

## Offering Circular



# GAZPROMBANK

U.S. \$750,000,000

7.25 per cent. Loan Participation Notes due 2008

Issued by

GazInvest Luxembourg S.A.

*incorporated as a société anonyme with limited liability in Luxembourg*

on a limited recourse basis for the sole purpose of funding a fiduciary deposit with

J.P. Morgan Bank Luxembourg S.A.

*incorporated as a société anonyme with limited liability in Luxembourg*

for the sole purpose of funding a loan to

## Joint-stock Bank of the Gas Industry Gazprombank (Closed Joint-stock Company)

*(incorporated in the Russian Federation)*

Issue Price: 100 per cent.

GazInvest Luxembourg S.A. (the "Issuer") is issuing the U.S. \$750,000,000 7.25 per cent. Loan Participation Notes due 2008 (the "Notes") for the purpose of financing a fiduciary deposit (the "Deposit") with J.P. Morgan Bank Luxembourg S.A. (the "Fiduciary") pursuant to a fiduciary deposit agreement dated 24 October 2003 between the Issuer and the Fiduciary (the "Fiduciary Deposit Agreement"). The Fiduciary will apply the amount of the Deposit for the purpose of financing a loan (the "Loan") to Joint-stock Bank of the Gas Industry Gazprombank (Closed Joint-stock Company) ("Gazprombank", the "Bank" or the "Borrower") pursuant to a loan agreement dated 24 October 2003 (the "Loan Agreement") between the Fiduciary as lender and Gazprombank as borrower. The Notes will be issued on 30 October 2003 and constituted by a Trust Deed to be dated 30 October 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 in favour of the Trustee for the benefit of the holders of the Notes (the "Noteholders") as security for its payment obligations in respect of the Notes (a) its rights to all payments of principal, interest and other amounts under the Fiduciary Deposit Agreement, (b) the rights to receive all sums which may be payable under any claim, award or judgment relating to the Fiduciary Deposit Agreement and (c) amounts deposited pursuant to the Fiduciary Deposit Agreement in an account of the Issuer, as well as assign its rights under the Fiduciary Deposit Agreement, all as more fully described under "Description of the Transaction and the Security". Furthermore, under the terms of the Deposit, the Fiduciary will agree that upon the occurrence of an Event of Default (as defined in the Loan Agreement) or a Fiduciary Relevant Event (as defined in the Fiduciary Deposit Agreement) it will assign all of its rights (except for any Reserved Rights (as defined in the Fiduciary Deposit Agreement)) under the Loan Agreement to the Issuer, who has assigned any such rights to the Trustee for the benefit of the Noteholders.

The Notes are limited recourse obligations of the Issuer and the Deposit is a limited recourse obligation of the Fiduciary. 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 Fiduciary Deposit Agreement or in the event of an assignment of the Loan Agreement under the terms of the Fiduciary Deposit Agreement and (c) amounts deposited pursuant to the Loan Agreement. The Issuer will have no other financial obligation under the Notes. Where amounts are stated to be payable in respect of the Deposit, the obligation of the Fiduciary to make any such payment shall constitute an obligation to account to the Issuer, on each date upon which such amounts are due in respect of the Deposit, for all amounts (if any) actually received by or for the account of the Fiduciary pursuant to the Loan Agreement and the Fiduciary will have no further obligation under the Fiduciary Deposit Agreement. **Accordingly, holders of the Notes must rely solely and exclusively on the credit and financial standing of Gazprombank in respect of the financial servicing of the Notes and the Deposit.**

Save as otherwise expressly provided in this Offering Circular and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Fiduciary Deposit Agreement or in any rights that the Issuer may receive by way of assignment in respect of 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 Fiduciary Deposit Agreement or the Loan Agreement or have direct recourse to Gazprombank except through action by the Trustee under any of the Security Interests (as defined in the Terms and Conditions of the Notes).

**An investment in the Notes involves a high degree of risk. See "Certain Investment Considerations".**

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

The Notes will be issued in bearer form in the denominations of U.S. \$100,000 or higher integral multiples of U.S. \$1,000, 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 depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on or about 30 October 2003. The Temporary Global Note will be exchangeable for interest 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 10 December 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 the Provisions relating to the Notes in Global Form".

**JPMorgan**

**Dresdner Kleinwort Wasserstein**

**Evrofinance**

**UBS Investment Bank**

**UBM - UniCredit Banca Mobilaire**

**Credit Suisse First Boston**

**Parex Bank**

**Zenit Bank**

24 October 2003

Other than information relating to the Issuer for which no representation or warranty is made by Gazprombank, Gazprombank, having made all reasonable enquiries, confirms that this Offering Circular contains all information regarding Gazprombank and its subsidiaries (the "Group"), the Fiduciary Deposit Agreement, the Loan Agreement and the Notes which is (in the context of the issue of the Notes) material; that such information and the information regarding the Gazprom Group is true and accurate in all respects and is not misleading in any respect; that all opinions, assumptions and intentions expressed in this Offering Circular on the part of Gazprombank are honestly held or made, have been reached after considering all relevant circumstances, are based on reasonable assumptions and are not misleading in any respect; that this Offering Circular does not omit to state any fact necessary to make such information, opinions, assumptions or intentions not misleading; and that all proper enquiries have been made to ascertain and verify the foregoing. Accordingly, save as set out below, Gazprombank accepts responsibility for the information contained in this Offering Circular. The Issuer accepts responsibility for information relating to itself.

Information under the headings "Overview of the Russian Federation" and "the Banking Sector and Banking Regulation in the Russian Federation" includes extracts from information and data publicly released by official and other sources (including, inter alia, the Central Bank of the Russian Federation (the "CBR")) and Gazprombank accepts responsibility for accurately reproducing such information and data but accepts no further responsibility in respect of such information and data.

None of the Managers named under "Subscription and Sale" (the "Managers"), the Fiduciary, the Trustee and, except as specifically stated otherwise herein, the Issuer makes any representation or warranty, express or implied, as to the accuracy or completeness of the information in this Offering Circular. Each person receiving this Offering Circular acknowledges that such person has not relied on the Managers, the Fiduciary, the Trustee or, except as specifically stated otherwise herein, the Issuer or any person affiliated with the Managers, the Issuer, the Fiduciary or the Trustee, 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 Gazprombank 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.

No person is authorised to provide any information or to make any representation not contained in this Offering Circular. Any such representation or information should not be relied upon as having been authorised by Gazprombank, the Issuer, the Fiduciary, the Trustee or the Managers.

Neither the delivery of this Offering Circular 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 Gazprombank or the Issuer since the date of this Offering Circular.

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

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933 (as amended) (the "Securities Act"). The Notes are being offered outside the United States 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.

**IN CONNECTION WITH THIS ISSUE, J.P. MORGAN EUROPE LIMITED OR ANY PERSON ACTING FOR IT MAY OVERALLOT 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 IS NO OBLIGATION ON J.P. MORGAN EUROPE LIMITED 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.**

In this Offering Circular, all references to "Roubles", "RUR" and "Rbl" are to the lawful currency for the time being of the Russian Federation, all references to "U.S. dollars" and "U.S.\$" are to the lawful currency for the time being of the United States and all references to "euro" and "€" are to the currency introduced at the start of

the third stage of economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

This Offering Circular contains conversions of certain amounts into U.S. dollars at specified rates solely for the convenience of the reader. No representation is made that the Rouble or U.S. dollar amounts referred to herein could have been or could be converted into roubles or U.S. dollars, as the case may be, at these rates, at any particular rate or at all.

References in this Offering Circular to “Gazprom” are to OAO Gazprom and references to the “Gazprom Group” are to OAO Gazprom and its subsidiaries.

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

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## Summary of the Offering

### Overview

Gazprombank was founded and registered with the CBR in 1990, and in 1996, it was granted a general banking licence by the CBR. The primary goal in establishing Gazprombank was to improve the quality and effectiveness of financial services to the Gazprom Group and the Russian gas industry. In 1998, it became the Gazprom Group's preferred bank for servicing the gas industry. Gazprom controls, directly or indirectly, 100 per cent. of Gazprombank's charter capital. According to the Russian Interfax Information Agencies, as at 30 June 2003, Gazprombank was the third largest Russian bank in terms of total assets (calculated under Russian accounting rules).

Gazprombank's principal activities comprise commercial lending, project financing, trade finance, corporate and retail deposit taking, foreign exchange and securities trading and precious metals operations. Gazprombank also generates income from money transfer and clearing facilities, providing settlement services for interregional payments for gas supplies, card services, depositary and custodian services, funds management services, Internet-related brokerage and trading services, and arranging and providing financings and performing various other functions for the Gazprom Group companies.

Since its foundation, Gazprombank has developed a network of 31 branch offices and over 100 regional points of service located throughout the Russian Federation. Its network extends to the principal regions where gas is extracted, produced and transported and to many of the largest financial and industrial centres in the Russian Federation. Gazprombank also has a network of nine subsidiary and affiliated banks, including investments in two affiliated banks in the Republic of Belarus and Hungary.

### Strategy

Gazprombank's principal aims are to continue to offer high quality and efficient services to the Gazprom Group, maintain growth and strengthen its competitive position within the Russian banking sector. The key objectives include the following:

- further developing its well-placed strategic position within the gas and associated industries and broadening its strategic co-operation with Russian gas industry enterprises by continuing to develop its business in line with the interests of the Gazprom Group;
- continuing to diversify its business operations to become a full-scale universal bank by extending its services and banking activities to other sectors to attract a broader customer base, strategically growing its regional network and expanding its product and service portfolio;
- achieving a more diversified and stable funding base with the aim of reducing its credit risk profile; and
- improving operational efficiency and the competitiveness of its banking operations within an increasingly competitive Russian banking market by implementing enhanced and transparent internal management systems and controls within each of its various operations and departments and by standardising its core product base offered to customers.

## Summary Consolidated Financial Statements and Selected Statistical Data

The summary financial information and statistical data for the Group set forth below should be read in conjunction with the consolidated financial statements prepared in accordance with International Accounting Standards ("IAS") included in this Offering Circular (the "Consolidated Financial Statements").

The summary financial information and statistical data set forth below (a) at and for the years ended 31 December 2000, 2001 and 2002 and (b) at and for the six month period ended 30 June 2003, unless indicated otherwise, has been extracted without material adjustment from, as the case may be, the Consolidated Financial Statements for the Group as at 31 December 2002 and the unaudited condensed interim consolidated financial statements for the Group for the six month period ended 30 June 2003 (the "Condensed Interim Consolidated Financial Statements"), each of which are included in this Offering Circular. The information should be read in connection with, and is qualified in its entirety by reference to, the Consolidated Financial Statements.

The Group's Consolidated Financial Statements for the years ended 31 December 2000 and 2001 were audited by KPMG Limited and are contained in the "2000" and "2001" columns of the Consolidated Financial Statements. The Group's financial statements for the year ended 31 December 2002 were audited by Deloitte & Touche Regional Consulting Services Limited ("Deloitte & Touche") and are contained in the "2002" column of the three-year Consolidated Financial Statements. The Condensed Interim Financial Statements were reviewed (but not audited) by Deloitte & Touche.

In 2002, the Group's Management has corrected an error relating to prior periods, which effected certain changes in the 2000 and 2001 figures. See details in Note 2(c) to the Consolidated Financial Statements. Also, certain changes in presentation have been made to the Consolidated Financial Statements for 2000 and 2001 in order to promote better and more detailed understanding by users of the financial statements. As a result, conforming reclassifications were made to the 2000 and 2001 figures to achieve comparability in presentation with 2002. See details in Note 2(b) to the Consolidated Financial Statements. The Group's current auditor, Deloitte & Touche, has received the changes in presentation made by the Group's Management to the 2000 and 2001 figures, has checked their arithmetic accuracy and has found them to be in agreement with the reclassified and restated 2000 and 2001 Consolidated Financial Statements.

	As at and for the years ended			As at and for the six month period ended	
	2000	2001	2002	30 June 2002	30 June 2003
<b>Performance Ratios:</b>					
Net Interest Margin .....	2.6%	2.2%	2.7%	3.8%	2.8
Non-Interest income to total bank income .....	59%	66%	64%	77%	73%
Cost/income ratio .....	59%	62%	46%	26%	31%
ROAA <sup>(1)</sup> .....	0.9%	2.4%	2.7%	4.8%	2.3%
ROAE <sup>(1)</sup> .....	5.1%	11.9%	15.0%	21.6%	12.8%
<b>Balance Sheet Ratios:</b>					
Customer deposits to net customer loans .....	94.3%	124.1%	109.3%	106.9%	128.3%
Net loans to customers <sup>(2)</sup> to total assets .....	46.9%	44.1%	48.0%	49.6%	43.3%
Shareholders' equity to total assets .....	22.0%	18.7%	16.9%	21.8%	15.5%
Tier 1 capital adequacy ratio .....	29.4%	30.4%	20.2%	25.6%	19.3%
Total capital adequacy ratio <sup>(3)</sup> .....	28.0%	28.6%	28.4%	28.2%	26.9%
<b>Asset Quality:</b>					
Overdue loans to total customer loans (gross) .....	1.3%	5.1%	1.1%	3.9%	1.9%
Provisions to total customer loans (gross) .....	3.5%	7.4%	7.0%	7.2%	5.5%
Provisions charge to total customer loans (gross) ..	—	4.6%	2.0%	0.9%	—

Notes:

- (1) Average total assets and average equity is the arithmetic mean between two year end balances.
- (2) Includes loans to customers less specific provisions and general credit risk provisions.
- (3) Calculated according to BIS regulations.

**The Offering**

<b>Issuer of the Notes:</b>	GazInvest Luxembourg S.A.
<b>Fiduciary:</b>	J.P. Morgan Bank Luxembourg S.A.
<b>Borrower:</b>	Joint-stock Bank of the Gas Industry Gazprombank (Closed Joint-stock Company)
<b>Manager:</b>	J.P. Morgan Europe Limited
<b>Issue Amount:</b>	U.S.\$750,000,000
<b>Issue Price:</b>	100 per cent. of the principal amount of the Notes
<b>Maturity Date:</b>	30 October 2008
<b>Trustee:</b>	J.P. Morgan Corporate Trustee Services Limited
<b>Principal Paying Agent:</b>	JPMorgan Chase Bank
<b>Interest:</b>	The Notes will bear interest from 30 October 2003 at a rate of 7.25 per cent. per annum payable semi-annually in arrears on 30 April and 30 October each year commencing on 30 April 2004.
<b>Limited Recourse:</b>	The Notes will constitute the obligation of the Issuer to apply an amount equal to the proceeds of the issue of the Notes solely for the purpose of financing the Deposit with the Fiduciary. The Fiduciary will apply the amount of the Deposit for the purpose of financing a Loan to Gazprombank pursuant to the terms of the Loan Agreement. The Issuer will only account to the holders of the Notes (the "Noteholders") for all amounts equivalent to those amounts of principal and interest (if any) received from the Fiduciary under the Fiduciary Deposit Agreement. The Fiduciary will only account to the Issuer for all amounts equivalent to principal and interest (if any) received from Gazprombank under the Loan Agreement.
<b>Security:</b>	The Notes are secured by a charge in favour of the Trustee for the benefit of the Noteholders as security for its payment obligations in respect of the Notes of (a) its rights to all payments of principal, interest and other amounts under the Fiduciary Deposit Agreement, (b) the rights to receive all sums which may be payable under any claim, award or judgment relating to the Fiduciary Deposit Agreement and (c) amounts deposited pursuant to the Fiduciary Deposit Agreement in an account of the Issuer as well as assigning its rights under the Fiduciary Deposit Agreement, all as more fully described under "Description of the Transaction and Security". Furthermore, under the terms of the Fiduciary Deposit Agreement, the Fiduciary will agree that upon the occurrence of an Event of Default (as defined in the Loan Agreement) or a Fiduciary Relevant Event (as defined in the Fiduciary Deposit Agreement) it will assign all of its rights (except for any Reserved Rights (as defined in the Fiduciary Deposit Agreement)) under the Loan Agreement to the Issuer, who has assigned any such rights to the Trustee for the benefit of the Noteholders.
<b>Form:</b>	The Notes will be issued in bearer form in the denominations of U.S.\$100,000 or higher integral multiples of U.S.\$1,000. The Notes will initially be represented by the Temporary Global Note which will be exchangeable for interests in the Permanent Global Note on or after a date which is expected to be 10 December 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 the Provisions Relating to the Notes in Global Form".



**Early Redemption:**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time at their outstanding principal amount together with accrued interest to the date of redemption if the Fiduciary prepays the Deposit pursuant to the terms of the Fiduciary Deposit Agreement as a result of Gazprombank electing to prepay the Loan for tax reasons or by reason of increased costs or in the event that it becomes unlawful for the Fiduciary to fund the Loan or to allow it to remain outstanding under the Loan Agreement, all as more fully described in Clause 5.2 and Clause 5.3 of the Loan Agreement. See also Condition 5 (Redemption and Purchase). Gazprombank or any of its subsidiaries may also purchase Notes which, under the terms of the Loan Agreement and the Notes, may be held, sold in the open market, or, at the option of Gazprombank or such subsidiary, surrendered to the Issuer for cancellation. Upon such a cancellation by the Issuer, the principal amount outstanding of the Deposit and the Loan shall be reduced in an amount corresponding to the principal amount of the Notes cancelled.

**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 or consent to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Fiduciary Deposit Agreement or the Loan Agreement.

**Negative Pledge and other Covenants:**

Clause 10 of the Loan Agreement contains a negative pledge in relation to the creation of Security Interests (other than Permitted Security Interests) by Gazprombank and its subsidiaries.

**Events of Default/ Relevant Events:**

If an Event of Default (as defined in Clause 11 of the Loan Agreement) or either an Issuer Relevant Event (as defined in the Trust Deed) or a Fiduciary Relevant Event (as defined in the Fiduciary Deposit Agreement) occurs, the Trustee may, subject as provided in the Trust Deed, (1) (in the case of an Event of Default) following an assignment of the Loan Agreement pursuant to the terms of the Fiduciary Deposit Agreement declare all amounts payable under the Loan Agreement by Gazprombank to be due and payable or procure that such a declaration is made or (2) (in the case of an Issuer Relevant Event or a Fiduciary Relevant Event) exercise any rights under the Security Interests created in the Trust Deed in favour of the Noteholders.

Upon repayment of the Loan following an Event of Default, the Notes will be redeemed and repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

**Withholding Tax:**

All payments of principal and interest under the Loan and in respect of the Deposit and the Notes will be made free and clear of all taxes, duties, assessments or governmental charges of the Grand-Duchy of Luxembourg 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 in respect of the Loan, the Deposit or the Notes, the sum payable by Gazprombank under the Loan Agreement will (subject to certain exceptions) be required to be increased to the extent necessary to ensure that each of the Fiduciary and 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 each of the Fiduciary and the Issuer in this respect will be to pay to the Issuer and the Noteholders, respectively, sums equivalent to the sums received from Gazprombank and the Fiduciary,

	respectively. See “The Fiduciary Deposit Agreement” and “Terms and Conditions of the Notes”.
<b>Use of Proceeds:</b>	The net proceeds from the issue of the Notes will be used by the Issuer to finance the Deposit with the Fiduciary. The Fiduciary shall use such amount to finance the Loan to Gazprombank. Gazprombank will apply the proceeds of the Loan for general corporate purposes.
<b>Listing:</b>	Application has been made to list the Notes on the Luxembourg Stock Exchange.
<b>Selling Restrictions:</b>	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, the Netherlands, Luxembourg and Italy) only in compliance with applicable laws and regulations. See “Subscription and Sale”.
<b>Governing Law:</b>	The Notes, the Loan Agreement and the Trust Deed will be governed by English law. The Fiduciary Deposit Agreement will be governed by Luxembourg law.
<b>Certain Investment Considerations:</b>	An investment in the Notes involves a high degree of risk. See “Certain Investment Considerations”.
<b>Security Codes:</b>	ISIN: XS0179102560 Common Code: 017910256



## Certain Investment Considerations

Prospective investors should consider carefully the risks set forth below and the other information contained in this Offering Circular prior to making any investment decision with respect to the Notes. Each of the risks highlighted below could have a material adverse effect on Gazprombank's business, operations, financial condition or prospects, which, in turn, could have a material adverse effect on its ability to service its payment obligations under the Loan and the Fiduciary's ability to service its payment obligation under the Fiduciary Deposit Agreement and thus on the amount of principal and interest which investors will receive in respect of the Notes. In addition, each of the risks highlighted below could adversely affect the trading price of the Notes or the rights of investors under the Notes and, as a result, investors could lose some or all of their investment.

Prospective investors should note that the risks described below are not the only risks Gazprombank faces. Gazprombank has described only those risks relating to its operations that it considers being material. In addition, Gazprombank has described certain general risks applicable to an investment in Russia and the Russian banking industry and associated with an investment in the Notes. There may be additional risks that Gazprombank currently considers not to be material or of which Gazprombank is not currently aware, and any of these risks could have the effects set forth above.

### Risks Relating to the Russian Federation

#### *Political and Social Risks*

Since 1985, Russia has been undergoing a substantial political transformation from a centrally controlled command economy under communist rule to a pluralist market-oriented democracy. A significant number of changes were undertaken during these years, but there is still no assurance that the political and economic reforms necessary to complete such a transformation will continue or will be successful. In its current relatively unstable stage, the Russian political system is vulnerable to the population's dissatisfaction with reforms, social and ethnic unrest and changes in governmental policies, any of which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Russian Government has been highly unstable, having experienced four changes in prime minister since March 1998, as well as the resignation of former President Yeltsin on 31 December 1999 and the subsequent election of President Putin on 26 March 2000. The various government institutions and the relations between them, as well as the Russian Government's policies and the political leaders, who formulate and implement them, are subject to rapid change especially in view of upcoming elections of the State Duma in 2003 and the Presidential elections in 2004. Any major changes in, or rejection of, current policies favouring political and economic reform by the Russian Government may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Russia is a federative state consisting of 89 constituent entities of different status (republics, krais, oblasts, cities of federal importance, autonomous districts and an autonomous region). The division of powers between the Russian Federation and its constituent entities is based on the three-fold system of competence set out in the Constitution of the Russian Federation: the competence of the Russian Federation, the joint competence of the Russian Federation and its constituent entities, and the competence of the constituent entities. The distribution of powers between the Russian Federation and certain constituent entities has been further adjusted in bilateral agreements on the transfer of powers, and treaties on the delineation of powers. According to the amendments to the Law "On General Principles for Organisation of Legislative (Representative) and Executive Bodies of the Constituent Entities of the Russian Federation" as of July 2003, such agreements and treaties will cease to be effective in July 2005, unless they have been approved by governmental regulations and federal laws respectively. The system of constituent entities is supplemented by the system of seven federal districts (federalny okrug) supervised by representatives of the President. See "Appendix A — Overview of the Russian Federation — Political Structure and Recent Political Developments — Political Parties and Elections". The lack of consensus between local and regional authorities and the federal governmental authorities may result in political instability. This lack of consensus may have negative economic effects on the Group, which could have a material adverse effect on its business, financial condition or ability to fulfil its financial obligations.

In addition, ethnic, religious, and other social divisions periodically give rise to tensions and, in certain cases, armed conflicts. In Chechnya, Russian armed forces have conducted anti-terrorist operations for a number of years, and some of them still have to remain there to keep law and order. The escalation of violence may entail grave political consequences. In particular, the Federal Constitutional Law "On Emergency" of 2001 allows under certain circumstances the declaration of a state of emergency in the whole territory of the Russian Federation or in any part thereof, which may adversely impact its investment climate.

