	1,358	18,120
OFZ, GKO and RAO VSM securities held on MICEX account	27,181	19,683	56,191
Shares in companies	20,409	309,127	10,127
Corporate Eurobonds	9,509	12,159	886
Russian Federation Eurobonds	9,439	—	5,647
Municipal bonds	8,672	4,438	—
Shares in banks	5,471	12,542	—
Depository notes	2,738	444	—
Bills of exchange	872	1,824	47,034
Tatneft Finance PLC Eurobonds	—	45,991	18,209
Tatneft ADRs	—	791	7,085
Vnesheconombank 3.0% coupon bonds	—	—	306

The Bank does not maintain insurance cover in respect of fiduciary assets.

Trust. The Bank and its SPEs (during 2001) have a number of trust agreements under which it receives funds mainly from related parties and invests them in securities or issues loans upon direction from the related party. Risks of ownership associated with the assets rest with the related party. These assets are not included in the Bank's consolidated balance sheet as they are not assets of the Bank. The assets held in trust fall into the following categories:

	2002	2001	2000
Loans issued	33,175	170,050	167,206
Corporate shares.....	395	14,459	—
Cash	26	16,735	—
Vntsheconombank 3.9% coupon bonds (VEB)	100	534	121
Tatneft Finance PLC Eurobonds	—	51,596	—
Promissory notes.....	—	15,696	33,876
Russian Federation.....	—	50	—
Federal loan bonds (OFZ)	—	—	33,270
Other	129	—	339
Assets in trust, at cost.....	33,825	269,120	234,812

As at December 31, 2001, the Bank and SPEs have pledged Tatneft Finance PLC Eurobonds of \$45,923 held in trust as collateral under a syndicated loan agreement (refer to Note 16) and Vnesheconombank 3.0 per cent. coupon bonds, also held in trust, of \$22,173 as collateral under repurchase agreements (refer to Note 8).

Assets pledged. As at December 31, 2002, the Bank has pledged securities with a carrying value of \$33,384, as described in Note 8 as collateral under repurchase agreements (2001 and 2000: \$59,552 and \$39,307, respectively).

29. Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised.

Management has estimated that the fair value of certain balance sheet instruments is not materially different than their recorded values. These balance sheet instruments include cash, nostros and term deposits, placements with banks and other financial institutions, securities held for trading or available for sale purposes, loans and advances to customers, deposits from banks and other financial institutions, current accounts and deposits from customers, certificates of deposit and promissory notes, other borrowed funds and other short-term assets and liabilities which are of a contractual nature. Management believes that the carrying value of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

The fair values of equity securities, share capital, premises and equipment, and other assets and liabilities which are not of a contractual nature are not calculated as they are not considered financial instruments under IAS 32, “Financial Instruments: Disclosure and Presentation”.

30. Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Banking transactions are entered into in the normal course of business with significant shareholders, directors and companies with which the Bank has significant shareholders in common. These transactions include settlements, securities, loans, deposit taking, trade finance and foreign currency transactions. These transactions are priced predominantly at market rates. The outstanding balances at the year-end and interest expense and income as well as other transactions for the year with related parties are as follows:

	2002	2001	2000
Assets			
Due from other banks	2	23	—
Trading securities	26,214	106,400	25,807
Loans and advances to customers	46,603	117,815	44,579
Liabilities			
Due to other banks	7,437	8,229	—
Customer accounts	92,622	63,837	64,982
Promissory notes issued by the Bank	2,997	5,430	320
Other liabilities	101	—	—
Statement of Income			
Interest income	6,351	11,539	5,720
Interest expense.....	6,845	3,013	851
Commission income received	6,315	8,175	3,661
Gains less losses arising from trading securities	5,752	10,480	5,645
Guarantees issued and outstanding at year end	2,693	3,875	376
Guarantees received and outstanding at year end	2,027	58,500	48
Assets in trust	33,267	217,048	234,813
Import letters of credit	—	4,159	34,344
Export letters of credit	81,339	—	—

As of December 31, 2002, 2001 and 2000, a significant portion of the fiduciary assets (Note 28) was held in custody or safekeeping for customers that are related parties of the Bank.

During 2002, the total remuneration of directors and key management personnel, including pension contributions and discretionary compensation was \$2,146 (2001 and 2000: \$1,512 and \$986, respectively).

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