### *Economic Risks*

Simultaneously with the enactment of political reforms, the Russian Government has been attempting to implement policies of economic reform and stabilisation. These policies have involved liberalising prices, reducing defence expenditures and subsidies, privatising state-owned enterprises, reforming the tax and bankruptcy systems and introducing legal structures designed to facilitate private, market-based activities, foreign trade and investment.

After an initial post reform period, the Russian economy was characterised by declining industrial production, significant inflation, a managed but unstable currency, rising unemployment and underemployment, high government debt relative to gross domestic product, high levels of corporate insolvency with little recourse to restructuring or liquidation in bankruptcy proceedings, a weak banking system providing limited liquidity to Russian enterprises, widespread tax evasion, high levels of corruption and the penetration of organised crime into the economy and the impoverishment of a large portion of the Russian population.

The Russian economy has been subject to abrupt downturns. The events and aftermath of 17 August 1998 (the Russian government's default on its short-term Rouble-denominated treasury bills and other Rouble-denominated securities, the abandonment by the CBR of the Rouble currency band and efforts to maintain the Rouble/U.S. dollar rate within it and the temporary moratorium on certain hard-currency payments to foreign counterparties) led to a severe devaluation of the Rouble, a sharp increase in the rate of inflation, a significant decrease in the credibility of the country's banking system with Western financial institutions, significant defaults on hard currency obligations, a significant decline in the prices of Russian debt and equity securities and an inability to raise funds on international capital markets. While the Russian economy has improved in a number of respects since 1998, there can be no assurance that this improvement will continue or will not be reversed.

Over the past few years, Russia has experienced economic growth and improved economic stability in certain sectors although the economy remains reliant on the oil and gas sector. There can be no assurance that economic growth will continue in the future and any sustained significant slump in oil and gas prices is likely to have a material adverse effect on the Russian economy.

Although economic conditions in Russia have improved in the last few years, the prospect still exists of widespread bankruptcy, mass unemployment and the deterioration of certain sectors of the Russian economy. No assurance can be given that reform policies will continue to be implemented and, if implemented, will be successful, that Russia will remain receptive to foreign trade and investment or that the economy in Russia will improve.

### *Funding from International Organisations, Access to the International Capital Markets*

Russia in the past has received substantial financial assistance from several foreign governments and international organisations, including the International Monetary Fund. No assurance can be given that further financial assistance will be provided to Russia.

Moreover, due to previous defaults on certain obligations and other factors, the Russian Government may have difficulty in raising funds on the international capital markets, which may lead to direct or indirect monetary financing of the budget, putting further pressure on inflation and the value of the Rouble.

The considerable external debt of Russia, as well as a failure in obtaining funding from foreign governments and international organisations, or increased rates of inflation or devaluation arising from the need to resort to monetary financing of the budget in the absence of access to the international capital markets, could have a material adverse effect on the Russian economy.

### *Exchange Rates, Exchange Controls and Repatriation Restrictions*

In recent years, the Rouble has been stable relative to the U.S. dollar, unlike in the period immediately following the crisis of August 1998, when the Rouble experienced significant depreciation relative to the U.S. dollar.

The ability of the Russian Government and the CBR to reduce the volatility of the Rouble will depend on many political and economic factors, including their ability to control inflation, the sufficiency of currency reserves of the Russian Federation, fluctuations of the U.S. dollar/euro exchange rate and the geopolitical situation in the world.

The Rouble is not convertible outside Russia. A market exists within Russia for the conversion of Roubles into other currencies, but it is limited in size and is subject to rules limiting the purposes for which conversion may be effected. There can be no assurance that such a market will continue indefinitely. The relative stability of the exchange rate of the Rouble against the U.S. dollar since 1999 has mitigated risks associated with compulsory conversion, but no assurance can be made that such stability will continue.

While the current policy of the Russian Government is to allow the repatriation by foreign investors of profits earned in Roubles, there may be restrictions on such repatriation. The restrictions on its ability to convert its Rouble revenues into foreign currencies, or to reconvert the Roubles it obtains pursuant to the mandatory repatriation and conversion requirements could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

#### *Legal Risks*

Risks associated with the Russian legal system include (i) the untested nature of the independence of the judiciary and its immunity from economic, political or nationalistic influences; (ii) inconsistencies among laws, Presidential decrees and Government and ministerial orders and resolutions; (iii) the lack of judicial or administrative guidance on interpreting the applicable laws; (iv) a high degree of discretion on the part of governmental authorities; (v) conflicting local, regional and federal laws and regulations; (vi) the relative inexperience of judges and courts in interpreting new legal norms and (vii) the unpredictability of enforcement of foreign judgments and foreign arbitral awards.

The laws in Russia regulating ownership, corporate governance and bankruptcy of Russian companies are relatively new and, by and large, have not yet been tested in the courts. Disclosure and reporting requirements do not guarantee that material information will always be available and anti-fraud and insider-trading legislation is generally rudimentary. The concept of fiduciary duties on the part of the management or directors to their companies or the shareholders is not well developed.

In addition, substantive amendments to several fundamental Russian laws (including those relating to the tax regime, corporations and licensing) have only recently become effective. The recent nature of much Russian legislation, the lack of consensus about the scope, content and pace of economic and political reform, and the rapid evolution of the Russian legal system in ways that may not always coincide with market developments, may result in ambiguities, inconsistencies and discrepancies, the enactment of laws and regulations without a clear constitutional or legislative basis, and ultimately in investment risks that do not exist in more developed legal systems. All of these uncertainties could affect the Borrower's ability to enforce its rights or to defend itself against claims by others and could affect enforcement in Russia of any rights of the Fiduciary, the Issuer or the Trustee against the Borrower. Further, no assurance can be given that the development, implementation or application of legislation (including Government resolutions or Presidential decrees) will not have a material adverse effect on foreign investors (or private investors generally).

These uncertainties also extend to property rights. During Russia's transformation from a centrally planned economy to a market economy, legislation has been enacted to protect private property against expropriation and nationalisation. However, it is possible that due to the lack of experience in enforcing these provisions and potential political changes, these protections may not be enforced in the event of an attempted expropriation or nationalisation. Some political parties have spoken in favour of renationalising privatised businesses. Expropriation or nationalisation of any of the Group's entities or their assets, potentially without adequate compensation, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Many Russian laws are structured in a way that provides for significant administrative discretion in application and enforcement. Reliable texts of laws and regulations at the regional and local levels may not be available, and are not usually updated or catalogued. As a result, the applicable law is often difficult to ascertain and apply, even after reasonable effort. In addition, the laws are subject to different and changing interpretations and administrative applications. As a result of these factors, even the best efforts to comply with the laws may not always result in full compliance.

Russian laws often provide general statements of principles rather than a specific guide to implementation, and Government officials may be delegated or exercise broad authority to determine matters of significance. Such authority may be exercised in an unpredictable way and effective appeal processes may not be available. In addition, breaches of Russian law, especially in the area of currency control, may involve severe penalties and consequences that could be considered as disproportionate to the violation committed.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia remains largely untested. The court system is understaffed and under-funded. 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 generally 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 in furtherance of political aims. The Group may be subject to such claims

and may not be able to receive a fair hearing. Additionally, court judgments are not always enforced or followed by law enforcement agencies. From 1 September 2002, most of the provisions of the new 2002 Arbitration Procedural Code of the Russian Federation regulating the resolution of commercial disputes had come into force, thereby replacing the 1995 Arbitration Procedural Code of the Russian Federation. The 2002 Arbitration Procedural Code introduced a number of significant changes in arbitration procedures. However, the 2002 Arbitration Procedural Code has not been fully tested in practice, and its efficacy in resolving commercial disputes is unclear. Additionally, court decisions are not always enforced or followed by law enforcement agencies. There is no guarantee that further judicial reform aimed at balancing the rights of private and governmental authorities in courts and reducing grounds for re-litigation of decided cases will be implemented and succeed in building a reliable and independent judicial system.

#### *Taxation Risks*

Taxes payable by Russian companies are substantial and include value added tax, excise duties, profit taxes, payroll-related taxes, property taxes and other taxes. Historically, the system of tax collection has been relatively ineffective, resulting in the imposition of new taxes in an attempt to increase government revenues. However, the Russian government has initiated reforms of the tax system, including the enactment of the Tax Code (Part One came into force in 1999 and some chapters of Part Two of the Tax Code came into force in 2001, 2002 and 2003). The reforms have resulted in some improvement in the tax climate.

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

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

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

#### *Corporate Governance and Disclosure*

The corporate affairs of Gazprombank and other Russian companies in the Group are regulated by the laws governing companies incorporated in Russia and by their constituent documents. The rights of shareholders and the responsibilities of members of the Board of Directors and Management Board under Russian law are different from, and may be subject to certain requirements not generally applicable to, corporations organised in the United States, the United Kingdom, and other jurisdictions.

A principal objective of the securities laws of the United States and the United Kingdom and other countries is to promote the full and fair disclosure of all material corporate information to the public. Gazprombank and other Russian companies in the Group are subject to Russian law requirements, which oblige them to publish, *inter alia*, annual financial statements and information on material events relating to the relevant company (such as major acquisitions and increases in charter capital). However, there is less publicly available or other information about

Gazprombank and its Russian subsidiaries than the information regularly published by or about listed companies in the United States, the United Kingdom or certain other jurisdictions.

## **Risks Relating to the Russian Banking Industry**

### *Intense Competition in the Russian Banking Market*

The markets for financial and banking services are highly competitive, and as at 1 September 2003, the CBR reported there were 1,281 banks operating in the Russian Federation, including Russian banks and Russian subsidiaries of foreign banks. Of these banks, a small number of Moscow-based banks dominate the Russian banking industry. Competition between Russian banks and foreign banks operating in the Russian banking market has been increasing, and, in particular, competition for major corporate customers is growing. According to the CBR, as at 30 June 2003, Russia's ten largest banks accounted for 54 per cent. of total bank assets, and the top five banks accounted for 44 per cent. of total bank assets. The Borrower has faced increasing competition over the past three years as it actively enters new customer markets in different industries. The Borrower's primary competitors are currently Sberbank, Vneshtorgbank, Alfa Bank and, to a lesser extent, International Industrial Bank, Bank of Moscow, MDM-Bank, Rosbank and Menatep Saint-Petersburg.

In addition, although the Borrower has begun successfully to diversify its customer base, its business continues to be heavily concentrated on the Gazprom Group. As a consequence, any bank which could provide the Gazprom Group with similar financial services is a potential threat to the Borrower. There are several Russian banks which either separately or together could provide the product and regional coverage necessary to compete for the position as the Gazprom Group's preferred bank. Management of the Borrower does not believe this possibility to be a significant threat to the business. However, no assurance can be given that one or a number of Russian or foreign banks could not become the Gazprom Group's preferred bank or begin to provide the Gazprom Group with levels of service which would impact the Group's business, financial condition, results of operations and prospects.

### *Banking Activity Risks*

Russian companies may face significant liquidity problems due to a limited supply of domestic savings, few foreign sources of funds, limited lending by the banking sector to the industrial sector and other factors. Many Russian companies still cannot make timely payments for goods or services and owe large amounts of overdue federal and local taxes, as well as wages to employees. A re-emergence of liquidity problems that have disrupted the Russian banking sector in the past or a deterioration of the Russian banking system could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Russian banking sector remains in a nascent state compared to its Western counterparts. It is unclear how legal and regulatory developments may affect the competitive banking landscape in Russia and whether it will significantly advantage certain banking activities. No assurance can be given that the regulatory environment in which the Borrower operates in Russia will not change in a manner that has a material adverse effect on the Group's ability to compete and thus on its business, financial condition, results of operations and prospects.

The Borrower enters into transactions with derivative instruments, including foreign currency options, and plans to continue to develop risk management tools by utilising financial products. However, the Russian regulatory and legal framework relating to derivative instruments is still underdeveloped and court protection of such instruments is limited. Russian law neither specifically prohibits nor authorises derivative transactions as such transactions are unregulated (although a few documents issued by Russian regulators refer to such transactions). There are some doubts as to the enforceability of certain derivative arrangements under Russian law and this may negatively affect the Borrower.

The Group's investment banking activities might be negatively affected by such factors as limited liquidity in the Russian corporate securities market, a relatively small amount of buying or selling activities, unfavourable press coverage, market making and use of practices not permitted in more advanced securities markets.

### *Banking Reform*

At the end of 2001, the Government of the Russian Federation and the CBR issued a joint declaration setting out the strategy for banking reform in Russia and calling for certain legislative steps and structural changes to be taken during the next five years. Among other measures aimed at increasing the stability of the Russian banking sector, the strategy envisages (i) an increase in capital adequacy requirements, (ii) the introduction of amendments to the Russian Civil Code preventing the early withdrawal of funds held on deposit accounts opened for a certain term, (iii) the acceptance of IAS by all Russian banks starting from 1 January 2004 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 such changes are generally viewed as beneficial reforms to the Russian banking system and are considered by the management of the Borrower to be beneficial for the Group, it is uncertain whether such reforms may cause any adverse impact on Russian banks and their approach to business. For example, although the implementation of a mandatory system of securing deposits may have the benefit of giving depositors more comfort that their monies will be protected against default or a further banking crisis, the deposit insurance premiums may (depending on their level) negatively impact net interest margins if the volume of additional deposits gained does not offset the additional expense which Russian banks will be required to incur.

Though certain legislative steps have already been implemented as part of the banking reform in Russia, it is still difficult to anticipate how such reform might impact the Group and its business, financial condition, results of operations or prospects.

## **Risks Relating to the Group's Business**

### *Relationship with the Gazprom Group*

Although the Borrower has an independent Management Board, the Borrower is wholly owned by Gazprom which has significant representation on the Board of Directors. The Borrower and the Group have been and continue to be economically dependent on the Gazprom Group. The majority of the Borrower's funding is from, and the majority of its credit exposures are to, the Gazprom Group. For the six month period ended 30 June 2003, transactions of the Borrower with members of the Gazprom Group accounted for approximately U.S.\$3,537.94 million (49 per cent.) of the Borrower's total gross exposures (including assets, off-balance sheet commitments and a U.S.\$838.48 million loan to Europolgaz) and approximately U.S.\$2,070.40 million (40 per cent.) of its total liabilities.

As a result of Gazprom's controlling interest, it has the ability to exert significant influence over the Group and effectively controls actions requiring shareholder approval including, but not limited to, the election of directors, the declaration of dividends, the appointment of management and other policy decisions. The interests of Gazprom as shareholder could conflict with the interests of the Noteholders as creditors and there is a risk that decisions could be taken that could adversely affect the value of the Notes.

At present, the production and transportation of natural gas in Russia is largely controlled by the Gazprom Group. However, there have been calls (including from government officials) for the Gazprom Group to be divided into a number of companies, for particular functions to be spun off to other entities and for other gas producers to be given access to Gazprom's distribution network. In addition, Gazprom's controlling interest in the Borrower may change in the future if Gazprom decides to sell part of its holding in the Borrower.

Given the potential for the Gazprom Group to be restructured or the possibility that it may sell a stake in the Borrower, there can be no certainty that the Borrower will continue to be controlled or primarily owned by the Gazprom Group. If it were spun off or if the Gazprom Group was broken up and ceased to be a vertically integrated gas production and transportation business or if the Gazprom Group sold a significant stake in the Borrower, there could be no assurance that the Borrower would continue to be the main bank to the Gazprom Group and the Russian gas industry. In any such circumstances there is a significant risk that the Borrower would cease to have the funding necessary to support its asset portfolio and/or could lose a substantial part of its asset portfolio and that its financial position would be materially adversely affected.

A large proportion of the Borrower's long-term lending funds Gazprom's international gas projects. Loans for these gas industry investment projects, including the Yamal-Europe Project, accounted for 36 per cent. of the total loan portfolio as at 30 June 2003. See "Description of the Borrower — Principal Gas Industry Projects". In most cases these gas investment project loans are provided to the Gazprom Group at below market costs of funding and, generally, the Borrower's exposure on such projects is at least partially matched by Gazprom Group companies providing deposits or other funding at lower rates of interest than the Borrower would otherwise be able to obtain in the market. While this helps to ensure the Borrower's liquidity and helps retain its margins, the projects are not fully funded, the project loan repayment dates are rarely fully matched by the maturity dates for deposits or other funding and there can be no assurance of alternative funding either at comparable costs or at all. The Borrower's business, financial condition, results of operations and prospects would be materially adversely affected in such circumstances.

The Borrower maintains a substantial securities portfolio, including equity securities of Gazprom and other Russian issuers, and has generated significant income in recent periods from securities trading activities. See "Description of the Borrower — Securities Trading Portfolio". At 30 June 2003, the Borrower's trading securities

had a carrying value of approximately U.S.\$1,452 million, of which U.S.\$1,012 million represented equity securities and U.S.\$687 million represented Gazprom shares. These levels represented a substantial increase in equity holdings generally and, in particular, in holdings of Gazprom shares, as compared to prior periods. This factor increases the extent to which the Borrower's asset base is exposed to and dependent on the Gazprom Group. In addition, while the Borrower believes that its exposure to equity securities in its trading portfolio and dependence on securities trading activities is in line with that of Russian banks generally, the growth in the Borrower's position in equity securities generally, and its concentrated position in Gazprom shares, in particular, involves a heightened risk, especially given the volatility of relevant equity markets, that the Borrower's results and financial position could be negatively affected by downward movements in the price of Gazprom shares or Russian equity securities generally.

#### *Loan Concentration Risk, Yamal-Europe Project and Breach of CBR Mandatory Economic Ratios*

The Borrower's loan portfolio is heavily concentrated on borrowers in the Gazprom Group and in the gas industry. As at 30 June 2003, gross exposures to the gas industry comprised U.S.\$1,837.7 million, or 49 per cent., of total gross exposures, as compared with the next largest sectors, manufacturing and trade, which accounted for 20 per cent. and 9 per cent., respectively. As at 30 June 2003, loans to the Gazprom Group accounted for U.S.\$1,834 million, or 65 per cent., of the Borrower's total loan portfolio, including a gas industry loan to finance the Yamal-Europe Project (the "Yamal-Europe Loan") which accounted for approximately one-third, or 30 per cent., of the Borrower's total loan portfolio.

Under the Yamal-Europe Loan, the Borrower extended advances (including capitalised interest) of a maximum of U.S.\$897.75 million. Since 5 February 2002, the Yamal-Europe Loan has been repaid in monthly instalments, with the final instalment falling due in 2018. The Yamal-Europe Loan was advanced to Europol Gaz SA ("Europolgaz"), a joint venture company owned principally by the Gazprom Group and PGNiG (the Polish national oil company), to construct a system of gas pipelines and five compressor stations comprising the Polish section of a gas pipeline project supplying gas from the northern part of the Tyumen region of Russia to Germany. Construction began in 1997 and at present the pipeline, with two compressor stations is in operation, delivering Russian gas to Poland and Western Europe. Pursuant to an additional intergovernmental agreement dated 13 February 2003, three additional compressor stations will be built, and the Borrower will provide part of the funding to finance this project in the amount of U.S.\$60 million in the form of a new loan tranche to Europolgaz (together with the Yamal-Europe Loan, the "Loans"). Although the Borrower has no recourse to Gazprom in relation to the Loans, Gazprom provided the following two sources of funding for the project (representing approximately 65 per cent. of the Borrower's maximum exposure under the Yamal-Europe Loan): (a) U.S.\$555.38 million in the form of a contribution to capital and (b) U.S.\$164.56 million in the form of term deposits. See "Description of the Borrower — Principal Gas Industry Projects — Yamal-Europe Project." No assurance can be given that Europolgaz will be able to meet its payments under the Loans. Moreover, if Gazprom sought to withdraw its funding for the Loans or increase the cost of such funding, there could be no certainty that alternative funding would be available at comparable funding costs or at all. The Borrower's financial condition and results of operations would be materially adversely affected in such circumstances.

The Yamal-Europe Loan exceeds the CBR's mandatory economic ratio on a single borrower or a group of related borrowers exposure. The Borrower reduced its excess of the exposure limit from 5.2 times as at 31 December 2001 to 4.2 times as at 31 December 2002. The Borrower does not expect the additional U.S.\$60 million tranche to negatively affect this ratio because in the second quarter of 2003 Gazprom made several subordinated deposits with the Borrower, thereby increasing the capital of the Borrower. As at 30 June 2003 the exposure of the Borrower exceeded the limit determined by the CBR by 3.5 times. The Borrower expects further improvement of its exposure by the end of 2003. As with all Russian banks, the Borrower reports to the CBR on compliance with the CBR's mandatory economic ratios on a monthly basis and is monitored by the CBR. The Borrower consulted the CBR in connection with the Loans, and the CBR conducted its own investigation of the exposure. Although the CBR is not entitled under Russian legislation to waive breaches or to agree to lower mandatory economic ratios in relation to a single bank, the CBR has approved a set of measures with which the Borrower plans to attain the required limit on the single-borrower exposure.

In addition, the Borrower's gross exposure to the Gazprom Group, excluding Europolgaz, also exceeds the CBR's mandatory economic ratio on a single borrower or a group of related borrowers limit. The Borrower's excess of exposure compared to the limit determined by the CBR varies depending on the proportion between the actual exposure of the Borrower to the relevant borrowers of the Gazprom Group and the capital of the Borrower, on any given reporting date. The Borrower reduced its excess of the exposure limit from 2.5 times as at 31 December 2002 to 1.8 times as at 30 June 2003. The Borrower expects further improvement of its exposure by the end of 2003. Previously, the Borrower was also in breach of the CBR's mandatory ratio on borrowings to a single



shareholder in relation to Gazprom. This breach was monitored by the CBR and has been cured by the Borrower. As in the case of the Yamal-Europe Loan, the CBR has been consulted on an ongoing basis in connection with the Borrower's exposure to the Gazprom Group and the CBR has conducted its own investigation of the exposure. The Borrower is in the process of discussing with the CBR a plan to implement a set of measures to be agreed with the CBR to reduce this exposure.

Nevertheless, until the mandatory ratios have been met both with respect to the Yamal-Europe Loan and the Gazprom Group, the Borrower is technically still exposed to the risk that the CBR may impose sanctions on the Borrower for such non-compliance. Such sanctions could include a fine, initiation of a temporary administration of the Borrower by the CBR or revocation of a banking licence. Under Russian law, the CBR may appoint a temporary administration for a term of up to six months if the Borrower has failed to comply in a timely manner with the CBR orders to remedy breaches, or if these breaches by the Borrower have created an actual threat to the interests of its creditors (depositors). As for revocation of the banking licence, such sanction may be applied to the Borrower only after a repeated imposition on the Borrower of other sanctions during the same calendar year. To date, no sanctions have been imposed on the Borrower by the CBR for either of these breaches of the CBR's mandatory economic ratios.

#### *Loan Portfolio Growth and Diversification of Customer Base*

The Borrower's net loan portfolio has increased rapidly in recent years, growing by 41 per cent. in 2002 to U.S.\$2,369.91 million from U.S.\$1,681.33 million in 2001. The growth in the loan portfolio is largely attributable to an increase in gas industry loans and diversification into other industries and to new customer segments. As at 30 June 2003, loan loss provisioning remained relatively constant at 5.5 per cent. of the credit portfolio from 7.0 per cent. as at 31 December 2002. Classified loans, being loans classified as special mention, substandard, doubtful or bad, according to World Bank loan classifications, have increased as a percentage of total loans from 2.9 per cent. of total loans in 2000, to 8.0 per cent. of total loans in 2001, 20.3 per cent. of total loans in 2002 and 28.0 per cent. of total loans as at 30 June 2003. Although bad loans actually fell to 1.1 per cent. in 2002 from 5.1 per cent. in 2001 due to a successful restructuring of a loan for which the Borrower had fully provisioned in 2001, special mention loans increased to 21.8 per cent. as at 30 June 2003 from 8.6 per cent. in 2002 and 1.6 per cent. in 2001, reflecting diversification of the loan portfolio to sectors other than the gas industry.

The significant increase in the loan portfolio size may increase the Borrower's credit exposure, which will require continued monitoring by the Borrower's management of credit and asset quality and the adequacy of its provisioning levels and continued improvement in the Borrower's credit risk management systems. In addition, as the Borrower implements its strategy to further diversify its customer base, including increased lending to medium-sized and smaller corporate clients as well as retail customers, while diversifying the loan portfolio, this may also increase further the credit risk exposure of the Borrower. Medium and small-sized companies and retail customers typically have less financial strength, and negative developments in the Russian economy could affect these borrowers more significantly than large companies. This could result in higher levels of provisioning, as well as implementation and application of credit policies and provisioning procedures which differ from those used for large corporate borrowers. Failure to manage growth and development successfully and to maintain the quality of its assets, could have a material adverse effect on the Borrower's business, results of operations, financial condition and prospects.

#### *Liquidity and Market Risks*

The Borrower is subject to liquidity risk due to maturity mismatches between its assets and liabilities. The Borrower is also exposed to a number of market risks, including interest rate risk, foreign exchange risk, equity price risk and commodity price risks. Although the Borrower believes that the Group's access to domestic (including funding from the Gazprom Group) and international funds will continue to allow it to meet its liquidity needs and it has policies and procedures in to place measure, monitor and manage liquidity and market risks, maturity mismatches or any significant volatility in interest rate movements, exchange rates or equity or commodity market prices could have a material adverse effect on the business, financial condition, results of operations and prospects of the Group.

#### *Unsettled NDFs*

Before the 1998 crisis, high volumes of GKO issuance drove an active forward foreign exchange market, particularly for non-deliverable forward foreign exchange transactions ("NDFs"). The announcement of Russia's intention to defer payment on GKOs and the abandonment of the Rouble corridor led to the rapid and significant devaluation of the Rouble which caused severe market disruption in late 1998. As a consequence, many counterparties were unable, or failed, to settle their forward foreign exchange positions. Attempts to seek a

market solution by involving the CBR were not successful and the Borrower sought bilateral solutions with its counterparties.

Although the Borrower successfully closed out certain foreign exchange positions, it continued to hold significant open position in NDFs. In some cases the counterparty was in financial difficulty and in others there is uncertainty as to the validity and/or enforceability of the NDF. A number of counterparties have taken proceedings against the Borrower in respect of unsettled NDF transactions. In all cases, the Borrower has received judgment in its favour. In July 2001, the Borrower resolved to reverse all provisions relating to liabilities and claims arising out of its unsettled NDFs. The management has been advised that it is unlikely that any claimant would succeed in enforcing any material claim in respect of such NDFs in a Russian court. However, were any such claim to be enforced against assets of the Borrower in Russia or abroad, it could have a material adverse effect on the Borrower's business, financial condition, results of operations and prospects.

#### *Dependence on Key Management and Employees*

The Borrower is dependent on its senior management for the implementation of its strategy and operation of its day-to-day activities. In addition, the personal connections and relationships of members of senior management are important to the conduct of its business. No assurance can be given that management will continue to make their services available to the Borrower.

In addition, the Borrower's success to grow its business will depend, in part, on its ability to continue to attract, retain and motivate qualified personnel. Competition in the Russian banking industry for personnel with relevant expertise is intense. The Borrower's failure to successfully manage its personnel needs could adversely affect the Group's business, financial condition, results of operations or prospects.

#### **Risks relating to the Notes and the Trading Market**

*Russian withholding tax may reduce the amount received by Noteholders and changes in tax law could result in the Notes being redeemed early*

In general, interest payments on borrowed funds made by a Russian entity to a non-resident are subject to Russian withholding tax at a rate of 20 per cent., unless they are reduced or eliminated pursuant to the terms of an applicable tax treaty. Based on professional advice it has received, Gazprombank believes that interest payments on the Loan made to the Fiduciary will not be subject to withholding under the terms of the double tax treaty between the Russian Federation and the Grand-Duchy of Luxembourg. However, there can be no assurance that such an exemption will be available.

The Issuer has granted security over all principal, interest and other amounts payable under the Fiduciary Deposit Agreement, the right to receive all sums payable under any claims, awards, judgments relating to the Fiduciary Deposit Agreement and all sums now or in the future deposited in the Account as well as assigned its rights to the Trustee under the Fiduciary Deposit Agreement. Furthermore, under the terms of the Deposit, the Fiduciary will agree that, upon the occurrence of an Event of Default or a Fiduciary Relevant Event, it will assign all of its rights (except for any Reserved Rights) under the Loan Agreement to the Issuer who has assigned any such rights to the Trustee. Rights under security granted to the Trustee in the Trust Deed will become exercisable upon the occurrence of an Event of Default, an Issuer Relevant Event or a Fiduciary Relevant Event. In these circumstances, payments under the Loan Agreement to the Trustee may be required to be made subject to Russian income tax withholding at a rate of 20 per cent., or such other rate as may be in force at such time.

It is currently unclear whether the provisions obliging Gazprombank to gross-up payments will be enforceable in Russia. If a Russian court does not rule in favour of the Issuer, the Fiduciary or the Trustee and Noteholders, there is a risk that gross-up for withholding tax will not take place and that payment made by Gazprombank under the Loan Agreement will be reduced by Russian income tax withheld by Gazprombank at a rate of 20 per cent. See generally "Taxation".

*Payments under the Deposit and the Notes are limited to the amount of certain payments received by the Issuer under the Deposit and by the Fiduciary under the Loan Agreement*

The Issuer is only obliged to make payments under the Notes to the Noteholders in an amount equal to, and in the same currency as, sums of principal and interest actually received by or for the account of the Issuer from the Fiduciary pursuant to the Fiduciary Deposit Agreement or, in the event of an assignment of the Loan Agreement under the terms of the Fiduciary Deposit Agreement, pursuant to the Loan Agreement. The Fiduciary is only obliged to make payment under the Fiduciary Deposit Agreement to the Issuer in an amount equal to, and in the same currency as, sums of principal and interest actually received by or for the account of the Fiduciary from Gazprombank pursuant to the Loan Agreement. Consequently, if Gazprombank fails to meet its payment

obligations under the Loan Agreement in full this will result in the Noteholders receiving less than the scheduled amount of principal or interest on the relevant due date. See “Terms and Conditions of the Notes — Status”.

*There is no direct recourse of the Noteholders to Gazprombank*

Except as otherwise expressly provided in the Terms and Conditions and in the Trust Deed, the Noteholders do not have any proprietary or other direct interest in the Issuer’s rights under or in respect of the Deposit or in any rights that the Issuer may receive by way of assignment in respect of the Loan. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the Fiduciary Deposit Agreement or the Loan Agreement or have direct recourse to Gazprombank except through action by the Trustee under the Charge (as defined in the Terms and Conditions of the Notes).

In addition Noteholders should be aware that neither the Issuer, the Fiduciary nor the Trustee accept any responsibility for the performance by Gazprombank of its obligations under the Loan Agreement. See “Terms and Conditions of the Notes — Status”.

*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 Noteholders who are able to sell their Notes will be able to do so for a price that reflects their value.

*Foreign Court Judgments or Arbitral Awards*

The Russian Federation is not a party to any multilateral or bilateral treaties with most Western jurisdictions for the mutual enforcement of court judgments. Consequently, should a judgment be obtained from a court in any such jurisdictions, it is highly unlikely to be given direct effect in Russian courts. However, the Russian Federation (as successor to the Soviet Union) is a party to the 1958 New York Convention on Recognition and Enforcement of Foreign Arbitral Awards and the Loan Agreement contains a provision allowing for the arbitration of disputes. A foreign arbitral award obtained in a state which is party to that Convention should be recognised and enforced by a Russian court (subject to the qualifications provided for in the Convention and compliance with Russian civil procedure regulations and other procedures and requirements established by Russian legislation). Although the recently adopted Arbitration Procedural Code of the Russian Federation is generally in conformity with the Convention and thus has not introduced any substantial changes in the grounds for refusal of recognition of foreign arbitral awards and court judgments which may be issued in relation to payments under the Loan Agreement, in the event that Russian procedural legislation is further changed, it may introduce new grounds preventing foreign court judgments and arbitral awards from being recognised and enforced in Russia. New procedures introduced by the Arbitration Procedural Code are still to be tested in the courts. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Russian Federation.

*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 operated in those developing economies. Any future financial turmoil in these countries or other emerging markets could cause decreases in prices for Gazprombank’s securities, even if the Russian economy remains relatively stable.

*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 Gazprombank’s insolvency*

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 the value of the Notes. Russian bankruptcy law differs from comparable law in Western European countries and is subject to varying interpretations. The most recent Law “On Insolvency (Bankruptcy)” came into force in late 2002. There is little precedent to predict how claims of the Fiduciary, the Issuer or the Trustee against Gazprombank would be resolved in case of its bankruptcy.

Under the bankruptcy legislation claims of unsecured creditors are generally subordinated to the claims of the individual clients arising out of deposit and bank account agreements; certain claims of creditors arising after the

initiation of the bankruptcy proceedings and certain other ongoing payments, workplace injury and moral damages obligations; severance pay, employment-related obligations and royalties. Furthermore, under the new Law “on Insolvency (Bankruptcy)”, pledged assets are separated from the other assets of an insolvent entity and claims of creditors secured by pledges are settled with the money received from the sale of pledged assets. Claims of creditors secured by pledged assets will be subordinated to the following obligations: (i) injury obligations and moral damages obligations; and (ii) severance pay, employment-related obligations and royalties, if such obligations arose prior to the creation of pledge. Claims of creditors secured by pledged assets remaining unsatisfied upon the sale of pledged assets would be ranked as claims of unsecured creditors (i.e. after satisfaction of obligations mentioned in (i) and (ii) above, irrespective of the moment of creation thereof). Formally, these provisions of the new Law “On Insolvency (Bankruptcy)” are not in compliance with the Civil Code of the Russian Federation, and their application remains untested.

In the event of Gazprombank’s insolvency, Russian bankruptcy legislation may materially adversely affect the ability of the Fiduciary, the Issuer or the Trustee to recover sums owed by Gazprombank.

### **Other Risks**

*Gazprombank has not independently verified information regarding its competitors, nor has it independently verified official data from government agencies*

Gazprombank has derived substantially all of the information contained in this document concerning its competitors from publicly available information, including press releases, and Gazprombank has relied on the accuracy of this information without independent verification. In addition, some of the information (including that set out under “The Banking Sector and Banking Regulation in the Russian Federation” and under “Overview of the Russian Federation”) contained in this document has been derived from official data of government agencies, such as the CBR and other agencies of the Russian Federation, and Gazprombank accepts responsibility for accurately reproducing such information but accepts no further responsibility in respect 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 produced 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.

## Description of the Transaction and the Security

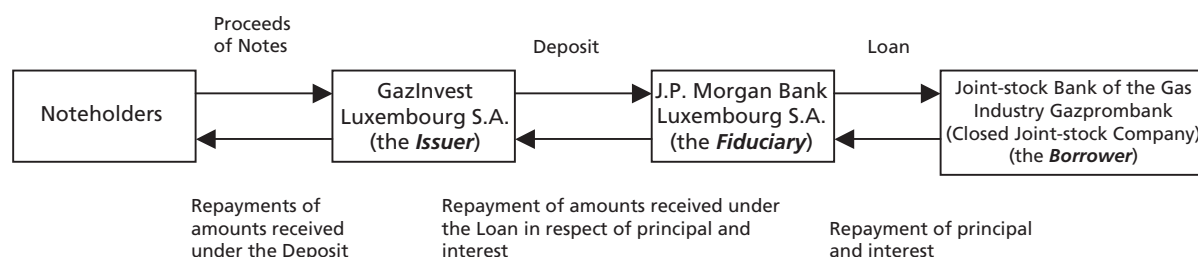
The transaction will be structured such that the net proceeds of the issue of the Notes will be deposited by the Issuer with the Fiduciary. The Fiduciary will then on-lend an amount equal to the net proceeds of the issue to Gazprombank pursuant to a Loan Agreement.

The Notes are limited recourse loan participation notes to be issued by the Issuer for the sole purpose of funding the Loan. The Notes will have the benefit of, and be constituted by, the Trust Deed. As provided in the Trust Deed, the Issuer will charge by way of security to the Trustee (a) all rights to principal, interest and other amounts payable under the Fiduciary Deposit Agreement (b) the right to receive all sums which may be payable under any claim, award or judgment relating to the Fiduciary Deposit Agreement and (c) all rights, title and interest in and to all sums of money now or in the future deposited in an account with JPMorgan Chase Bank account number 25267701 in the name of the Issuer including interest from time to time earned thereon (the "Account") as well as assign its rights in respect of the Fiduciary Deposit Agreement. Furthermore, under the terms of the Fiduciary Deposit Agreement, the Fiduciary has agreed that upon the occurrence of an Event of Default (as defined in the Loan Agreement) or a Fiduciary Relevant Event (as defined in the Fiduciary Deposit Agreement) it will assign all of its rights (except for any Reserved Rights (as defined in the Fiduciary Deposit Agreement)) under the Loan Agreement to the Issuer, which has in turn assigned such rights to the Trustee for the benefit of the Noteholders. Gazprombank will be obliged to make payments under the Loan to the Fiduciary in accordance with the terms of the Loan Agreement. The Fiduciary will be obliged under the terms of the Fiduciary Deposit Agreement to make payments under the Deposit to the Issuer to the Account. The Issuer will agree in the Trust Deed not to make or consent to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Fiduciary Deposit Agreement or, in the event of an assignment of the Loan Agreement to it, the Loan Agreement unless the Trustee has given its prior written consent. 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 Fiduciary Deposit Agreement or, in the event of an assignment of the Loan Agreement to it, the Loan Agreement. Any amendments, modifications, waivers or authorisations made with the Trustee's consent shall be notified to the Noteholders in accordance with Condition 13 (Notices) and shall be binding on the Noteholders. Formal notice of the security interests created by the Trust Deed will be given to the Fiduciary and JPMorgan Chase Bank who will each be required to acknowledge the same.

The Deposit is a limited recourse obligation and the Fiduciary will not have any obligation to the Issuer other than to account to the Issuer for payments of principal and interest received by it under the Loan. 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 and interest received by it under the Deposit or, in the event of an assignment of the Loan Agreement under the terms of the Fiduciary Deposit Agreement, pursuant to the Loan Agreement.

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

Set out below is a diagrammatic representation of the structure:



## Terms and Conditions of the Notes

*The following is the text of the Terms and Conditions of the Notes, which contain summaries of certain provisions of the Trust Deed, and which will be attached to the Notes in definitive form, if any, and (subject to the provisions thereof) apply to the Global Notes.*

The U.S.\$750,000,000 7.25 per cent. Loan Participation Notes due 2008 (the "Notes"), which expression includes any further Notes issued pursuant to Condition 14 and forming a single series herewith, of GazInvest Luxembourg S.A. (the "Issuer") are constituted by a trust deed (the "Trust Deed"), which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) to be dated 30 October 2003 (the "Closing Date") and made between the Issuer and J.P. Morgan Corporate Trustee Services Limited (the "Trustee"), which expression shall include any successors) as trustee for the holders of the Notes and the Coupons (the "Noteholders" and "Couponholders", respectively).

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of making a deposit of U.S.\$750,000,000 at an interest rate of 7.25 per cent. (the "Fiduciary Deposit") with J.P. Morgan Bank Luxembourg S.A. (the "Fiduciary") under a fiduciary deposit agreement dated 24 October 2003 (the "Fiduciary Deposit Agreement"). Under the terms of the Fiduciary Deposit Agreement, the Fiduciary will apply the Fiduciary Deposit for the sole purpose of financing a U.S.\$750,000,000 5 year loan (the "Loan") to the Joint-stock Bank of the Gas Industry Gazprombank (Closed Joint-stock Company) ("Gazprombank"). The Fiduciary and Gazprombank have recorded the terms of the Loan in a loan agreement (the "Loan Agreement") dated 24 October 2003 between the Fiduciary and Gazprombank.

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Fiduciary Deposit Agreement. The obligations of the Fiduciary to make any payment under the Fiduciary Deposit Agreement of any amount equivalent to amounts of principal, interest and additional amounts (if any) are subject to receipt by the Fiduciary of such amounts under the terms of the Loan Agreement.

The Issuer has charged by way of first fixed charge in favour of the Trustee its rights and interests under the Fiduciary Deposit as security for its payment obligations in respect of the Notes and under the Trust Deed (the "Charge") and has assigned absolutely its rights under the Fiduciary Deposit Agreement to the Trustee, which includes rights in respect of a future assignment by the Fiduciary of its rights in respect of the Loan Agreement (the "Deposit Assignment") and has assigned absolutely to the Trustee all of its rights and interests under the Loan Agreement if assigned to it pursuant to the Fiduciary Deposit Agreement (a "Loan Assignment" and together with the Charge, the "Security Interests"). In certain circumstances, the Trustee can (subject to it being indemnified and/or secured to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including any rights arising under the Deposit Assignment or the Loan Assignment).

Payments in respect of the Notes will be made (subject to the receipt of the relevant funds from the Fiduciary or, in the event of an assignment of the Loan Agreement pursuant to the terms of the Fiduciary Deposit Agreement, Gazprombank) pursuant to a paying agency agreement (the "Agency Agreement") to be dated 30 October 2003 and made between the Issuer, JPMorgan Chase Bank as the principal paying agent (the "Principal Paying Agent"), J.P. Morgan Bank Luxembourg S.A. as paying agent (the "Paying Agent" and, together with the Principal Paying Agent, the "Paying Agents", which expressions shall include any successors), Gazprombank, the Fiduciary and the Trustee.

Copies of the Trust Deed, the Fiduciary Deposit Agreement, the Loan Agreement and the Agency Agreement are available for inspection at the principal office of the Trustee being, at the date hereof, at Trinity Tower, 9 Thomas More Street, London E1W 1YT, at the specified office of the Principal Paying Agent and at the specified office of the Paying Agent in Luxembourg.

The statements contained in these Terms and Conditions include summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Fiduciary Deposit Agreement (the form of which is scheduled to the Trust Deed), the Loan Agreement (the form of which is scheduled to the Trust Deed) and the Agency Agreement. Noteholders are bound by, and are deemed to have notice of, all the provisions thereof.



## 1. Status

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to make the Fiduciary Deposit. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for making the Fiduciary Deposit and to account to the Noteholders 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 Fiduciary Deposit Agreement.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Fiduciary Deposit Agreement or, in the event of an assignment of the Loan Agreement pursuant to the terms of the Fiduciary Deposit Agreement, the Loan Agreement will be made *pro rata* among all Noteholders, on the date of, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Fiduciary Deposit Agreement or the Loan Agreement, as the case may be. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed.

Noteholders shall be deemed to have notice of, and shall be deemed to have accepted, these Terms and Conditions, the terms and conditions of the Fiduciary Deposit Agreement, the contents of the Trust Deed and the Loan Agreement, and shall be deemed to have accepted that:

1.1 neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for any liability or obligation in respect of the performance and observance by the Fiduciary or Gazprombank of their respective obligations under the Fiduciary Deposit Agreement and the Loan Agreement or the recoverability of any sum of principal or interest (or any additional amounts) due or to become due from the Fiduciary under the Fiduciary Deposit Agreement or from Gazprombank under the Loan Agreement save that nothing in this Condition shall absolve the Trustee from responsibility and liability for performance of its trusts, duties and obligations pursuant to, and subject to the terms of, the Trust Deed;

1.2 neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the financial condition, creditworthiness, affairs, status or nature of the Fiduciary or Gazprombank;

1.3 neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Fiduciary under or in respect of the Fiduciary Deposit Agreement or of Gazprombank under or in respect of the Loan Agreement;

1.4 neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying Agent or any of the Paying Agents of their respective obligations under the Agency Agreement;

1.5 the financial servicing and performance of the terms and conditions of the Notes depend solely and exclusively upon performance by the Fiduciary of its obligations under the Fiduciary Deposit Agreement and by Gazprombank of its obligations under the Loan Agreement and Gazprombank's credit and financial standing; and

1.6 the Issuer and the Trustee shall be entitled to rely on delivery to them of Officer's Certificates and/or other certificates (whether or not addressed to the Trustee) from Gazprombank or procured by Gazprombank as a means of monitoring whether or not it is complying with its obligations under the Loan Agreement or as to the identity of Material Subsidiaries and shall not otherwise be responsible for investigating any aspect of Gazprombank's performance in relation thereto or the Fiduciary's performance of its obligations under the Fiduciary Deposit Agreement and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is subject to the Security Interests 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 subject to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security; the Trustee has no responsibility for the value of such security.

Under the Trust Deed, the obligations of the Issuer in respect of the Notes rank *pari passu* and rateably without any preference among themselves.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's right under or in respect of the Fiduciary Deposit or, in the event of an assignment of the Loan Agreement pursuant to the terms of the Fiduciary Deposit Agreement, the Loan Agreement exists for the benefit of the



Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any rights in respect of the Fiduciary Deposit Agreement or the Loan Agreement or direct recourse to the Fiduciary or Gazprombank except through action by the Trustee pursuant to any of the relevant Security Interests granted to the Trustee in the Trust Deed. None of the Issuer, the Fiduciary or the Trustee shall be required to take proceedings to enforce payment under the Trust Deed, the Fiduciary Deposit Agreement or the Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction.

## **2. Form and Denomination**

### **2.1 Form and denomination**

The Notes are in bearer form in the denominations of U.S.\$100,000 or higher integral multiples of U.S.\$1,000, each with interest bearing coupons ("Coupons") attached on issue.

### **2.2 Title**

Title to the Notes and Coupons passes by delivery. The holder of any Note or Coupon will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder.

## **3. Restrictive Covenant**

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee, agree to or consent to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms and conditions of the Fiduciary Deposit Agreement or, in the event of a Loan Assignment, the Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Fiduciary Deposit Agreement and, in the event of a Loan Assignment, the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 13.

## **4. Interest**

On each Interest Payment Date (or such later date as amounts equivalent to amounts of interest are received) the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Fiduciary Deposit Agreement or, in the event of a Loan Assignment, the Loan Agreement, which interest under the Fiduciary Deposit and the Loan Agreement is equal to 7.25 per cent. per annum as set out in Clause 5 of the Fiduciary Deposit Agreement and Clause 4.1 of the Loan Agreement. Payments of any such amounts by the Fiduciary pursuant to the Fiduciary Deposit Agreement are subject to the receipt of equivalent amounts under the Loan Agreement. Interest shall continue to accrue on overdue interest at the same rate per annum up to the maximum extent permitted by applicable law.

If interest is required to be calculated for any period of less than a year, it will 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.

In this Condition 4, "Interest Payment Date" means 30 April and 30 October of each year, commencing on 30 April 2004.

## **5. Redemption and Purchase**

Unless previously prepaid or repaid, the Fiduciary will be required to repay the Fiduciary Deposit and Gazprombank will be required to repay the Loan Agreement on 30 October 2008 and, subject to such repayment, as set forth in the Fiduciary Deposit Agreement or, in the event of a Loan Assignment, the Loan Agreement, all the Notes then remaining outstanding will on that date be redeemed or repaid by the Issuer at 100 per cent. of the principal amount thereof. Payments of any such amounts by the Fiduciary pursuant to the Fiduciary Deposit Agreement are subject to the receipt of equivalent amounts under the Loan Agreement.

If the Fiduciary Deposit or, in the event of a Loan Assignment, the Loan should become repayable (and be repaid) pursuant to the terms and conditions of the Fiduciary Deposit Agreement or the Loan Agreement, as the case may be, prior to 30 October 2008, as set forth in the terms and conditions of the Fiduciary Deposit Agreement or the Loan Agreement, as the case may be, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at 100 per cent. of the principal amount together with accrued interest (subject to the

Fiduciary Deposit Agreement or, in the event of a Loan Assignment, the Loan being repaid together with accrued interest, shall be redeemed or repaid) and the Issuer will endeavour to give not less than eight days' notice thereof to the Trustee and the Noteholders. Payments of any such amounts by the Fiduciary pursuant to the Fiduciary Deposit Agreement are subject to the receipt of equivalent amounts under the Loan Agreement.

The Loan Agreement provides that Gazprombank or any of its Subsidiaries (as defined therein) may at any time and from time to time purchase Notes in the open market or by tender or by private agreement at any price. Such Notes may be held, sold in the open market or, at the option of Gazprombank or such Subsidiary, surrendered by Gazprombank or such Subsidiary, as the case may be, to the Issuer for cancellation, whereupon the Issuer shall instruct the Principal Paying Agent to cancel such Notes and notify the Fiduciary of such cancellation. Upon such cancellation by or on behalf of the Principal Paying Agent, each of the Fiduciary Deposit and the Loan shall be deemed to have been prepaid by the Fiduciary and the Borrower, respectively, in an amount corresponding to the aggregate principal amount of the Notes surrendered for cancellation, together with accrued interest (if any) thereon and no further payment shall be made or required to be made by the Issuer in respect of such Notes.

## **6. Payments**

Payments of principal and interest will be made against presentation and surrender (or, in the case of a partial payment, endorsement) of Notes or the appropriate Coupons (as the case may be) at the specified office of any Paying Agent (subject to the next paragraph) by U.S. dollar cheque drawn on, or by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City. Payments of interest due in respect of any Note other than on presentation and surrender of matured Coupons shall be made only against presentation and either surrender or endorsement (as appropriate) of the relevant Note.

Payments of interest in respect of Notes may only be made at the specified offices of Paying Agents outside the United States of America, except that they may be made at the specified office of a Paying Agent in New York City if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States of America with the reasonable expectation that such Paying Agents would be able to make payment at such offices of the full amount of the interest on the Notes in U.S. dollars when due, (ii) payment of the full amount of such interest at all specified offices of the Paying Agents outside the United States of America is illegal or effectively precluded by exchange controls or other similar restrictions, and (iii) the relevant payment is permitted by applicable U.S. law. If a Note is presented for payment of principal at the specified office of any Paying Agent in the United States of America in circumstances where interest (if any is payable against presentation of the Note) is not to be paid there, the relevant Paying Agent will annotate the Note with the record of the principal paid and return it to the holder for the obtaining of interest elsewhere.

A Note should be presented for redemption together with all unmatured Coupons relating to it, failing which the amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total principal amount due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon not later than 10 years after the Relevant Date (as defined in Condition 7) for the relevant payment of principal.

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 7. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

A Note or Coupon may only be presented for payment on a day which is a business day in the place of presentation. If the due date for payment of interest or principal is not a business day, the holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "business day" means a day on which, if on that day a payment is to be made hereunder, commercial banks generally are open for business in Luxembourg, New York City and in the city where the specified office of the Principal Paying Agent is located.

The Agency Agreement provides that the Issuer may at any time, with the prior written approval of the Trustee, vary or terminate the appointment of the Principal Paying Agent or any of the Paying Agents, and appoint additional or other paying agents provided that so long as the Notes are listed on the Luxembourg Stock Exchange (the "Stock Exchange") and the rules of the Stock Exchange so require, there will be a paying agent with a specified office in Luxembourg or such other place in accordance with the rules of the Stock Exchange. Any such variation, termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days' and not less than 30 days' notice thereof shall have been given to the Noteholders in accordance with Condition 13.

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the Closing Date shall be payable only as and when actually received by or for the account of the Issuer pursuant to the terms and conditions of the Fiduciary Deposit Agreement or, in the event of a Loan Assignment, the Loan Agreement.

Save as directed by the Trustee pursuant to the Trust Deed, the Issuer will require the Fiduciary or, in the event of an assignment of the Loan Agreement pursuant to the terms of the Fiduciary Deposit Agreement, Gazprombank to make all payments of principal and interest to be made pursuant to the Fiduciary Deposit Agreement or the Loan Agreement, as the case may be, to the Principal Paying Agent to an account in the name of the Issuer. Under the Charge, the Issuer will charge by way of first fixed charge all the rights, title and interest in and to all sums of money then or in the future deposited in such account in favour of the Trustee for the benefit of the Noteholders.

## **7. Taxation**

All payments in respect of the Notes or Coupons by or on behalf of the Issuer will be made without deduction or withholding for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of Luxembourg or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes or duties is required by law.

In such event, the Issuer shall make such additional payments as shall result in the receipt by the Noteholders or Couponholders of such amount as would have been received by them if no such withholding or deduction had been required provided that such additional payments shall only be required to be paid by the Issuer to the extent and only at such time as the Issuer receives an equivalent payment from the Fiduciary under the Fiduciary Deposit Agreement or, in the event of a Loan Assignment, Gazprombank under the Loan Agreement. To the extent that the Issuer does not receive any such equivalent payment from the Fiduciary or Gazprombank, as the case may be, the Issuer will account to each Noteholder 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 Fiduciary Deposit Agreement or the Loan Agreement, as the case may be, on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer provided that no such additional amount will be payable:

7.1 to a Noteholder or Couponholder who is liable for such taxes or duties by reason of his having some connection with Luxembourg other than the mere holding of such Note or the receipt of payments in respect thereof;

7.2 in respect of a Note or a Coupon presented for payment of principal more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Note had been presented for payment on such 30th day;

7.3 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 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or

7.4 in respect of a Note or a Coupon presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another paying agent in a Member State of the European Union.

As used herein, "Relevant Date" (i) means the date on which any payment under the terms and conditions of the Fiduciary Deposit Agreement or, in the event of a Loan Assignment, the Loan Agreement first becomes due but (ii) if the full amount payable by the Fiduciary or Gazprombank, as the case may be, has not been received by, or for the account of, the Issuer pursuant to the terms and conditions of the Fiduciary Deposit Agreement or, in the event of a Loan Assignment, the Loan Agreement on or prior to such date, it means the date on which such moneys shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 13.

Any reference herein or in the Trust Deed to payments in respect of the Notes and Coupons shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 7 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

## **8. Enforcement**

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no such Noteholder will be entitled to pursue such

remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails or neglects to do so within a reasonable period and such failure or neglect is continuing.

The Trust Deed also provides that, in the case of an Event of Default (as defined in the Loan Agreement), or of either an Issuer Relevant Event (as defined in the Trust Deed) or of a Fiduciary Relevant Event (as defined in the Fiduciary Deposit Agreement), the Trustee may, and shall, if requested to do so by Noteholders holding 25 per cent. in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction, following a Loan Assignment declare all amounts payable under the Loan Agreement by Gazprombank to be due and payable or procure that such a declaration is made (in the case of an Event of Default), or exercise any rights under the Security Interests created in the Trust Deed in favour of the Trustee (in the case of either an Issuer Relevant Event or a Fiduciary Relevant Event). Upon repayment of the Loan following an Event of Default and a declaration as provided herein, the Notes will be redeemed or repaid and thereupon shall cease to be outstanding.

#### **9. Meetings of Noteholders; Modification of Notes, Trust Deed and Loan Agreement; Waiver; Substitution of the Issuer**

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes or the Trust Deed. Noteholders will be entitled to one vote per U.S. \$1,000 in principal amount of Notes held by them. Special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amount payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Fiduciary Deposit Agreement or the Loan Agreement, as the case may be. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes and the Trust Deed, the Fiduciary Deposit Agreement and the Loan Agreement which, in the opinion of the Trustee, is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Noteholders. The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Terms and Conditions of the Notes or the Trust Deed by the Fiduciary of the terms and conditions of the Fiduciary Deposit Agreement or by Gazprombank of the terms of the Loan Agreement, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such, if, in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be promptly notified to the Noteholders.

The Trust Deed contains provisions to the effect that the Issuer may, having obtained the consent of the Fiduciary and the Trustee (which latter consent may be given without the consent of the Noteholders) and having complied with such reasonable requirements as the Trustee may direct in the interests of the Noteholders, substitute any entity in place of the Issuer as creditor under the Fiduciary Deposit Agreement, as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed, subject to the relevant provisions of the Trust Deed and the substitute's rights under the Fiduciary Deposit Agreement being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes.

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

#### **10. Prescription**

Notes will become void unless presented for payment of principal within 10 years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

#### **11. Indemnification of Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking any actions including proceedings to enforce payment unless indemnified to its satisfaction.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Fiduciary Deposit Agreement, the Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or by the Fiduciary in respect of the Fiduciary Deposit Agreement or by the Borrower in respect of the Loan Agreement. The Trustee is entitled to assume that the Fiduciary and Gazprombank are performing all of their obligations pursuant to the Fiduciary Deposit Agreement and the Loan Agreement (and shall have no liability for doing so) until it has actual knowledge to the contrary.

The Trustee shall have no liability to Noteholders or Couponholders for any shortfall they may suffer if it is liable for tax in respect of any payments received by it or as a result of the Security Interests (and the security interests over the Loan Agreement) being held or enforced by it.

## **12. Replacement of Notes and Coupons**

If a Note or Coupon shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and requirements of the Stock Exchange, be replaced at the specified office of the Paying Agent in London or at the specified office of the Paying Agent in Luxembourg on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

## **13. Notices**

Notices to Noteholders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) and (so long as the Notes are listed on the Stock Exchange and the rules of that Stock Exchange so require) in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if in the opinion of the Trustee such publication shall not be practicable, in an English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. 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.

## **14. Further Issues**

The Issuer may from time to time, without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. Such further Notes shall be issued under a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of Noteholders and the holders of Notes of other series in certain circumstances where the Trustee so decides.

## **15. 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.

## **16. Governing Law**

The Notes and the Trust Deed are governed by, and shall be construed in accordance with, English law. For the avoidance of doubt, the provisions of articles 86 to 94-8 of the Luxembourg law on commercial companies of 10 August 1915, as amended, are excluded. The Issuer has submitted in the Trust Deed to the jurisdiction of the courts of England and has appointed an agent for the service of process in England.



## Summary of the 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) 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
- (b) 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 practice 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) 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)) or the Trustee may give notice to the Issuer and (in the case of (b) 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 (b) 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 (a) above, in the place in which the relevant clearing system is located.

### 2. Payments

On and after 10 December 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 and interest 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 unless such certification has already been made.

### 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 13 (Notices), provided that, so long as the Notes are listed on the Luxembourg Stock Exchange, notice will also be given by publication in a daily newspaper having general circulation published 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, the Trustee shall, for the purposes of performing the functions under the Trust Deed be entitled to deem, treat and have regard to the interests of 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) as the holder of such principal amount of such Notes for all purposes in place of the holder of the Global Note to the extent of the principal amount of Notes in respect of which such person is an Accountholder. The right to the payment of principal and interest on such principal amount of such Notes, 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 and interest on the Notes represented by a Global Note will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 7 (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 surrender by the Issuer 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. 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.



## **Use of Proceeds**

The net proceeds from the offering of the Notes, being U.S.\$750,000,000, will be paid by the Issuer into the Account and be used by the Issuer for the sole purpose of financing the Deposit. Such amount will be used by the Fiduciary for the sole purpose of financing the Loan, in the principal amount of U.S.\$750,000,000, which will be used by Gazprombank for general corporate purposes. In connection with the Loan Agreement, Gazprombank has agreed to pay an arrangement fee of U.S.\$5,625,000.

## The Fiduciary Deposit Agreement

This Fiduciary Deposit Agreement is made 24 October 2003 between:

- (1) GazInvest Luxembourg S.A., a société anonyme incorporated in Luxembourg with limited liability, whose registered office is at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, registered with the Register of Commerce and Companies of Luxembourg under B-94791 (hereafter called the "Client"); and
- (2) J.P. Morgan Bank Luxembourg S.A., a société anonyme incorporated in Luxembourg with limited liability, whose registered office is at 5 rue Plaetis, L-2338 Luxembourg (hereafter called the "Fiduciary").

It is hereby agreed as follows:

1 The Client hereby agrees to deposit on the Closing Date into a fiduciary account (the "Fiduciary Account") opened with the Fiduciary the amount of U.S.\$750,000,000 (the "Initial Fiduciary Assets" and, together with any rights against the Borrower under the Loan Agreement (defined hereafter), the "Fiduciary Assets"), subject to the receipt of such an amount by or on behalf of the Client in connection with the issue of the Notes (as defined below). The principal amount outstanding of the Fiduciary Assets will be subject to reduction from time to time in accordance with the provisions of Clause 17 of this Agreement.

2 Simultaneously, as soon as the Initial Fiduciary Assets are credited to the Fiduciary, the Client hereby irrevocably instructs the Fiduciary to grant a loan in the amount of the Initial Fiduciary Asset (the "Loan") to, and place such amount at the disposal of, Joint-stock Bank of the Gas Industry Gazprombank (Closed Joint-stock Company) (hereafter called the "Borrower"). The Loan is to be in the name of the Fiduciary, but for the account and at the risk of the Client, according to the terms and conditions of a Loan Agreement entered into on or about the date hereof between the Fiduciary and the Borrower (the "Loan Agreement"). Unless the context otherwise requires, terms used in this Fiduciary Deposit Agreement which are not defined herein but which are defined in the Trust Deed shall have the meanings assigned to such terms therein.

The Client acknowledges knowing the content of the Loan Agreement entered into on the date hereof and agrees to the terms and conditions thereof. The form of the Loan Agreement is annexed to this Agreement.

3 The Fiduciary Assets will, by virtue of the Luxembourg law of 27 July 2003 on trust and on fiduciary agreements, become the legal property of the Fiduciary. The Fiduciary Assets will be kept in the books of the Fiduciary separate from any and all of its other assets.

4 The Fiduciary is obliged to credit to the Fiduciary Account only and all those amounts which the Fiduciary will have received from the Borrower under the Loan Agreement, in payment of interest and principal. Without prejudice to Clause 6(i) of this Agreement, the Client hereby irrevocably instructs the Fiduciary, on the day and to the extent any amount is credited under this Agreement to the Fiduciary Account, to transfer such amount credited by the Fiduciary to the Fiduciary Account to the account no. 25267701 with the Principal Paying Agent, upon which such amount will cease to be the legal property of the Fiduciary and no longer form part of the Fiduciary Assets.

5 The fiduciary deposit is made with the Fiduciary for the period of the Loan Agreement, and will bear interest at a rate of 7.25 per cent. per annum. The interest will be calculated ex post and will be, after and to the extent the interest due from the Borrower has been paid, credited to the Fiduciary Account.

In the event of a prepayment at any time of all or part of the Loan in accordance with the terms of the Loan Agreement, upon the receipt by the Fiduciary of any amounts in respect of principal and interest pursuant to such prepayment, it shall credit such amounts to the Fiduciary Account and, upon such action, its obligations in respect of the payment of interest and principal in respect of the Fiduciary Assets under this Agreement shall be correspondingly reduced.

6 All payments to be made by the Fiduciary under this Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes. If the Fiduciary under this Agreement or the Client under the terms of the Notes shall be required by applicable law to make any deduction or withholding from any payment under this Agreement or the Notes, as the case may be, for or on account of any Taxes, the Client shall notify the Fiduciary in the case of deductions or withholding in respect of the Notes and, in either case, the Fiduciary shall notify the Borrower in accordance with Clause 6.3 of the Loan Agreement and, subject to receipt of an equivalent amount from the Borrower under the terms of the Loan Agreement to do so, either (i) in respect of deductions or withholding in respect of this Agreement, increase any payment due hereunder to such amount as may be necessary to ensure that the Client receives a net amount in Dollars equal to the full amount which it would have received had payment not been made subject to such Taxes, shall account to the relevant authorities for the relevant amount of such Taxes so

withheld or deducted within the time allowed for such payment under the applicable law or (ii) in respect of deductions or withholding in respect of the Notes, transfer any such amounts received from the Borrower in this respect to the Fiduciary Account.

For the purposes of this Clause and Clause 7:

“Notes” means the U.S.\$750,000,000 7.25 per cent. Loan Participation Notes due 2008 to be issued by the Client pursuant to a trust deed to be executed between it and J.P. Morgan Corporate Trustee Services Limited (the “Trustee”) to be dated 30 October 2003 (the “Trust Deed”); and

“Taxes” means any taxes (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Grand-Duchy of Luxembourg or any tax authority thereof or therein.

7 To the extent that the Client subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which it has received a payment pursuant to Clause 6 of this Agreement, the Client shall promptly notify the Fiduciary of such tax credits, allowances or reimbursement obtained and used and promptly pay to the Fiduciary for onward credit to the Borrower so much of the benefit it received as will leave the Client in substantially the same position as it would have been had no additional amount been received, pursuant to this Clause 7; provided, however, that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to the Fiduciary under this Clause 7, the amount of any such payment and the timing of any such payment, shall be determined solely by the Client.

8 Disbursed expenses, as well as all other costs, taxes or fees due in connection with the execution of the present Fiduciary Deposit Agreement and the Loan Agreement, will be paid pursuant to the terms of a fees side letter dated on or about the date hereof between, *inter alia*, the Borrower, the Fiduciary, the Client and J.P. Morgan Europe Limited (the “Fee Side Letter”).

9 The Fiduciary does not assume any liability for the validity and enforceability of the Loan Agreement or for the performance by the Borrower of its obligations under the Loan Agreement.

10 So long as any principal or interest under the Loan Agreement remains outstanding, the Fiduciary will not, without the prior written consent of the Client, agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms and conditions of the Loan Agreement and will act at all times in accordance with any instructions of the Client from time to time with respect to the Loan Agreement.

11 The Fiduciary is not automatically, without instructions and an advance for costs from the Client, obliged to take any judicial or extra-judicial steps against the Borrower, if the Borrower does not perform in time any of its obligations under the Loan Agreement.

Upon the occurrence of an Event of Default (as defined in the Loan Agreement) under the Loan Agreement or a Fiduciary Relevant Event, the Fiduciary will give notice to the Client and promptly take all necessary actions to assign to the Client, or any assignee or transferee of the Client, and the Client accepts such assignment, of any and all of the Fiduciary’s rights (save in respect of any Reserved Rights of the Fiduciary) against the Borrower under the Loan Agreement and the Fiduciary will, after such assignment and payment to the Client, or assignee or transferee of the Client, as the case may be, of all sums standing to the credit of the Fiduciary Account, have no further obligations under the present Fiduciary Deposit Agreement.

“Fiduciary Relevant Event” means the earlier of the failure by the Fiduciary to make any payment of principal or interest under this Fiduciary Deposit Agreement when due, the filing of an application for the institution of liquidation, controlled management (“*gestion contrôlée*”), suspension of payments, insolvency or composition proceedings over the assets of the Fiduciary in Luxembourg, or the taking of any action in furtherance of the dissolution of the Fiduciary.

“Reserved Rights” are the rights to be excluded from the assignment of the Fiduciary’s rights under the Loan Agreement, being all and any rights, interests and benefits in respect of the obligations of the Fiduciary under Clauses 3.2, 6.2 (to the extent that the Borrower shall increase payment to the Fiduciary on demand for any amount paid by the Fiduciary in respect of the Russian Federation taxes, penalties or interest), 6.3 (to the extent that the Fiduciary has received amounts to which the Client is not entitled), 8, 12 and 13.2 (to the extent that the Borrower shall reimburse the Fiduciary on demand for any amount paid by the Fiduciary in respect of any stamp, registration and documentary taxes or similar charges of the Loan Agreement).

12 Without prejudice to the provisions of Clause 11 of this Agreement, the Fiduciary may by giving not less than 90 days’ written notice to the Client, resign as the Fiduciary and transfer all of its rights and obligations under

this Agreement to a Qualified Financial Institution; provided that such resignation shall take effect only on the date specified in such notice which shall be the same date as the date upon which such Qualified Financial Institution is substituted for the Fiduciary as the lender under the Loan Agreement.

For the purposes of this Clause 12, "Qualified Financial Institution" means a bank incorporated or established under the laws of Luxembourg which:

- (a) is qualified and authorised to act as a fiduciary under Luxembourg law; and
- (b) has itself or is part of a group which has a long-term debt rating by Standard & Poor's Rating Services of at least "A-" and/or Moody's Investors Service Limited of at least "A3".

In the event a successor Qualified Financial Institution is appointed to act as fiduciary, the Fiduciary shall deliver to the successor fiduciary all Fiduciary Assets in its power in respect of this Agreement, and provide sufficient information to allow the successor fiduciary to perform its obligations under this Agreement and the Loan Agreement after all amounts due to the Fiduciary have been paid and the successor fiduciary shall accede to this Fiduciary Deposit Agreement and at such time give the same representations, warranties and undertakings as set out herein.

13 The Client may assign or transfer, in whole or part, any of its rights and benefits or obligations under this Fiduciary Deposit Agreement.

14 The Fiduciary represents and warrants that it is a bank validly incorporated in the Grand-Duchy of Luxembourg, that it has obtained all necessary corporate and regulatory approvals to enter into this Fiduciary Deposit Agreement and the Loan Agreement and that each of the Fiduciary Deposit Agreement and the Loan Agreement constitutes its valid, legal and binding obligations.

15 The Fiduciary agrees to pass promptly to the Client copies of all certificates and information received by it under the Loan Agreement.

16 This Fiduciary Deposit Agreement shall remain in force up to whichever is the earlier of (i) the receipt by the Fiduciary of all amounts payable under the Loan Agreement, the crediting of such amounts to the Fiduciary Account and the onward payment of such amounts in accordance with Clause 4 of this Agreement or (ii) the perfection of the assignment provided for in Clause 11 of this Agreement.

17 The Loan Agreement provides that the Borrower or any of its Subsidiaries (as defined therein) may at any time and from time to time purchase Notes in the open market or by tender or by private agreement at any price. In the event that the Client notifies the Fiduciary that an amount of Notes has been surrendered to it for cancellation by the Borrower or any of the Borrower's Subsidiaries and have been cancelled, each of the Fiduciary Assets and the Loan Agreement shall be deemed to have been prepaid by the Fiduciary and the Borrower respectively in an amount corresponding to the aggregate principal amount of the Notes surrendered to the Client for cancellation, together with accrued interest (if any) thereon and no further payment shall be made or required to be made by the Fiduciary in respect of such amounts. The Fiduciary shall keep proper records of the amount of each of the Fiduciary Assets and the Loan outstanding and, in each case, interest payable in respect thereof.

18 This Fiduciary Deposit Agreement is governed by the laws of the Grand-Duchy of Luxembourg and especially by the Luxembourg law of 27 July 2003 on trust and on fiduciary agreements. Court of venue is Luxembourg City. However, each party is entitled to bring legal proceedings in any other competent courts. The parties hereby agree that the courts of England shall constitute competent courts for this purpose and in this respect each of the parties to this Agreement submits to the jurisdiction of the courts of England in respect of any disputes arising hereunder.

19 Amendments to and supplemental provisions of this Fiduciary Deposit Agreement must be agreed in writing. Should provisions laid down in this Fiduciary Deposit Agreement be or become in whole or in part legally invalid or impracticable, the remaining provisions of the Fiduciary Deposit Agreement shall remain in effect.

Special acceptance clause

We expressly and specifically accept the following clauses pursuant to Article 1135-1 of the Luxembourg Civil Code:

- 9) The Fiduciary does not assume any liability for the validity and enforceability of the Loan Agreement or for the performance by the Borrower of its obligations under the Loan Agreement.

# The Loan Agreement

LOAN AGREEMENT, dated 24 October 2003 between:

(1) JOINT-STOCK BANK OF THE GAS INDUSTRY GAZPROMBANK (CLOSED JOINT-STOCK COMPANY), a closed joint-stock company established under the laws of the Russian Federation whose registered office is at 16 Block 1, Nametkina St., Moscow 117420, ("Gazprombank"); and

(2) J.P. MORGAN BANK LUXEMBOURG S.A., a bank established under the laws of the Grand-Duchy of Luxembourg whose registered office is 5 rue Plaetis, L-2338 Luxembourg (the "Lender" which expression, where the context so admits, includes any Successor Lender pursuant to the terms of this Agreement).

Whereas, the Lender has at the request of Gazprombank agreed in a fiduciary capacity to make available to Gazprombank a loan facility in the amount of U.S.\$750,000,000 on the terms and subject to the conditions of this Agreement;

Now it is hereby agreed as follows:

## 1 Definitions and Interpretation

### 1.1 Definitions

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

"Advance" means the advance to be made under Clause 3 of the sum equal to the amount of the Facility.

"Affiliates" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect control with such specified Person. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

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

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

"Bilateral Contract" means any Currency Protection Agreement or Interest Rate Protection Agreement.

"Business Day" means a day on which, if on that day a payment is to be made hereunder, commercial banks generally are open for business in Luxembourg, New York City and in the city where the specified office of the Principal Paying Agent is located.

"CBR" means the Central Bank of the Russian Federation.

"Closing Date" means 30 October 2003.

"Currency Protection Agreement" means any foreign exchange contract, currency swap agreement, currency option or similar agreement or arrangement designed to protect against fluctuations in currency exchange rates, whether or not arising in the ordinary course of business or in connection with any Indebtedness.

"Deposit" means the U.S.\$750,000,000 fiduciary deposit made by GazInvest with the Lender pursuant to the Fiduciary Deposit Agreement.

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

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

"Facility" means the facility specified in Clause 2.

"Fiduciary Deposit Agreement" means the fiduciary deposit agreement made between GazInvest and the Lender dated 24 October 2003.

"GazInvest" means GazInvest Luxembourg S.A.

"Group" means Gazprombank and its Subsidiaries taken as a whole.

“Guarantee” means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

- (i) any obligation to purchase such Indebtedness;
- (ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;
- (iii) any indemnity against the consequences of a default in the payment of such Indebtedness; and
- (iv) any other agreement to be responsible for such Indebtedness.

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

“Indebtedness” means any indebtedness of any Person for or in respect of:

- (i) moneys borrowed or raised;
  - (ii) amounts raised by acceptance under any acceptance credit facility;
  - (iii) amounts raised under any note purchase facility or the issue of bonds, notes, debentures, loan stock or similar instruments;
  - (iv) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;
  - (v) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 30 days; or
  - (vi) amounts raised under any other transaction (including, without limitation, under any Repurchase Agreement, any forward sale and any purchase agreement) having the commercial effect of a borrowing,
- but, for the avoidance of doubt, does not include any Bilateral Contract.

“Interest Payment Date” means 30 April and 30 October of each year, commencing on 30 April 2004.

“Interest Rate Protection Agreement” means any interest rate swap agreement, interest rate option agreement, interest rate cap agreement, interest rate collar agreement, interest rate floor agreement or other similar agreement or arrangement designed to protect against fluctuations in interest rates, whether or not arising in the ordinary course of business or in connection with any Indebtedness.

“Loan”, at any time, means an amount equal to the aggregate principal amount of the Facility granted by the Lender pursuant to this Agreement.

“Material Adverse Effect” means a material adverse effect on (a) the financial condition or operations of Gazprombank or its Material Subsidiaries or (b) Gazprombank’s ability to perform its obligations under this Agreement or (c) the validity, legality or enforceability of this Agreement or the rights or remedies of the Lender under this Agreement.

“Material Subsidiary” at any time shall mean a Subsidiary of Gazprombank:

- (i) where Gazprombank’s and its other Subsidiaries’ investments in and advances to such Subsidiary exceed 10% of the consolidated total assets of Gazprombank all as calculated by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited IAS consolidated accounts of Gazprombank; or
- (ii) whose gross income attributable to Gazprombank (consolidated in the case of a Subsidiary which itself has Subsidiaries) represents not less than 10% of the consolidated gross income of Gazprombank, as calculated by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited IAS consolidated accounts of Gazprombank; or
- (iii) whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent not less than 10% of the consolidated total assets of Gazprombank, as calculated by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited IAS consolidated accounts of Gazprombank; or
- (iv) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of Gazprombank which immediately before the transfer was a Material Subsidiary.



“Notes” means the U.S.\$750,000,000 7.25 per cent. loan participation notes due 2008 proposed to be issued by GazInvest pursuant to the Trust Deed.

“Noteholder” means the holder of a Note.

“Offering Circular” means the offering circular dated 24 October 2003, relating to the issue of the Notes.

“Officers’ Certificate” means a certificate signed by an officer of Gazprombank who shall be the principal executive officer, principal accounting officer or principal financial officer of Gazprombank.

“Opinion of Counsel” means a written opinion from international legal counsel who is acceptable to the Lender.

“Paying Agency Agreement” means the paying agency agreement to be dated 30 October 2003, as amended, varied or supplemented relating to the Notes.

“Permitted Security Interest” means, in relation to Gazprombank or any of its other Subsidiaries:

- (i) any Security Interest in existence on the date of this Agreement;
- (ii) any Security Interest arising by operation of law;
- (iii) any Security Interest existing on any property, income or assets prior to the acquisition thereof by Gazprombank or such Subsidiary and not created in contemplation of such acquisition, provided that such Security Interest shall not extend to any other property, income or assets and further provided that the principal, capital or nominal amount secured by any such Security Interest and outstanding at the time of acquisition may not increase except in accordance with its original terms;
- (iv) any Security Interest existing on any property, income or assets of any corporation at the time such corporation is merged or consolidated with or into Gazprombank or such Subsidiary and not created in contemplation of such event, provided such Security Interest shall not extend to any other property, income or assets and further provided that the principal, capital or nominal amount secured by any such Security Interest and outstanding at the time of merger or consolidation may not increase except in accordance with its original terms;
- (v) any Security Interest created on any property or assets acquired by Gazprombank or the Subsidiary (otherwise than from each other) securing Indebtedness of Gazprombank or the Subsidiary incurred or assumed for the purpose of financing all or part of the cost of acquiring such property or assets, provided that such Security Interest shall extend to any other property or assets and such Security Interest attaches to such property or assets concurrently with or within 90 days after the acquisition thereof and further provided that the principal, capital or nominal amount secured by such Security Interest and outstanding at the time of acquisition may not increase except in accordance with its original terms; and
- (vi) any Security Interest securing Indebtedness incurred in connection with a Project Financing if the Security Interest is created by Gazprombank or such Subsidiary solely on the property, income, assets or revenues of the project for which the financing was incurred, provided that the principal amount secured by such Security Interest and outstanding at the time the financing was incurred may not increase except in accordance with its original terms.

“Person” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality.

“Potential Event of Default” means any event or circumstances which could with the giving of notice or lapse of time become an Event of Default.

“Principal Paying Agent” means JP Morgan Chase Bank.

“Project Financing” means any financing of all or part of the costs of the acquisition, construction or development of any project if the person or persons providing such financing (i) expressly agree to limit their recourse to the project financed and the revenues derived from such as the principal source of repayment for the moneys advanced and (ii) have been provided with a feasibility study prepared by competent independent experts on the basis of which it is reasonable to conclude that such project would generate sufficient operating income to service substantially all Indebtedness incurred in connection with such project.

“Rate of Interest” has the meaning assigned to such term in sub-Clause 4.1.

“Relevant Indebtedness” means any Indebtedness which (a) is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is intended by the issuer to be, or is (subsequent to its creation) listed, quoted or traded on any stock exchange or traded in any securities market



(including, without limitation, any over-the-counter market); (b) is denominated, payable or optionally payable in a currency other than Roubles; and (c) was initially offered and distributed primarily outside the Russian Federation, but for the avoidance of doubt does not include any Indebtedness in the form of a loan, loan note, transferable loan certificate or other loan instrument unless it is, or is intended by the issuer to be, or is (subsequent to its issue), listed or quoted on any stock exchange.

“Repayment Date” means 30 October 2008.

“Repurchase Agreement” means any repurchase agreement, buy/sell back agreement, reverse repurchase agreement or stock loan with respect to any securities, whether or not arising in the ordinary course of business.

“Roubles” means the lawful currency of the Russian Federation.

“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.

“Security Interest” means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

“Subscription Agreement” means the agreement dated the date hereof providing for the issuance of the Notes.

“Subsidiary” means, in relation to any Person (the “first Person”) at any particular time, any other Person (the “second Person”): (i) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or (ii) whose financial statements are, in accordance with applicable law and international accounting standards, consolidated with those of the first Person.

“Taxes” means any taxes (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation, Grand-Duchy of Luxembourg or any tax authority thereof or therein provided, however, that for the purposes of this definition the references to the Grand-Duchy of Luxembourg shall, upon the occurrence of an Issuer Relevant Event (as this term is defined in the Trust Deed), be deemed to be references to the jurisdiction in which the Trustee is domiciled for tax purposes; and the term “Taxation” shall be construed accordingly.

“Trust Deed” means the trust deed to constitute the Notes for the equal and rateable benefit of the Noteholders to be dated the Closing Date between GazInvest and the Trustee as amended, varied or supplemented from time to time.

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

## *1.2 Other Definitions*

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

## *1.3 Interpretation*

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

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

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

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

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

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

## **2 Facility**

### **2.1 Facility**

On the terms and subject to the conditions set forth herein, the Lender hereby agrees in a fiduciary capacity to lend Gazprombank, and Gazprombank hereby agrees to borrow from the Lender, U.S.\$750,000,000.

### **2.2 Purpose**

The proceeds of the Advance will be used for general corporate purposes, but the Lender shall not be concerned with the application thereof.

### **2.3 Arrangement Fee and other Fees and Expenses**

Gazprombank shall pay a) a fee to the Lender in connection with the arrangement of the Facility (the "Arrangement Fee") and b) certain costs and expenses as set out in a side letter between the Lender, Gazprombank and the other parties thereto dated on or about the date thereof (the "Side Letter").

## **3 Drawdown**

### **3.1 Drawdown**

On the terms and subject to the conditions set forth herein, on the Closing Date the Lender shall make the Advance to Gazprombank and Gazprombank shall make a single drawing in the full amount of the Facility (less any amount to be deducted (if any) in accordance with sub-Clause 3.2).

### **3.2 Arrangement Fee**

Gazprombank agrees to pay the Arrangement Fee to the Lender by 4:30 p.m. (London time) on the Business Day prior to the Closing Date. In the event that the Lender has not received from Gazprombank by 4:30 p.m. (London time) on the Business Day prior to the Closing Date an amount in respect of the Arrangement Fee, Gazprombank agrees that an amount equal to the Arrangement Fee shall be deducted from the amount of the Advance.

### **3.3 Disbursement**

Subject to the conditions set forth herein, on the Closing Date the Lender shall transfer the amount of the Advance (less any amount to be deducted (if any) in accordance with sub-clause 3.2 above) to Gazprombank's account number 04414534 with Deutsche Bank Trust Company Americas, New York (SWIFT: BKTRUS 33).

## **4 Interest**

### **4.1 Rate of Interest**

Gazprombank will pay interest in Dollars to the Lender on the outstanding principal amount of the Loan from time to time hereunder at the rate of 7.25 per cent. per annum (the "Rate of Interest").

### **4.2 Payment**

Interest at the rate specified in Clause 4.1 above shall accrue from day to day, starting from (and including) the Closing Date and shall be paid in arrears not later than 11.30 a.m. (New York City time) one Business Day prior to each Interest Payment Date. Interest on the Loan will cease to accrue from the due date for repayment thereof unless payment of principal is improperly withheld or refused, in which event interest will continue to accrue (before or after any judgment) at the Rate of Interest to but excluding the date on which payment in full of the principal thereof is made. If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month the number of days elapsed.

## **5 Repayment and Prepayment**

### **5.1 Repayment**

Except as otherwise provided herein, Gazprombank shall repay the Loan not later than 11.30 a.m. (New York City time) one Business Day prior to the Repayment Date.

### **5.2 Special Prepayment**

If, (a) as a result of the application of or any amendments to or change in the double tax treaty between the Russian Federation and the Grand-Duchy of Luxembourg or the laws or regulations of the Russian Federation or the Grand-Duchy of Luxembourg or of any political sub-division thereof or any authority having power to tax therein (including as a result of a judgment of a court of competent jurisdiction) or a change in the application or

official interpretation of such laws or regulations) which change or amendment becomes effective on or after the date of this Agreement, (b) as a result of the enforcement of the security provided for in the Trust Deed, Gazprombank would thereby be required to make or increase any payment due hereunder as provided in sub-Clauses 6.2 or 6.3, or (c) if (for whatever reason) Gazprombank would have to or has been required to pay additional amounts pursuant to Clause 8, then Gazprombank may (without premium or penalty), upon not less than 10 days' notice to the Lender (which notice shall be irrevocable), prepay the Loan in whole (but not in part).

### *5.3 Illegality*

If, at any time, by reason of the introduction of any change after the date of this Agreement in any applicable law or regulation or regulatory requirement or directive of any agency of any state the Lender or GazInvest reasonably determines (such determination being accompanied, if so requested by Gazprombank by an Opinion of Counsel with the cost of such Opinion of Counsel being borne solely by Gazprombank) that it is or would be unlawful or contrary to such applicable law, regulation, regulatory requirement or directive for the Lender or GazInvest, as the case may be, to allow all or part of the Loan, the Deposit or the Notes to remain outstanding or for the Lender or GazInvest to maintain or give effect to any of its obligations in connection with this Agreement, the Fiduciary Deposit Agreement or the Notes and/or to charge or receive or to be paid interest at the rate then applicable to the Loan, the Deposit or the Notes, then upon notice by the Lender and, in relation to the Notes, GazInvest to Gazprombank in writing (setting out in reasonable detail the nature and extent of the relevant circumstances), Gazprombank and the Lender and, in relation to the Notes, GazInvest shall consult in good faith as to a basis which eliminates the application of such circumstances; provided, however, that the Lender and, in relation to the Notes, GazInvest shall be under no obligation to continue such consultation if a basis has not been determined within 30 days of the date on which it so notified Gazprombank. If such a basis has not been determined within the 30 days, then upon notice by the Lender and, in relation to the Notes, GazInvest to Gazprombank in writing, Gazprombank shall prepay the Loan in whole (but not in part) on the next Interest Payment Date or on such earlier date as the Lender shall certify to be necessary to comply with such requirements.

### *5.4 Reduction of Loan Upon Redemption and Cancellation of Notes*

Gazprombank or any Subsidiary of Gazprombank may from time to time, in accordance with the Conditions of the Notes, purchase Notes in the open market or by tender or by a private agreement at any price. In the event that GazInvest notifies the Lender that an amount of Notes has been surrendered to it for cancellation by Gazprombank or any of Gazprombank's Subsidiaries and cancelled, the Loan shall be deemed to have been prepaid by Gazprombank in an amount corresponding to the aggregate principal amount of the Notes surrendered to GazInvest for cancellation, together with accrued interest (if any) thereon and no further payment shall be made or required to be made by Gazprombank in respect of such amounts.

### *5.5 Payment of Other Amounts*

If the Loan is to be prepaid by Gazprombank pursuant to any of the provisions of Clauses 5.2 or 5.3, Gazprombank shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to the date of actual payment and all other sums payable by Gazprombank pursuant to this Agreement.

### *5.6 Provisions Exclusive*

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

## **6 Payments**

### *6.1 Making of Payments*

All payments of principal and interest to be made by Gazprombank under this Agreement shall be made to the Lender not later than 11:30 a.m. (New York City time) one Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be) in Same-Day Funds to the Lender's account no. 001-1-573722. The Lender agrees with Gazprombank that the Lender will not deposit any other monies into such account and that no withdrawals shall be made from such account other than for payments to be made in accordance with the Fiduciary Deposit Agreement.

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

All payments to be made by Gazprombank under this Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes. If Gazprombank shall be required by applicable law to make any deduction or withholding from any payment under this Agreement for or on account of any Taxes, it shall increase any payment due hereunder to

such amount as may be necessary to ensure that the Lender receives a net amount in Dollars equal to the full amount which it would have received had payment not been made subject to such Taxes, shall account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted within the time allowed for such payment under the applicable law and shall deliver to the Lender without undue delay evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Lender pays any amount in respect of such Taxes, Gazprombank shall reimburse the Lender in Dollars for such payment on demand. For the avoidance of doubt, this Clause 6.2 is without prejudice to the obligation of the Lender to use its best endeavours to obtain a certificate from the competent Luxembourg authorities pursuant to Clause 10.2.

### *6.3 Withholding on the Notes or the Deposit*

If the Lender notifies Gazprombank (setting out in reasonable detail the nature and extent of the obligation with such evidence as Gazprombank may reasonably require) that it or GazInvest has become obliged to make any withholding or deduction for or on account of any Taxes from any payment which it is obliged to make under or in respect of the Deposit or the Notes, as the case may be, in circumstances where the Lender is required to pay additional amounts pursuant to the terms of the Fiduciary Deposit Agreement or GazInvest is required to pay additional amounts pursuant to Condition 8 of the Notes as set out in Schedule 2 of the Trust Deed, Gazprombank agrees to pay to the Lender, not later than 11:30 am (New York City time) one Business Day prior to the date on which payment is due to the Noteholders in Same-Day Funds to the Lender's account no. 001-1-573722, such additional amounts as are equal to the said additional amounts which the Lender or GazInvest, as the case may be, must pay pursuant to the terms of the Fiduciary Deposit Agreement or Condition 8 of the Notes as set out in Schedule 2 of the Trust Deed; provided, however, that the Lender shall immediately upon receipt from any Paying Agent of any sums paid in respect of GazInvest's obligations under this sub-Clause pursuant to this provision, to the extent that the Noteholders, as the case may be, are not entitled to such additional amounts pursuant to the terms and conditions of the Notes, pay such additional amounts to Gazprombank (it being understood that neither the Lender, nor the Principal Paying Agent nor any Paying Agent shall have any obligation to determine whether any Noteholder is entitled to such additional amount).

### *6.4 Reimbursement*

To the extent that the Lender or GazInvest subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which Gazprombank has made a payment pursuant to this Clause 6 or the Lender obtains any reimbursement from GazInvest pursuant to the terms of the Fiduciary Deposit Agreement in respect of amounts received by GazInvest, the Lender shall promptly pay to Gazprombank so much of the benefit it received as will leave the Lender in substantially the same position as it would have been had no additional amount been required to be paid by Gazprombank pursuant to this Clause 6; provided, however, that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to Gazprombank, the amount of any such payment and the timing of any such payment, shall be determined solely by the Lender. The Lender shall have the absolute discretion whether, and in what order and manner, it claims any credits or refunds available to it, and the Lender shall in no circumstances be obliged to disclose to Gazprombank any information regarding its tax affairs or computations, provided that the Lender shall notify Gazprombank of any tax credit or allowance or other reimbursement it receives from GazInvest pursuant to the terms of the Fiduciary Deposit Agreement.

### *6.5 Mitigation*

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of Gazprombank to make any deduction, withholding or payment as described in sub-Clauses 6.2 or 6.3, then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or Gazprombank's obligations, under such Clauses, such party shall promptly upon becoming aware of such circumstances notify the other party, and, thereupon the parties shall consider and consult with each other in good faith with a view to finding, agreeing upon and implementing a method or methods by which any such obligation may be avoided or mitigated and, to the extent that both parties can do so without taking any action which in the reasonable opinion of such party is prejudicial to its own position, take such reasonable steps as may be reasonably available to it to avoid such obligation or mitigate the effect of such circumstances. Gazprombank agrees to reimburse the Lender for all properly incurred costs and expenses (including but not limited to legal fees) incurred by the Lender in connection with this sub-Clause.

## **6.6 Tax Treaty Relief**

The Lender shall make reasonable and timely efforts to assist Gazprombank to obtain relief from withholding of Russian income tax pursuant to the double taxation treaty between the Russian Federation and the Grand-Duchy of Luxembourg.

## **7 Conditions Precedent**

### **7.1 Documents to be Delivered**

The obligation of the Lender to make the Advance shall be subject to the receipt by the Lender on or prior to the Closing Date of an executed copy of each of the following documents, each (other than the document referred to in sub-Clause 7.1.4 below) dated the Closing Date, in the Agreed Form:

7.1.1 An opinion of White & Case regarding issues of Russian law.

7.1.2 An opinion of Linklaters regarding issues of English law and Russian law.

7.1.3 An opinion of Linklaters Loesch regarding issues of Luxembourg law.

7.1.4 A letter from PricewaterhouseCoopers regarding certain tax matters.

7.1.5 The Side Letter.

7.1.6 Evidence that the persons mentioned in sub-Clause 13.10.6 hereof have agreed to receive process in the manner specified therein.

### **7.2 Further Conditions**

The obligation of the Lender to make the Advance (less any deduction (if any) in accordance with sub-Clause 3.2) shall be subject to the further conditions precedent that as of the Closing Date (a) the representations and warranties made and given by Gazprombank in Clause 9 shall be true and accurate as if made and given on the Closing Date with respect to the facts and circumstances then existing, (b) no event shall have occurred and be continuing that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Event of Default, (c) Gazprombank shall not be in breach of any of the terms, conditions and provisions of this Agreement, (d) the Subscription Agreement, the Fiduciary Deposit Agreement, the Trust Deed and the Paying Agency Agreement shall have been executed and delivered and (e) the Lender shall have received the full amount of the Deposit pursuant to the Fiduciary Deposit Agreement.

## **8 Change in Law or Banking Practices; Increase in Cost**

### **8.1 Compensation**

In the event that after the date of this Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any person charged with the administration thereof and/or any compliance by the Lender in respect of the Loan or the Facility with any request, policy or guideline (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) from or of any central or other fiscal, monetary or other authority, agency or any official of any such authority, which:

8.1.1 subjects or will subject the Lender to any Taxes with respect to payments of principal of or interest on the Loan or any other amount payable under this Agreement (other than any Taxes payable by the Lender on its overall net income or any Taxes referred to in sub-Clauses 6.2 or 6.3); or

8.1.2 increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on the Loan or any other amount payable under this Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Lender on its overall net income or as a result of any Taxes referred to in sub-Clauses 6.2 or 6.3); or

8.1.3 imposes, modifies, or deems applicable any capital adequacy, reserve or deposit requirements attributable to this Agreement or to a class of business or transaction which, in the reasonable opinion of the Lender, includes this Agreement, against assets held by, or deposits in or for the amount of, or credit extended by an office of the Lender; provided, however, that the foregoing shall not include any increase in the rate of tax payable on the overall net income of the Lender as a result of any change in the manner in which the Lender is required to allocate resources to this Agreement; or

8.1.4 imposes or will impose on the Lender any other condition affecting this Agreement, the Facility or the Loan, and if as a result of any of the foregoing:

- (i) the cost to the Lender of making, funding or maintaining the Loan or the Facility is increased; or
- (ii) the amount of principal, interest or other amount payable to or received by the Lender hereunder is reduced; or
- (iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from Gazprombank hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of the Loan, then subject to the following, and in each such case:

(A) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to Gazprombank, together with a certificate signed by two authorised officials of the Lender describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and setting out in reasonable detail the basis on which such amount has been calculated, and all relevant supporting documents evidencing the matters set out in such notes; and

(B) Gazprombank, in the case of clauses (i) and (iii) above, shall on demand by the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of clause (ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return; provided, however, that in the case of sub-Clause 8.1.3 above (relating to a class of business or transaction which, in the reasonable opinion of the Lender, includes this Agreement), the amount of such increased cost shall be deemed not to exceed an amount equal to the proportion thereof which is directly attributable to this Agreement,

provided that this sub-Clause 8.1 will not apply to or in respect of any matter for which the Lender has already been compensated under sub-Clauses 6.2 or 6.3.

## 8.2 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to sub-Clause 8.1, the Lender shall consult in good faith with Gazprombank and shall use reasonable efforts (based on the Lender's reasonable interpretation of any relevant tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in part, Gazprombank's obligations to pay any additional amount pursuant to such sub-Clause, except that nothing in this sub-Clause 8.2 shall obligate the Lender to incur any costs or expenses in taking any action which, in the reasonable opinion of the Lender, is prejudicial to its interests.

## 9 Representations and Warranties

### 9.1 Gazprombank's Representations and Warranties

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

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

9.1.2 This Agreement has been duly executed and delivered by Gazprombank and constitutes a legal, valid and binding obligation of Gazprombank enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, (i) to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law); (ii) with respect to the enforceability of a judgment whether there is a treaty in force relating to the mutual recognition of foreign judgments; and (iii) to the fact that the gross-up provisions contained in sub-Clause 6.2 or 6.3 may not be enforceable under Russian law.



9.1.3 The execution, delivery and performance of this Agreement by Gazprombank will not conflict with or result in any breach or violation of (i) any law or regulation or any order of any governmental, judicial or public body or authority in the Russian Federation, (ii) the constitutive documents, rules and regulations of Gazprombank or (iii) any agreement or other undertaking or instrument to which Gazprombank is a party or which is binding upon Gazprombank or any of its assets, nor result in the creation or imposition of any Security Interest on any of its assets pursuant to the provisions of any such agreement or other undertaking or instrument.

9.1.4 All consents, authorisations or approvals of, or filings with, any governmental, judicial and public bodies and authorities of the Russian Federation required by Gazprombank in connection with the execution, delivery, performance, legality, validity, enforceability, and admissibility in evidence of this Agreement have been obtained or effected and are in full force and effect.

9.1.5 No event has occurred that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Event of Default or a default under any agreement or instrument evidencing any Indebtedness of Gazprombank, and no such event will occur upon the making of the Advance.

9.1.6 Save as disclosed in the Offering Circular, there are no judicial, arbitral or administrative actions, proceedings or claims pending or, to the knowledge of Gazprombank, threatened, against Gazprombank or any of its Material Subsidiaries, the adverse determination of which could have a Material Adverse Effect.

9.1.7 Gazprombank and each of its Material Subsidiaries has the right of ownership (as that expression is defined under the laws of the Russian Federation) to its property free and clear of all Security Interests which if created could have a Material Adverse Effect and Gazprombank's obligations under the Loan rank at least *pari passu* with all its other unsecured and unsubordinated Indebtedness (apart from any obligations mandatorily preferred by law).

9.1.8 The most recent audited consolidated financial statements of Gazprombank:

- (i) were prepared in accordance with IAS, as consistently applied; and
- (ii) present fairly in all material respects the assets and liabilities as at that date and the results of operations of Gazprombank during the relevant financial year.

9.1.9 There has been no material adverse change since 31 December 2002 in the financial condition, results of business operations or prospects of Gazprombank or the Group taken as a whole.

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

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

9.1.12 Gazprombank is in compliance in all material respects with all applicable provisions of law except where failure to be so in compliance would not have a Material Adverse Effect.

9.1.13 Neither Gazprombank, nor any of its Material Subsidiaries has taken any corporate action nor, to the best of the knowledge and belief of Gazprombank, have any other steps been taken or legal proceedings been started or threatened in writing against Gazprombank or any of its Material Subsidiaries for its bankruptcy, winding-up, dissolution, external administration or re-organisation (whether by voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of its or of any or all of its assets or revenues.

9.1.14 There are no strikes or other employment disputes against Gazprombank which are pending or, to Gazprombank's knowledge, threatened in writing which could have a Material Adverse Effect.

9.1.15 Save as disclosed in the Offering Circular, in any proceedings taken in the Russian Federation in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitration award obtained in England pursuant to Clause 13.10 in relation to this Agreement will be recognised and enforced in the Russian Federation after compliance with the applicable procedural rules and all other legal requirements in Russia.

9.1.16 Under the laws of the Russian Federation, it will not, subject to sub-Clause 10.2, be required to make any deduction or withholding from any payment it may make hereunder.

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

9.1.18 All licences, consents, examinations, clearances, filings, registrations and authorisations which are or may be necessary to enable Gazprombank and any of its Material Subsidiaries to own its assets and carry on its business are in full force and effect, the absence of which could have a Material Adverse Effect.

## *9.2 Lender's Representations and Warranties*

The Lender represents and warrants to Gazprombank as follows:

9.2.1 The Lender is duly incorporated under the laws of and is a resident for Luxembourg taxation purposes in the Grand-Duchy of Luxembourg and has full power and capacity to execute this Agreement, and the Fiduciary Deposit Agreement and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary action to approve and authorise the same.

9.2.2 The execution of this Agreement and the Fiduciary Deposit Agreement and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of the Grand-Duchy of Luxembourg or the constitutive documents of the Lender.

9.2.3 This Agreement and the Fiduciary Deposit Agreement constitute legal, valid and binding obligations of the Lender.

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

## **10 Covenants**

### *10.1 Negative Pledge*

So long as any amount remains outstanding hereunder Gazprombank shall not and shall procure that none of its Subsidiaries will, create or permit to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or Guarantee of Relevant Indebtedness without (a) at the same time or prior thereto securing its obligations hereunder equally and rateably therewith or (b) providing such other security as may be approved by the Lender.

### *10.2 Withholding Tax Exemption*

If, in order to avoid any deduction or withholding under Clause 6.2, Gazprombank shall reasonably require a certificate issued by the competent Luxembourg authorities confirming that the Lender is resident in the Grand-Duchy of Luxembourg, the Lender shall use its best endeavours to provide Gazprombank with such a residency certificate no later than 10 Business Days before the Interest Payment Date following such change in legislation (and thereafter as soon as possible at the beginning of each calendar year but not later than 10 Business Days prior to the first Interest Payment Date in that year), provided that the Lender shall not be liable for any failure to provide, or any delays in providing, such residency certificate as a result of any action or inaction of the competent Luxembourg authorities, but shall notify Gazprombank without delay about any such failure or delay with a written description of the actions taken by the Lender to obtain such residency certificate.

### *10.3 Reports*

10.3.1 So long as any amount remains outstanding hereunder, Gazprombank will furnish to the Lender commencing with the year ending 31 December 2002, within 6 months of the relevant year-end audited annual financial statements prepared in accordance with IAS as consistently applied, including a report thereon by Gazprombank's certified independent accountants.

10.3.2 On each Interest Payment Date, Gazprombank shall deliver to the Lender a written notice in the form of an Officers' Certificate stating whether any Event of Default or Potential Event of Default has occurred and, if it has occurred and shall be continuing, what action Gazprombank is taking or proposes to take with respect thereto.

10.3.3 Gazprombank will on request of the Lender provide the Lender with such further information other than information which Gazprombank determines in good faith to be confidential about the business and financial condition of Gazprombank and its Subsidiaries as the Lender may require (including information deliverable

pursuant to Clauses 14.5 and 14.12 of the Trust Deed and an Officer's Certificate identifying, as at a date no more than 14 days before the date of the certificate, those Subsidiaries which are Material Subsidiaries).

#### *10.4 Compliance with Terms of the Fiduciary Deposit Agreement*

The Lender agrees that it will observe and comply with its obligations set out in, and will not agree to any amendment to the terms of, the Fiduciary Deposit Agreement without prior consultation, if reasonably practicable, with Gazprombank.

### **11 Events of Default**

#### *11.1 Events of Default*

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

11.1.1 Gazprombank fails to pay any amount hereunder in respect of the Advance by no later than the seventh day after the due date for payment thereof or fails to pay any amount of interest in respect of the Advance by no later than the fifteenth day after the due date for payment thereof; or

11.1.2 Gazprombank defaults in the performance or observance of any of its other obligations under this Agreement and (except for any obligation pursuant to Clause 11.2) such default remains unremedied for 30 days after written notice thereof, addressed to Gazprombank by the Lender, has been delivered to Gazprombank; or

11.1.3 (i) any Indebtedness of Gazprombank or any of Gazprombank's Subsidiaries is not paid when due or payable (as the case may be) within any originally applicable grace period; or

(ii) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of Gazprombank or (as the case may be) at the option of a Subsidiary of Gazprombank or (provided that no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness; or

(iii) Gazprombank or any of Gazprombank's Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Indebtedness; or

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub-paragraph (iii) above individually or in the aggregate exceeds U.S.\$15,000,000 (or its equivalent in any other currency or currencies); and further provided that in determining the amount of any Indebtedness for this purpose, Indebtedness arising under a Repurchase Agreement shall be deemed to be the net amount (if any) payable to a third party pursuant to such agreement to discharge all obligations thereunder; or

11.1.4 a judgment or order or arbitration award for the payment of an aggregate amount in excess of U.S.\$15,000,000 (or its equivalent in any other currency or currencies) is rendered or granted against Gazprombank or any of Gazprombank's Subsidiaries and continue(s) unsatisfied and unstayed for a period of 30 days after the date thereof or, if later, the date therein specified for payment; or

11.1.5 a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of Gazprombank or any of Gazprombank's Subsidiaries having a fair market value in excess of U.S.\$15,000,000 (or its equivalent in any other currency or currencies); or

11.1.6 (i) Gazprombank or any of Gazprombank's Material Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) one or more administrator(s) or a liquidator of Gazprombank or any of Gazprombank's Material Subsidiaries is appointed (other than by the CBR) over the whole or substantially the whole or any material part of the undertaking, assets or revenues of Gazprombank or any of Gazprombank's Material Subsidiaries, (iii) Gazprombank or any of Gazprombank's Material Subsidiaries makes a general assignment to, or a general arrangement or general composition with or for the benefit of, all or substantially all of its creditors or declares a moratorium in respect of all or substantially all of its Indebtedness and Guarantees, (iv) Gazprombank or any of Gazprombank's Material Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business (otherwise than, in the case of a Material Subsidiary of Gazprombank, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent), (v) the CBR initiates reorganisation or appoints a temporary administration of Gazprombank, but only, in the latter case, if the CBR does so on account of failure of Gazprombank to pay its debts as they fall due or to comply with any applicable mandatory economic ratio prescribed by Russian legislation, or (vi) the banking licence of Gazprombank is revoked; or

11.1.7 an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of Gazprombank or any of Gazprombank's Material Subsidiaries (otherwise than, in the case of a Material Subsidiary

of Gazprombank, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or

11.1.8 any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable Gazprombank lawfully to enter into and perform and comply with their respective obligations under and in respect of this Agreement, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make admissible in evidence in an arbitration court in London is not taken, fulfilled or done; or

11.1.9 (i) all or any substantial part of the undertaking, assets and revenues of Gazprombank or any of Gazprombank's Subsidiaries is condemned, seized or otherwise appropriated by any Person acting under the authority of any national, regional or local government or (ii) Gazprombank or any of Gazprombank's Material Subsidiaries is prevented by any such Person from exercising normal control over all or any substantial part of its undertaking, assets and revenues; or

11.1.10 at any time it is or becomes unlawful for Gazprombank to perform or comply with any or all of its obligations under this Agreement or any of such obligations (subject as provided in sub-Clause 9.1.2) are not, or cease to be, legal, valid, binding and enforceable and such unlawfulness or cessation could have a Material Adverse Effect; or

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

### *11.2 Notice of Default*

Gazprombank shall deliver to the Lender, within 30 days after becoming aware thereof, written notice of any event which is an Event of Default, its status and what action Gazprombank is taking or proposes to take with respect thereto.

### *11.3 Default Remedies*

If any Event of Default shall occur and be continuing, the Lender may, by notice in writing to Gazprombank, (a) declare the obligations of the Lender hereunder to be immediately terminated, whereupon such obligations shall terminate, and (b) declare all amounts payable hereunder by Gazprombank that would otherwise be due after the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by Gazprombank; provided, however, that if any event of any kind referred to in sub-Clause 11.1.7 occurs, the obligations of the Lender hereunder shall immediately terminate, and all amounts payable hereunder by Gazprombank that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are especially waived by Gazprombank.

### *11.4 Rights Not Exclusive*

The rights provided for herein are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

## **12 Indemnity**

### *12.1 Indemnification*

Gazprombank undertakes to the Lender that if the Lender, each director, affiliate or controlling person, officer, employee or agent of the Lender (each an "Indemnified Party") incurs any loss, liability, cost, claim, charge, expense (including all legal fees properly incurred) demand or damage (a "Loss") which may be properly incurred in respect of this Agreement (or enforcement thereof), and/or the Fiduciary Deposit Agreement (or enforcement thereof) (excluding a Loss that is the subject of the undertakings contained in Clause 8 and sub-Clause 13.6 of this Agreement (it being understood that the Lender may not recover twice in respect of the same Loss))

Gazprombank shall pay to the Indemnified Party on demand an amount equal to such Loss (as evidenced by an invoice distributed to Gazprombank by the Lender in accordance with sub-Clause 13.4) unless, in any such case, and to the extent that such Loss is determined by a final judgment of a competent court to have been caused by such Indemnified Parties' gross negligence or wilful misconduct or such Loss arises out of a breach of the representations and warranties of the Lender contained herein; provided that this sub-Clause 12.1 will not apply to or in respect of any Taxes with respect to payments of principal and interest on the Loan or any other amount payable under this Agreement.

## 12.2 Independent Obligation

Sub-Clause 12.1 constitutes a separate and independent obligation of Gazprombank from its other obligations under or in connection with this Agreement and shall not affect, or be construed to affect, any other provision of this Agreement.

## 12.3 Evidence of Loss

A certificate of the Lender setting forth the amount of losses, expenses and liabilities described in sub-Clause 12.1 and specifying in full detail the basis therefor shall be *prima facie* evidence of the amount of such losses, expenses and liabilities.

## 12.4 Survival

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

# 13 General

## 13.1 Evidence of Debt

The entries made in the account referred to in sub-Clause 6.1 shall, in the absence of manifest error, constitute *prima facie* evidence of the existence and amounts of Gazprombank's obligations recorded therein.

## 13.2 Stamp Duties

13.2.1 Gazprombank shall pay all stamp, registration and documentary taxes or similar charges (if any) imposed on Gazprombank by any person in the Russian Federation or the Grand-Duchy of Luxembourg which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by Gazprombank to pay such taxes or similar charges upon presentation by the Lender to Gazprombank of documentary evidence of such costs and expenses.

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

## 13.3 Waivers

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

## 13.4 Notices

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

### 13.4.1 if to Gazprombank:

Joint-stock Bank of the Gas Industry  
Gazprombank (Closed Joint-stock Company)  
16 Block 1, Nametkina Street  
117420 Moscow  
Russian Federation

Fax: (7 095) 913 7891  
Attention: Igor V. Roussanov, Deputy Treasurer  
SWIFT: GAZPRUMM  
Telex: 114907 GAZ RU

13.4.2 if to the Lender:

J.P. Morgan Bank Luxembourg S.A.  
5 Rue Plaetis  
L-2338 Luxembourg

Fax: (352) 462 685 380  
Attention: Manager Institutional Trust Services  
SWIFT: CHASLULX

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

### 13.5 Assignment

13.5.1 This Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under this Agreement. Any reference in this Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender, following the enforcement of the security and/or assignment referred to in sub-Clause 13.5.3 below, shall be references to the exercise of such rights or discretions by the Trustee (as Trustee). Notwithstanding the foregoing, the Trustee shall not be entitled to participate in any discussions between the Lender and Gazprombank or any agreements of the Lender or Gazprombank pursuant to sub-Clauses 6.4 or 6.5 or Clause 8.

13.5.2 Gazprombank shall not assign or transfer all or any part of its rights or obligations hereunder to any other party.

13.5.3 The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement except that,

(i) following an Event of Default or a Fiduciary Relevant Event (as defined in the Fiduciary Deposit Agreement), the Lender may, upon giving written notice to Gazprombank, assign all or any of its rights and benefits hereunder or transfer all or any of its rights, benefits and obligations hereunder to GazInvest, or any assignee or transferee of GazInvest. Any reference in this Agreement to any such assignee or transferee shall be construed accordingly and, in particular, references to the rights, benefits and obligations hereunder of the Lender, following such assignment or transfer, shall be references to such rights, benefits or obligations by the assignee or transferee.

(ii) the Lender may, by giving not less than 90 days notice to Gazprombank, transfer all of its rights and obligations under this Agreement to a Successor Lender. Such resignation shall take effect on the date specified in such notice which shall be the same date as the date upon which such Successor Lender is substituted for the Fiduciary in relation to the Deposit.

For the purposes of this Clause 13, "Successor Lender" means a bank incorporated or established under the laws of Luxembourg which:

- (a) is qualified and authorised to act as a fiduciary under Luxembourg law;
- (b) has itself or is part of a group which has a long-term debt rating by Standard & Poor's Rating Services of at least "A-" and/or Moody's Investors Service Limited of at least "A3".

In the event a Successor Lender is appointed to act as lender, the Lender shall deliver to the Successor Lender sufficient information to allow the Successor Lender to perform its obligations under this Agreement and the Successor Lender shall accede to this Agreement and at such time give the same representations, warranties and undertakings as set out herein.

### 13.6 Currency Indemnity

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



### *13.7 Prescription*

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

### *13.8 Contracts (Rights of Third Parties) Act 1999*

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

### *13.9 Choice of Law*

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

### *13.10 Jurisdiction*

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

13.10.2 Each of the parties irrevocably waives any objection which it may now or hereafter have to the laying of the venue of any Proceedings in any such court referred to in this Clause 13 and any claim that any such Proceedings have been brought in an inconvenient forum and further irrevocably agrees that a final and conclusive judgment in any Proceedings brought in the English courts with competent jurisdiction shall be conclusive and binding and may be enforced in the courts of any other jurisdiction.

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

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

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

13.10.5 Lender's Process Agent: The Lender agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to JPMorgan Chase Bank, Trinity Tower, 9 Thomas More Street, London E1W 1YT or its other principal place of business in England for the time being or at any other address for the time being at which process may be served on such person in accordance with Part XXIII of the Companies Act

1985 (as modified or re-enacted from time to time). Nothing in this Clause shall affect the right of Gazprombank to serve process in any other manner permitted by law.

13.10.6 *Gazprombank's Process Agent*: Gazprombank agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Law Debenture Corporate Services Limited, Fifth Floor, 100 Wood Street, London EC2V 7EX or its other principal place of business in England for the time being or at any other address for the time being at which process may be served on such person in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time). If such person is not or ceases to be effectively appointed to accept service of process on Gazprombank's behalf, Gazprombank shall, on the written demand of the Lender, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Lender shall be entitled to appoint such a person by written notice to Gazprombank. Nothing in this Clause shall affect the right of the Lender to serve process in any other manner permitted by law.

#### *13.11 Counterparts*

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

#### *13.12 Language*

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

#### *13.13 Amendments*

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

#### *13.14 Partial Invalidity*

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

## Description of the Issuer

### R.C.S. Luxembourg: B-94791

The Issuer was incorporated on 10 July 2003 for an unlimited duration with limited liability under the laws of the Grand-Duchy of Luxembourg. Its Articles of Incorporation have been published in the Mémorial, recueil des Sociétés et Associations on 16 August 2003.

Its registered office is located at 2, Boulevard Konrad Adenauer L-1115, Luxembourg.

The Issuer's authorised and subscribed share capital amounts to euro 31,000 divided into 31 registered shares with a par value of euro 1,000 each. Thirty shares are owned by Stichting GazInvest Luxembourg and one share by Stichting Participatie DITC Amsterdam. On 9 October 2003, the Issuer had a fully paid-up share capital of euro 31,000.

The Issuer has a Board of Directors, currently consisting of three directors. The directors at present are Mr. Rolf Caspers, Mr. Peter Dickinson and Mr. Vincent de Rycke.

The Board of Directors is generally responsible for managing the business and affairs of the Issuer. The directors are elected at the annual general meeting of shareholders of the Issuer.

The business of the Issuer, as described in Article 3 of its Articles of Incorporation, is the acquisition, holding and disposal of participations directly or indirectly, in any form whatsoever, in Luxembourg companies and/or foreign companies or any other entities; the acquisition by purchase, subscription or in any other manner as well as the transfer by sale, exchange or otherwise of stock, bonds, debentures, notes or other securities of any kind and contracts thereon or relative thereto; and the ownership, administration, development and management of its portfolio holdings.

It may in particular:

- acquire by way of subscription, purchase, exchange or in any other manner any stock, shares and other participation securities, bonds, debentures, notes, certificates of deposit and other debt instruments and more generally any securities and financial instruments representing ownership rights, claims or transferable securities issued by any public or private issuer whatsoever;
- exercise all rights whatsoever attached to these securities and financial instruments;
- grant security interest over its assets;
- make deposits at banks or other depositaries and make fiduciary deposits; and
- raise funds and issue bonds and notes in order to carry out its corporate purposes.

The above summary is not exhaustive. The company may carry out any transactions, whether commercial or financial, which are directly or indirectly related to its corporate objectives, with the exception of any banking activity.

In general, the company may carry out any activities which it may deem useful or necessary to achieve and develop its corporate purposes.

### Capitalisation

The following table sets forth the unaudited capitalisation of the Issuer as at 24 October 2003:

#### Shareholders' Funds

	€
Share Capital (issued Ordinary Shares of €1,000 each) .....	31,000
Total Capitalisation .....	31,000

Other than as detailed above, the Issuer does not have any loan capital, borrowings or contingent liabilities.

## Capitalisation and Indebtedness of the Borrower

The following table shows Gazprombank's consolidated capitalisation at 31 December 2002 (derived from the audited Consolidated Financial Statements), at 30 June 2003 (derived from the Condensed Interim Consolidated Financial Statements) and as adjusted at 30 June 2003 to reflect Gazprombank's borrowing under the Loan Agreement (as if such borrowing had occurred at 30 June 2003). This information should be read in conjunction with the Consolidated Financial Statements.

	At 31 December 2002	As at 30 June 2003 <sup>(2)</sup>	As at 30 June 2003 <sup>(2)</sup>
	Actual	Actual	As adjusted
		(U.S.\$'000)	
<b>Liabilities</b>			
Amounts owed to credit institutions.....	355,426	352,818	352,818
Amounts owed to customers.....	2,590,121	3,444,788	3,444,788
Certified debt .....	730,777	911,358	911,358
Eurobonds issued .....	339,523	404,203	1,154,203
Other liabilities.....	88,420	127,608	127,608
<b>Total liabilities</b> .....	<u>4,104,267</u>	<u>5,240,775</u>	<u>5,990,775</u>
<b>Shareholders' funds</b>			
Share Capital <sup>(1)</sup> .....	907,057	907,057	907,057
Treasury stock.....	(10,112)	(10,112)	(10,112)
Foreign currency translation reserve .....	(1,421)	(3,351)	(3,351)
Accumulated deficit.....	(62,442)	66,118	66,118
<b>Total shareholders' funds</b> .....	<u>833,082</u>	<u>959,712</u>	<u>959,712</u>
<b>Total capitalisation</b> .....	<u>4,937,349</u>	<u>6,200,487</u>	<u>6,950,487</u>

Notes:

(1) Gazprombank's authorised and issued share capital comprises 13,331,851 ordinary shares with a nominal value of Rbl 1,000 each.

(2) Unaudited Condensed Interim Consolidated Financial Statements.

(3) Gazprombank has no outstanding convertible debt or notes with warrants.

There has been no material change in Gazprombank's consolidated capitalisation (as so adjusted) since 30 June 2003.

## Description of the Borrower

### History and Overview

The Borrower was founded in 1990 and registered with the CBR on 31 July 1990. In 1996, the Borrower was granted a general banking licence by the CBR and became a limited liability company by resolution of its stakeholders. On 13 November 2001, the Borrower was re-registered by the CBR as a closed joint-stock company. The primary goal in establishing the Borrower was to improve the quality and effectiveness of financial services to the Gazprom Group and the Russian gas industry and by 1998, it had become the Gazprom Group's preferred bank for servicing the gas industry. According to the Russian Interfax Information Agency, as at 30 June 2003, the Borrower was the third largest Russian bank in terms of total assets (calculated under Russian accounting rules).

The Borrower's principal activities comprise commercial lending, project financing, trade finance, corporate and retail deposit taking, foreign exchange and securities trading and precious metals operations. The Borrower also generates income from money transfer and clearing facilities, providing settlement services for interregional payments for gas supplies, card services, depositary and custodian services, funds management services, Internet-related brokerage and trading services, and arranging and providing financings and performing various other functions for the Gazprom Group companies.

Since its foundation, the Borrower has developed a network of 31 branch offices and over 100 regional points of service located throughout the Russian Federation. Its network extends to the principal regions where gas is extracted, produced and transported and to many of the largest financial and industrial centres in the Russian Federation. The Borrower is seeking to develop strategically its regional network in Russia, opening three new branches in 2002. See "— Strategy — Continue to diversify to become a full-scale universal bank" below. The Borrower also has a network of nine subsidiary and affiliated banks, including investments in two affiliated banks in the Republic of Belarus and Hungary.

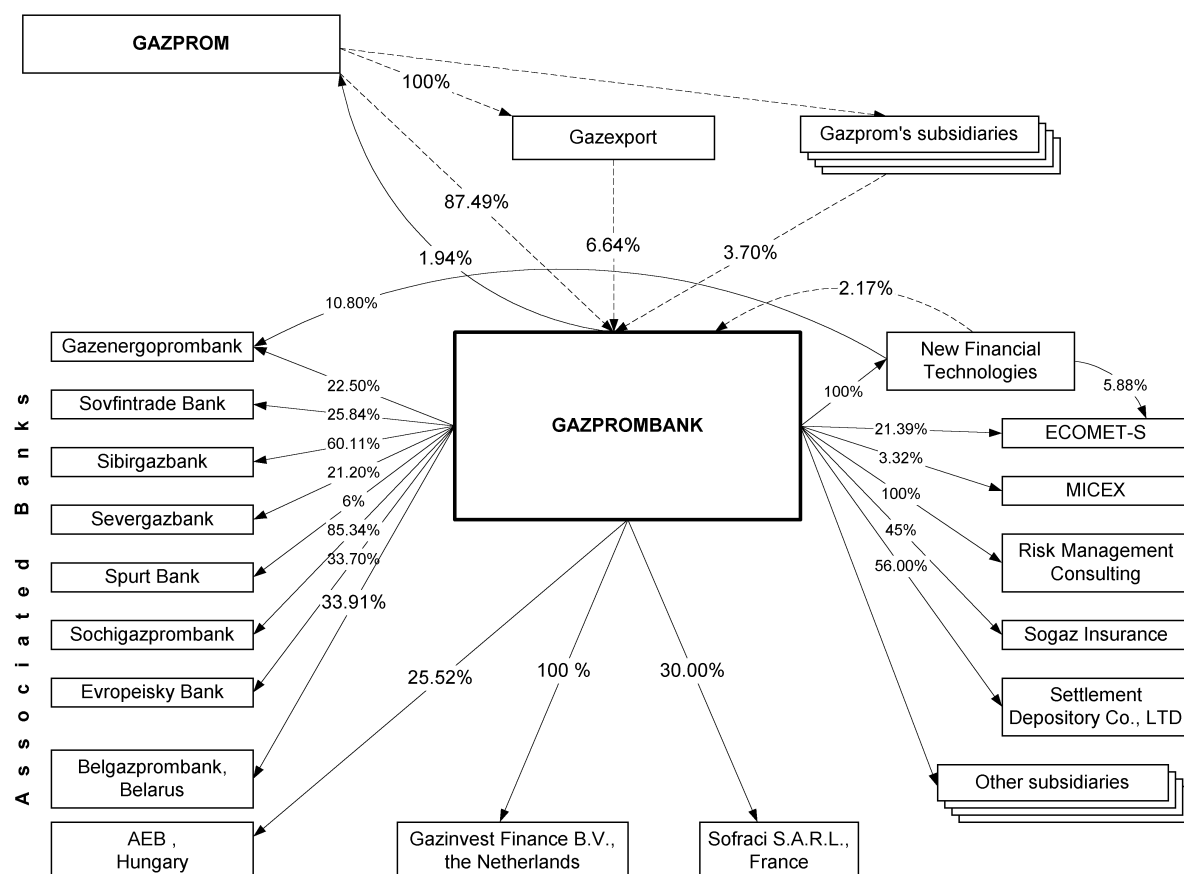
The Borrower's registered office is located at 16 Block 1, Nametkina St., Moscow 117420, Russia, and its head office is located at 63, Novocheremushkinskaya St., Moscow 117418, Russia.

### Relationship with the Gazprom Group

Gazprom controls, directly or indirectly, 100 per cent. of the Borrower's charter capital. The Group and the Borrower have been and continue to be financially dependent on the Gazprom Group. The majority of the Borrower's funding is from, and the majority of its credit exposures are to, the Gazprom Group. Accordingly, the Borrower's activities are closely linked to the requirements of the Gazprom Group. For the six month period ended 30 June 2003, transactions of the Borrower with members of the Gazprom Group accounted for approximately U.S.\$3,537.94 million (49 per cent.) of the Borrower's total gross exposures (including assets, off-balance sheet commitments and a U.S.\$838.48 million loan to Europolgaz) and approximately U.S.\$2,070.40 million (40 per cent.) of its total liabilities. See "Certain Investment Considerations — Risks Relating to the Group's Business — Relationship with the Gazprom Group".

Gazprom is the world's largest natural gas company, and the world's largest publicly-traded hydrocarbons company, in terms of reserves, production and transportation. Gazprom supplies substantially all of the natural gas consumed in Russia, approximately 50 per cent. of the natural gas consumed in Belarus, Estonia, Latvia, Lithuania, Moldova and Ukraine, and approximately 26 per cent. of the natural gas consumed in Europe. According to Gazprom's own estimates, they accounted for approximately 15 per cent. of federal budget revenues, approximately 20 per cent. of foreign exchange earnings and approximately 8 per cent. of GDP of the Russian Federation in 2002. For the year ended 31 December 2002, Gazprom's sales net of excise tax, value added tax, customs duties and sales tax were RR644,687 million (U.S.\$20.29 billion), and its operating profit was RR147,974 million (U.S.\$4.66 billion). As of December 31, 2002, Gazprom reported (under IFRS) total assets of RUR2,480,699 million (U.S.\$78.06 billion), and total shareholders' equity of RUR1,711,872 million (U.S.\$53.87 billion).

The following chart illustrates the position of the Group within the Gazprom Group as at 30 September 2003:



## Strategy

Management of the Borrower has approved a medium-term strategy which sets out key objectives to ensure the development of the Borrower's business. Its principal aims are to continue to offer high quality and efficient services to the Gazprom Group, maintain growth and strengthen the Borrower's competitive position within the Russian banking sector. The key objectives include the following.

### ***Further develop its well-placed strategic position within the gas and associated industries***

The Borrower aims to broaden its strategic co-operation with the Russian gas and associated industries by continuing to develop its business in line with the interests of the Gazprom Group. It also intends to leverage the competitive advantages provided by the strength of the Gazprom Group as a core customer, including providing a stable platform for growth, enhanced liquidity and capital investment. In view of its established position within the gas industry, the Borrower believes it is well-placed strategically to develop further its operations in other gas-related and associated industries, both within Russia and abroad, including through financing gas investment projects in Europe and Asia.



### ***Continue to diversify to become a full-scale universal bank***

Without detracting from its focus as the Gazprom Group's preferred bank for the provision of a broad array of financial services, the Borrower's strategy is to continue to diversify its business operations to become a full-scale universal bank by extending its services and banking activities to other sectors to attract a broader customer base, strategically growing its regional network and expanding its product and service portfolio.

- *Diversification of customer base.* The Borrower plans to continue to diversify and expand its customer base by further developing its business activities with large Russian corporate customers in key sectors which the Borrower believes offer good opportunities for further growth, including the Russian chemical and petrochemical, food, nuclear, manufacturing, engineering, trade, defence, insurance and pensions sectors. To implement this strategy, the Borrower intends to increase its medium and longer term funding to large Russian project finance and corporate customers to meet the perceived current shortage of such funding in the Russian bank financing market. The Borrower also intends to focus on medium and small Russian corporate customers by offering them access to high quality and diverse banking products and services. In addition, the Borrower plans to increase its level of lending to retail customers in key areas such as consumer loans, mortgage loans and motor vehicle finance.
- *Focused growth of a regional network.* As part of its objective to become a full-scale universal bank, the Borrower intends to extend its regional branch network and its presence within regions of strategic interest in Russia and abroad. Expansion of the regional network has focused on developing the Borrower's presence in major gas extraction, transportation, processing and consumption regions, as well as in other strategically important financial and industrial centres in Russia. In 2002, the Borrower opened three new branches and seven satellite offices.
- *Expansion of product range.* The Borrower is continuously aiming to improve its products and services offered to customers throughout its regional network. The Borrower is developing a standardised product and service range which can be tailored to the demands of target customer segments. In addition, the Borrower seeks to introduce new products and financial services for both the corporate and consumer markets as demand for them continues to grow, including consumer and mortgage lending, motor vehicle finance, debit and credit cards, ATM access to accounts and Internet banking related services, such as online trading for customers.

### ***Diversify credit risk and funding***

In addition to accessing the international capital markets in this transaction, the Borrower will seek to attract deposits from a wider range of corporate and individual customers, including small and medium-size enterprises and private and retail banking customers. By diversifying its customer and deposit base, the Borrower expects to achieve a more diversified and stable funding base, which could reduce its credit risk profile.

### ***Improve operational efficiency***

The Borrower plans to continue to improve its internal operational efficiency and the competitiveness of its banking operations within an increasingly competitive Russian banking sector by implementing enhanced and transparent internal management systems and controls within each of its various operations and departments, and by standardising the core product base it offers to customers. In addition, the Borrower believes that by integrating and centralising its risk management systems, it will be able to achieve controlled growth of its business with large as well as medium and small corporate customers and retail customers. The Borrower also considers information technology to be an integral component of its daily operations and is committed to continued investment in IT to support the efficient growth of its operations in the future.

### **Selected Consolidated Financial Information**

The following table sets out selected financial information of the Borrower and its consolidated subsidiaries for the periods indicated. The information should be read in conjunction with the Borrower's audited Consolidated Financial Statements (and related notes) contained in pages F – 29 through F – 62 and Condensed Interim Consolidated Financial Statements (and related notes) in pages F – 2 through F – 28 in this Offering Circular. The Consolidated Financial Statements for the years ended 31 December 2000 and 2001 were audited by KPMG Limited and the Borrower's financial statements for year ended 31 December 2002 and for the six months ended 30 June 2003 were audited and reviewed, respectively, by Deloitte & Touche. Certain changes in presentation have been made in the financial statements for 2002 as compared to 2001 and 2000. As a result, conforming reclassifications were made to the 2000 and 2001 figures to achieve comparability in presentation. See also Note 2(b) to the Consolidated Financial Statements on page F – 35 in this Offering Circular.

The Borrower's audited Consolidated Financial Statements for 2000 (subject as set out below) consolidate the financial statements of Altalanos Ertekforgalmi Bank RT ("AEB"). In April 2000, the Borrower sold a portion of its shareholding in AEB, thereby reducing its interest in that company from 42 per cent. to 25.5 per cent. The Borrower realised a net loss of U.S.\$12.45 million on this sale which was fully reflected in the consolidated profit and loss statement for the year ended 31 December 2000.

	As at 31 December			As at 30 June	
	2000	2001	2002	2002	2003
		(Audited)		(Unaudited)	
	(U.S.\$ '000, except percentages)				
Loans to customers <sup>(1)</sup> .....	1,378,123	1,681,330	2,369,913	1,970,331	2,683,986
Placements with banks and other financial institutions <sup>(1)</sup> .....	897,356	1,278,026	1,076,840	824,932	1,344,520
Total assets .....	2,937,463	3,810,971	4,937,349	3,968,847	6,200,487
— of which related party transactions <sup>(2)</sup> .....	1,595,469	1,632,046	2,770,144	1,765,066	3,102,707
Current accounts and deposits from customers .....	1,299,922	2,086,103	2,590,121	2,107,103	3,444,788
Deposits and balances from banks and other financial institutions .....	431,686	241,895	355,426	226,867	352,818
Total liabilities .....	2,290,154	3,096,999	4,104,267	3,102,237	5,240,775
— of which related party transactions <sup>(2)</sup> .....	1,262,726	1,749,394	1,782,362	822,060	2,329,881
Guarantees and letters of credit <sup>(1)</sup> .....	383,402	453,467	355,170	360,156	350,591
Undrawn loan commitments .....	227,996	292,716	436,263	313,538	593,984
Total guarantees, letters of credit and undrawn loan commitments .....	611,398	746,183	791,433	673,694	944,575
— of which related party transactions <sup>(2)</sup> .....	510,407	647,918	389,632	430,683	435,232

	As at 31 December			As at 30 June	
	2000	2001	2002	2002	2003
	(Audited)			(Unaudited)	
	(U.S.\$ '000, except percentages)				
Net interest income (before provisions) .....	82,599	92,596	108,591	54,343	50,501
Net fee and commission income .....	21,117	31,573	48,293	19,940	25,186
Net income (expense) from foreign exchange <sup>(6)</sup> .....	62,640	74,995	79,598	43,188	50,825
Net income from securities (debt and equity) ..	30,889	81,529	55,553	119,787	77,062
Movement in provisions .....	(1,524)	(105,789)	(29,667)	(11,669)	34,073
Profit (loss) before taxes .....	91,108	80,012	158,427	190,578	177,728
Profit (loss) after taxes and minority interest ...	25,028	80,807	116,091	152,683	153,925
Net interest income to average total assets <sup>(3)</sup> ..	3.1%	2.7%	2.5%	3.8%	2.8%
Equity to total assets .....	22.0%	18.7%	16.9%	21.8%	15.5%
Net loans to customers <sup>(4)</sup> to total assets .....	46.9%	44.1%	48.0%	49.6%	43.3%
Return on average assets <sup>(3)</sup> .....	0.9%	2.4%	2.7%	4.8%	2.3%
Return on average equity <sup>(3)</sup> .....	5.1%	11.9%	15.0%	21.6%	12.8%
Capital adequacy ratio <sup>(5)</sup> .....	28.0%	28.6%	28.4%	28.4%	26.9%

Notes:

- (1) Loans to customers, guarantees and letters of credit and placements with banks and other financial institutions are shown net of allowances for loan losses. Allowances for loans to customers were U.S.\$49,620,000, U.S.\$133,748,000, U.S.\$178,206,000, U.S.\$152,345,000 and U.S.\$155,132,000 as at 31 December 2000, 2001, 2002 and 30 June 2002 and 2003, respectively. Allowances for off balance sheet exposure were U.S.\$7,927,000, U.S.\$9,254,000, U.S.\$7,396,000, U.S.\$6,762,000 and U.S.\$6,469,000 as at 31 December 2000, 2001, 2002 and 30 June 2002 and 2003, respectively. Allowances for placements with banks and other financial institutions were U.S.\$15,205,000, U.S.\$35,046,000, U.S.\$20,238,000, U.S.\$31,089,000 and U.S.\$9,047,000 as at 31 December 2000, 2001, 2002 and 30 June 2002 and 2003, respectively.
- (2) Related parties comprise all members of the Gazprom Group (including the Borrower) and controlled and associated companies in the Gazprom Group.

- (3) Average total assets and average equity is the arithmetic mean between two year end balances. Interim results are calculated on year-on-year basis.
- (4) Includes loans to customers less specific provisions and general credit risk provisions.
- (5) Calculated according to BIS regulations.
- (6) Including net translation gains.

## Principal Activities

### Overview

The Borrower's principal activities comprise lending, project financing, trade finance, corporate and retail deposit taking, foreign exchange and securities trading and precious metals operations. The Borrower also generates income from providing money transfer and clearing facilities, providing settlement services for inter-regional payments for gas supplies, debit and charge card services, depository and custodian services, funds management services, Internet-related brokerage and trading services and arranging and providing financings for Gazprom Group companies.

### Lending

The Borrower undertakes commercial and retail lending in foreign currency and Roubles. As at 30 June 2003, the Borrower had a total of U.S.\$2,839.12 million in gross loans outstanding, 74 per cent. of which were denominated in foreign currency. A significant proportion of the Borrower's lending activities are for the benefit of the Gazprom Group. Approximately 65 per cent. of gross loans to customers outstanding as at 30 June 2003 were to the Gazprom Group, which includes a U.S.\$838.48 million loan outstanding to Europol Gaz SA ("Europolgaz"), a Gazprom Group company, representing 30 per cent. of the Borrower's gross loans at such date.

*Commercial Lending.* The Borrower's commercial lending to corporate customers accounted for approximately 48 per cent. of gross loans outstanding as at 30 June 2003. Its principal lending activities comprise lending to Gazprom Group companies, lending to other gas industry participants, providing for the development and upgrading of production facilities in the gas industry and lending to other sectors of the Russian economy, in particular construction, high-tech machinery, export trade organisations and commerce.

*Retail Lending.* Retail lending represents a small but consistently increasing part of the Borrower's aggregate loan portfolio. Historically, the Borrower's retail customer base has been targeted at employees of its corporate clients, primarily from the gas industry. The Borrower aims to expand its retail customer base by increasing its lending activity in the growing Russian consumer and mortgage lending and the motor vehicle finance sectors and plans to further develop depository and cash and non-cash card payment services for individuals. As at 30 June 2003, retail lending accounted for 3 per cent. of gross loans.

### Project Financing

The Borrower's project financing activities consist of (a) large investment projects in the gas industry in Russia and abroad and (b) other project financings, principally in the petro-chemical, gold mining, food, timber, aviation, telecommunications and construction industries. As at 30 June 2003, approximately 49 per cent. of the Borrower's loan portfolio comprised of loans relating to project financings (including gas investment projects).

Management believes that project financing is a strategic growth area, which is expected to see significant development in coming years. Given the Borrower's vast experience in the financing of large projects, particularly in the gas sector, the Borrower believes it will be able to attract growing numbers of new project finance customers and business in Russia and abroad as demand for its products and expertise in this area grows.

*Gas Investment Projects.* Investment projects in the gas industry have traditionally formed a significant part of the Borrower's loan portfolio. The Borrower has four principal gas investment projects, namely loans relating to the Yamal-Europe Project, the Transgaz Project, the Bulgargaz Project and the Interconnector Project (together, the "Gas Investment Projects"). See "— Principal Gas Industry Projects" below. As at 30 June 2003, the Gas Investment Projects accounted for approximately 36 per cent. of the Borrower's gross loans, of which the loan to Europolgaz to finance the Yamal-Europe gas pipe line (the "Yamal-Europe Project") amounted to approximately 30 per cent. of gross loans. See "— Loan Portfolio" below.

*Other Project Financings.* Project finance loans to sectors outside the gas industry is also a rapidly growing area of the Borrower's lending activity. During 2003, financing for investment projects outside the gas industry increased by 100 per cent., amounting to approximately U.S.\$362 million, or approximately 13 per cent., of gross

loans outstanding as at 30 June 2003. Management expects the Borrower's project financing loans in sectors unrelated to the gas industry, including principally petrochemicals, gold mining, coal mining, timber, telecommunications and construction to increase to approximately U.S. \$600 million by the end of fiscal year 2003.

#### *Trade Finance*

The Borrower supports its customers' trade finance activities through the issue of guarantees and letters of credit. The Borrower's trade finance services include export pre-financing, import financing, factoring and forfeiting. As at 30 June 2003, the Borrower had a total of U.S. \$104.79 million in outstanding guarantees, 49 per cent. of which related to Gazprom Group activities, and a total of U.S. \$252.27 million in letters of credit, 81 per cent. of which related to Gazprom Group activities. Of the letters of credit related to Gazprom Group activities, 38 per cent. were issued for the purchase of computer systems, satellite communication equipment and gas distribution equipment for the Yamal-Europe Project and are guaranteed by Gazprom. Although revenues generated from trade finance activities to date have represented a small proportion of total revenues (U.S. \$0.4 million and U.S. \$0.8 million for the six month period ended 30 June 2002 and six month period ending 30 June 2003, respectively), management expects trade finance to be a growth area, particularly in connection with financing activities of the Gazprom Group.

#### *Deposit Taking*

The Borrower's major sources of funds are current accounts and deposits from corporate and retail customers and banks. For a description of the Borrower's deposit base, see "— Funding, Indebtedness and Contingent Liabilities — Current Accounts and Deposits" below. As at 30 June 2003, the Borrower had over 26,000 corporate customers and more than one million retail customers. As at 30 June 2003, the Borrower had a total of U.S. \$3,444.79 million in current accounts and deposits from customers, 59 per cent. of which were due to Gazprom Group companies, and U.S. \$352.82 million in deposits and balances from banks and other financial institutions.

#### *Securities and Foreign Exchange Trading*

The Borrower trades various types of state, municipal and corporate securities using customers' and its own funds, and is one of the major traders of Russian Eurobonds, both sovereign and corporate, and Russian Federation Foreign Currency Bonds (OVGVZ). In the corporate securities sector, the Borrower's principal trading activities are in respect of Gazprom shares. As at 30 June 2003, the Borrower's trading securities portfolio amounted to U.S. \$1,451.60 million, of which 47 per cent. was in respect of Gazprom shares. See "— Securities Trading Portfolio" below. Services offered to customers in the securities market also include the provision of consulting and information services on trading activities. The Borrower also manages customer's funds in the Russian securities market, the Eurobond market and the international currency market.

The Borrower is also active in the foreign exchange market. To improve the system of foreign currency risk management, the Borrower started trading in currency options from the end of 2002. To conduct these transactions the Borrower has established relationships with operators in the international currency market. Russian regulatory and legal framework relating to derivative instruments is still underdeveloped and court protection of such instruments is limited. In the future, the Borrower plans to continue to develop risk management tools by utilising other financial derivatives and to intensify its financial derivatives activities aimed at providing its customers with new investment and risk management products.

#### *Precious Metals Operations*

The Borrower obtained a licence to trade precious metals from the CBR in August 1999. The Borrower's precious metals and stones trading department conducts a range of operations in the Russian and international markets including financing mining organisations, executing various export operations with precious metals and trading in metals and stones. The Borrower's management estimates that in 2002, the Borrower was among the 10 largest Russian banks in metals trading, based on volume of transactions.

#### *Other Activities*

*Settlement Services.* An internal Settlement Centre was established to facilitate a wide range of financial services relating to the management of Rouble and foreign currency accounts and their settlement. Operating a network of hundreds of correspondent accounts opened with Russian and foreign banks and involving all of the Borrower's branches, the Settlement Centre aims to provide efficient and effective settlement of transactions for the Borrower's customers. The Settlement Centre operates 24-hours a day, thereby allowing the participants in relevant transactions to accelerate settlements within Russia's regions, despite being located in different time

zones. Over 80 per cent. of payments conducted by the Settlement Centre are handled outside the CBR settlement system. The Borrower, together with its regional offices, and its subsidiary and associated banks, collectively settle approximately 75 per cent. of all Gazprom Group payments.

*Depository Services.* The Borrower has the largest security depository network in Russia, extending to approximately 60 provinces throughout the Russian Federation. The Borrower's depository service provides a comprehensive service for Gazprom's shareholders and also holds securities issued by over 125 issuers in the Russian Federation.

*Card Services.* Since 1997, the Borrower has been a principal member of the international payment systems, VISA International and MasterCard International, and it also distributes American Express cards, allowing it to offer debit and credit card services in all of the Borrower's branches and subsidiaries. Approximately 300,000 employees in over 200 gas industry enterprises and other customers utilise the card services offered by the Borrower. As at 30 June 2003, approximately 700,000 cards of international and domestic payment systems were issued by the Borrower.

*Banking Services Available via the Internet.* The Borrower regularly introduces and upgrades banking products available to its customers via the Internet. Since 2001, the Borrower introduced the "Banking Information and Dealing System" which combines the advantages of banking and Internet technologies and gives the Borrower's customers the opportunity to enter into and manage a wide variety of banking transactions on-line and to receive on-line information and analytical support.

In addition to providing traditional brokerage services, in 2002 the Borrower introduced the "I-trade" online brokerage trading system. The system provides timely, high quality and secure transactions via the Internet.

*Agency Services to the Gazprom Group.* In its capacity of an agent for Gazprom, the Borrower actively participates in international credit lending programmes. Since 1997, the Borrower has been involved in performing various functions (such as acting as trustee and as an agent bank, effecting settlements on behalf of Gazprom, monitoring payments and establishing and maintaining escrow accounts) in connection with large syndicated loans provided to the Gazprom Group by a number of foreign banks and financial institutions.

#### Contribution to Revenue

The following table shows the contribution of significant revenue generating and trading activities to the Borrower's revenues for the periods indicated.

	As at 31 December						For the 6 months ended 30 June			
	2000	%	2001	%	2002	%	2002	%	2003	%
	(Audited)						(Unaudited)			
	(U.S.\$'000, except percentages)									
Commercial and retail lending .....	167,030	54	172,539	43	190,269	46	85,037	29	112,498	40
Securities market transactions <sup>(1)</sup> .....	30,322	10	81,529	21	55,553	13	119,787	41	77,062	27
Foreign exchange transactions <sup>(1)</sup> .....	62,640	16	74,995	19	79,598	19	43,188	15	50,825	18
Interbank lending.....	38,425	12	35,687	8	35,062	9	20,682	7	13,983	5
Fee based services <sup>(2)</sup> .....	23,133	8	33,665	9	51,845	13	21,334	7	27,132	10
<b>Total</b> .....	<b>321,550</b>	<b>100</b>	<b>398,415</b>	<b>100</b>	<b>412,327</b>	<b>100</b>	<b>290,028</b>	<b>100</b>	<b>281,500</b>	<b>100</b>

Notes:

(1) Gains shown net of losses.

(2) Includes trade finance.

#### Customers

The Borrower services more than 26,000 corporate customers including approximately 1,200 major enterprises and organisations of the gas industry. Diversification of its customer base is a strategic priority of the Borrower. The number of corporate customers has doubled in the last three years, primarily in the areas of oil extraction and oil refining, chemical and petrochemical industries, ferrous and non-ferrous metallurgy, machine building and metal processing, energy, the food industry as well as retail networks and large financial corporations. The Borrower's branches also service approximately 1.5 million accounts held by retail customers.

As at 30 June 2003, U.S.\$1,934.87 million, or 68 per cent., of gross loans were extended to state controlled companies (including Gazprom and the Gazprom Group), U.S.\$817.43 million, or 29 per cent., were extended to private companies and U.S.\$86.82 million, or 3 per cent., were extended to individuals.

The following table shows the areas of business of the Borrower's ten principal non-bank customers (by exposure) as at 30 June 2003, who together accounted for approximately 48.1 per cent. of the Borrower's total exposure at such date. Approximately 93.4 per cent. of the ten largest exposures were to, or guaranteed by, members of the Gazprom Group. The figures in this table represent gross exposure including commercial loans, undrawn loan commitments, guarantees and open letters of credit.

Customer	As at 30 June 2003					%
	Loans	Guarantees	Letters of Credit	Undrawn Loan Commitments	Total gross exposures	
	(U.S.\$'000, except percentages)					
Europolgaz SA .....	838,478	—	—	—	838,478	46
Gazprom .....	229,457	—	—	—	229,457	13
NAK Naftogas Ukraine ..	150,000	—	—	—	150,000	8
Stroytransgas.....	133,500	14,812	1,727	—	150,039	8
Transgas.....	95,336	—	—	—	95,336	5
Eural Trans Gas .....	70,000	—	—	—	70,000	4
Sibur .....	64,333	—	—	3,295	67,628	4
Interconnector .....	58,785	—	—	—	58,785	3
Salavatnefteorgsintez ..	49,999	—	—	196	50,195	3
Gazkom .....	49,756	—	10,292	52,441	112,489	6
<b>Total .....</b>	<b>1,739,644</b>	<b>14,812</b>	<b>12,019</b>	<b>85,973</b>	<b>1,822,407</b>	<b>100</b>

### Loan Portfolio

The Borrower's loan portfolio comprises predominantly foreign currency loans, including U.S. dollar and euro denominated loans, to commercial customers.

The following table shows the Borrower's loan portfolio by currency and maturity as at 31 December 2000, 2001, 2002 and 30 June 2003.

	As at 31 December						As at 30 June	
	2000	%	2001	%	2002	%	2003	%
	(U.S.\$'000, except percentages)							
Gross due from customers by currency:								
RUR .....	178,437	13.0	389,230	21.6	669,683	26.4	726,680	25.7
Foreign currencies .....	1,238,786	87.0	1,416,560	78.4	1,866,487	73.6	2,102,903	74.3
<b>Total gross due .....</b>	<b>1,417,223</b>	<b>100</b>	<b>1,805,790</b>	<b>100</b>	<b>2,536,170</b>	<b>100</b>	<b>2,829,583</b>	<b>100</b>
Accrued interest due .....	10,520		9,288		11,949		9,535	
<b>Total gross due with interest ..</b>	<b>1,427,743</b>		<b>1,815,078</b>		<b>2,548,119</b>		<b>2,839,118</b>	
Provisions.....	(49,620)		(133,748)		(178,206)		(155,132)	
<b>Total net due with accrued interest .....</b>	<b>1,378,123</b>		<b>1,681,330</b>		<b>2,369,913</b>		<b>2,683,986</b>	
Net due from customers by maturity:								
Up to 1 year .....	290,927	21.3	498,047	29.8	1,166,983	49.5	1,280,747	47.9
1 to 5 years.....	253,834	18.6	121,025	7.2	525,504	22.3	214,702	8.0
Over 5 years.....	822,842	60.1	1,052,970	63.0	665,477	28.2	1,179,002	44.1
<b>Total net due .....</b>	<b>1,367,603</b>	<b>100</b>	<b>1,672,042</b>	<b>100</b>	<b>2,357,964</b>	<b>100</b>	<b>2,674,451</b>	<b>100</b>
Accrued interest due .....	10,520		9,288		11,949		9,535	
<b>Total net due with accrued interest .....</b>	<b>1,378,123</b>		<b>1,681,330</b>		<b>2,369,913</b>		<b>2,683,986</b>	



The Borrower has loan concentrations in certain sectors of the economy, in particular the gas and oil industries, manufacturing, trade and construction. The following table shows the Borrower's gross exposure by principal economic sector as at 30 June 2003.

	As at 30 June 2003					
Economic sector	Loans	Guarantees	Letters of Credit	Undrawn Loan Commitments	Total gross exposures	%
			(U.S.\$'000, except percentages)			
Natural gas .....	1,588,720	29,570	62,407	157,007	1,837,704	49
Manufacturing .....	483,950	20,800	62,099	199,452	766,301	20
Trade .....	176,262	15,262	115,895	41,856	349,275	9
Oil .....	118,589	13,456	—	65,554	197,599	5
Construction .....	162,438	15,823	1,454	4,093	183,808	5
Individuals .....	86,818	370	—	2,631	89,819	2
Precious metals .....	59,527	—	—	10,259	69,786	2
Other .....	162,814	9,506	10,418	113,132	295,870	8
<b>Total</b> .....	<b>2,839,118</b>	<b>104,787</b>	<b>252,273</b>	<b>593,984</b>	<b>3,790,162</b>	<b>100</b>

In addition, loans to finance Gazprom Group activities comprise a significant proportion of the loan portfolio. As at 30 June 2003, approximately 65 per cent. of the Borrower's gross loans to customers were either directly to, or guaranteed by, Gazprom or other entities in the Gazprom Group. About one-third of such gross loans (30 per cent. as at 30 June 2003 of the Borrower's gross loans to customers) relates to the project financing in respect of the Yamal-Europe Project. Overall, however, the size of the Borrower's loan portfolio has continued to grow. Despite such a large exposure to Gazprom and other entities in the Gazprom Group, the trend in recent years has been for such exposure to be reduced in relative terms to the size of the Borrower's loan portfolio and for the amount and size of gross loans to Russian borrowers, unrelated to the Gazprom Group (such as NAK Naftogas Ukraine and "Salavatnefteorgsintez"), to increase.

Where lending to finance certain Gazprom Group Gas Investment Projects, such as the Yamal-Europe Project, the Transgaz Project, the Bulgargaz Project and the Interconnector Project (each as described further below), the Borrower often provides direct or indirect funding at below market rates through low interest rate deposits or accounts of Gazprom or another Gazprom Group company. In the case of the Yamal-Europe Project, some of the deposits were replaced by contributions to the Borrower's shareholder's equity. See "Certain Investment Considerations — Risks Relating to the Group's Business — Relationship with the Gazprom Group".

## Principal Gas Industry Projects

### *Yamal-Europe Project*

Under the Yamal-Europe Project, Europolgaz, a joint stock company owned principally by the Gazprom Group and PGNiG, the Polish national oil company, was established to construct a system of gas pipelines for the transportation of Russian natural gas through the territory of the Republic of Poland. Construction began in 1997 and at present the pipeline, with two compressor stations, is in operation, delivering Russian gas to Western Europe and Poland. Pursuant to an additional intergovernmental agreement dated 13 February 2003, three additional compressor stations will also be built.

The Borrower is financing the Yamal-Europe Project by extending a loan to Europolgaz. The loan is denominated and repayable in U.S. dollars and interest payments on the loan are calculated by reference to LIBOR. The indebtedness of Europolgaz to the Borrower under the loan (including capitalised interest) reached a maximum level of U.S.\$897.75 million as at 5 February 2002. Since that date the loan has been repaid in accordance with the loan's redemption schedule in monthly instalments, with the final instalment falling due in 2018. As of 30 June 2003, the outstanding amount was U.S.\$838.48 million and there were no overdue amounts under the loan to Europolgaz. Europolgaz is repaying the loan from transit fees charged for gas transportation via the pipelines. The transit fees for gas supplied through the pipelines are payable in U.S. dollars at fixed rates. The loan is secured by transit fees which are paid by OOO Gazexport, a subsidiary of Gazprom, to Europolgaz's escrow account and pledged in favour of the Borrower. The Borrower has no recourse to other assets of Europolgaz. In addition to the existing loan, the Borrower will provide part of the funding to finance the additional three compressor stations in the amount of U.S.\$60 million in the form of a new loan tranche to Europolgaz.

Although the Borrower has no recourse to Gazprom in relation to the loans to Europolgaz, Gazprom provided the following two sources of funding for the project: (a) term deposits with the Borrower in an aggregate amount of

U.S.\$164.56 million and (b) a capital contribution to the Borrower in an amount of U.S.\$555.38 million. As at 30 June 2003, these term deposits included an unsubordinated deposit of U.S.\$42.85 million (to be redeemed in quarterly payments over the period from 2003 till 2008) and 17 subordinated deposits in an aggregate amount of U.S.\$121.71 million, maturing in the period from 2009 to 2012. The terms of the deposits correspond to the terms of and amounts under the loan extended by the Borrower. In aggregate, loans to Europolgaz by the Borrower financed directly or indirectly by Gazprom represented 30 per cent. of the Borrower's loan portfolio as at 30 June 2003.

The loan exceeds the CBR's mandatory economic ratio on a single borrower or a group of related borrowers exposure. The Borrower reduced its excess of the exposure limit from 5.2 times as at 31 December 2001 to 4.2 times as at 31 December 2002. The Borrower does not expect the additional U.S.\$60 million tranche to negatively affect this ratio because in the second quarter of 2003 Gazprom made several subordinated deposits with the Borrower, thereby increasing the capital of the Borrower. As at 30 June 2003 the exposure of the Borrower exceeded the limit determined by the CBR by 3.5 times. The Borrower expects further improvement of its exposure by the end of 2003. As for any Russian bank, the Borrower reports to the CBR on compliance with the CBR's mandatory economic ratios on a monthly basis and is monitored by the CBR. The Borrower consulted the CBR in connection with the Loans, and the CBR conducted its own investigation of the exposure. Although the CBR is not entitled under Russian legislation to waive breaches or to agree to lower mandatory economic ratios in relation to a single bank, the CBR has approved a set of measures with which the Borrower plans to attain the required limit on the single-borrower exposure. See "Certain Investment Considerations — Risks Relating to the Group's Business — Loan Concentration Risk, Yamal-Europe Project and Breach of CBR Mandatory Economic Ratios".

#### *Transgaz Project*

The Transgaz Project is based on an inter-governmental agreement between Russia and Romania, and is aimed at expanding the capacity of the gas transit pipeline in Romania for transporting gas to Balkan countries and to Turkey (the "Transgaz Project"). From 1991 to 2001, the Borrower loaned a total of U.S.\$115.34 million to SNTGN Transgaz S.A. ("Transgaz") in connection with the project under two loan agreements. Since 2001, the loans have been repaid in monthly instalments in accordance with the loan's redemption schedule and are to be redeemed in full by 2010. As at 30 June 2003, U.S.\$95.33 million (representing 3.4 per cent. of the Borrower's loan portfolio) was outstanding. As at 30 June 2003, there were no overdue amounts under the loans. The loans are secured by a pledge of the rights of Transgaz under two long-term gas transportation contracts between Gazexport and Transgaz.

#### *Bulgargaz Project*

In December 1999, in connection with the Bulgargaz Project for the construction and expansion of various sections of the Trans-Balkan gas pipeline on the territory of Bulgaria (the "Bulgargaz Project"), the Borrower loaned EAD Bulgargaz (a state-owned gas company established and existing under Bulgarian law) in the amount of U.S.\$47 million. Since 2001 the loan has been repaid in semi-annual instalments and is to be redeemed in full by 2005. As at 30 June 2003, U.S.\$25.64 million (representing 1 per cent. of the Borrower's loan portfolio) was outstanding and there were no overdue amounts on the loan at such date. The loan is secured by a pledge of the rights of Bulgargaz under a long-term gas transportation contract between Gazexport and Bulgargaz.

#### *Interconnector Project*

In 1996, in connection with the Interconnector Project for the construction of a main gas pipeline between the European continent and the British Isles (the "Interconnector Project"), the Borrower extended a subordinated loan to Interconnector (UK) Limited (a company incorporated and existing under English law) in the amount of £46.35 million. In accordance with the redemption schedule, the loan is repayable over the period from 1999 to 2015. As at 30 June 2003, £35.41 million (representing 2 per cent. of the Borrower's loan portfolio) was outstanding to the Borrower and there were no overdue amounts on the loan at such date.

### **Loan Classification and Provisions**

The Borrower's internal credit provisioning policy is based on CBR guidelines, which set forth the classifications for making provisions for loans extended by Russian banks based on an assessment of credit exposure. Under CBR guidelines, loans are divided into the following four categories: standard (1 per cent. reserve), substandard (20 per cent. reserve), doubtful (50 per cent. reserve) and bad loans (100 per cent. reserve). The Bank reports its loan loss provisions to the CBR on a quarterly basis using these standards.

For the purposes of IAS financial reporting, the Borrower classifies loans in accordance with the International Bank for Reconstruction and Development (the "World Bank") requirements, as good, special mention, substandard, doubtful or bad. The following table sets out the World Bank's loan classifications and provisions.

Classification	Description	Reserve
A Good	Credits which do not present an above-average risk and whose repayment is not in doubt.	0-2%
B Special mention	Credits not classified as doubtful, dangerous or bad, but which are not typical pursuant to the Borrower's credit policy or are of an unusual character, bear an above-average risk, and require attention from management.	2-5%
C Substandard	The entire amount of credit or part thereof is not classified as "Doubtful" or "Bad", but bears above-average risk due to financial standing and unfavourable conditions of borrower activity, insufficient backing or other causes.	5-20%
D Doubtful	The entire amount of credit or part thereof may not be repaid and will represent a loss, but the amount of loss has not yet been determined.	20-50%
E Bad	The entire amount of credit or part thereof is deemed unrecoverable.	50-100%

A provision for loan impairment is established to cover losses judged to be present in the credit portfolio as at the balance sheet date. Exposures are only written off upon a court approving the write off on the basis that recovery of the loan is impossible.

The following table provides a breakdown of the Borrower's outstanding gross loans in accordance with World Bank classifications and the provisions made in respect of them as at 31 December 2000, 2001, 2002 and 30 June 2003.

	% of gross loans	Gross loans	Provisions	Gross loans less provisions	% of provisions to Gross Loans
		(U.S.\$'000, except percentages)			
<b>31 December 2000</b>					
Good.....	97.1	1,385,801	26,280	1,359,521	1.9
Special mention.....	—	—	—	—	—
Substandard .....	1.6	23,253	4,651	18,602	20.0
Doubtful.....	—	—	—	—	—
Bad .....	1.3	18,689	18,689	—	100.0
<b>Total.....</b>	<b>100.0</b>	<b>1,427,743</b>	<b>49,620</b>	<b>1,378,123</b>	
<b>31 December 2001</b>					
Good.....	92.0	1,670,430	32,447	1,637,983	1.9
Special mention.....	1.6	28,106	1,416	26,690	5.0
Substandard .....	0.7	12,748	1,276	11,472	10.0
Doubtful.....	0.6	10,370	5,185	5,185	50.0
Bad .....	5.1	93,424	93,424	—	100
<b>Total.....</b>	<b>100.0</b>	<b>1,815,078</b>	<b>133,748</b>	<b>1,681,330</b>	
<b>31 December 2002</b>					
Good.....	79.7	2,031,484	40,653	1,990,831	2.0
Special mention.....	8.6	219,713	10,995	208,718	5.0
Substandard .....	2.7	67,811	7,357	60,454	10.8
Doubtful.....	7.9	202,215	92,305	109,910	45.6
Bad .....	1.1	26,896	26,896	—	100.0
<b>Total.....</b>	<b>100.0</b>	<b>2,548,119</b>	<b>178,206</b>	<b>2,369,913</b>	
<b>30 June 2003</b>					
Good.....	72.0	2,044,361	40,743	2,003,618	2.0
Special mention.....	21.8	620,703	30,931	589,772	5.0
Substandard .....	2.0	56,099	6,298	49,801	11.2
Doubtful.....	2.3	64,550	23,755	40,795	36.8
Bad .....	1.9	53,405	53,405	—	100.0
<b>Total.....</b>	<b>100.0</b>	<b>2,839,118</b>	<b>155,132</b>	<b>2,683,986</b>	

As at 30 June 2003, the percentage of the Borrower's loans classified as "good" fell to 72 per cent. from 79.7 per cent. as at 31 December 2002. This was due in large part to an increase in 2002 of "special mention loans", which are considered to be provisions reflecting the economic risks characteristic of the industries in which the Borrower's borrowers operate. Special mention provisions increased during the six month period ended 30 June 2003 to 21.8 per cent. as the Borrower substantially diversified its loan portfolio into other non-gas related sectors, reflecting the overall risks of these industries.

## Off-Balance Sheet Exposure Classification and Provisions

Off-balance sheet exposure is subject to similar provisioning requirements for loan exposure. The following table provides a breakdown of the Borrower's off-balance sheet exposure in accordance with World Bank classifications and of the related provisions as at 31 December 2000, 2001, 2002 and 30 June 2003.

	Exposure (U.S.\$'000)	% share	Provisions made (U.S.\$'000)	% of provision to Exposure
<b>31 December 2000</b>				
<b>Total Off Balance Sheet<sup>(1)</sup></b>				
Good .....	619,181	99.9	7,783	1.3
Special mention .....	—	—	—	—
Substandard .....	—	—	—	—
Doubtful .....	—	—	—	—
Bad .....	144	0.1	144	100
	<u>619,325</u>	<u>100</u>	<u>7,927</u>	<u>1.3</u>
<b>31 December 2001</b>				
<b>Total Off Balance Sheet<sup>(2)</sup></b>				
Good .....	755,437	100	9,254	1.2
Special mention .....	—	—	—	—
Substandard .....	—	—	—	—
Doubtful .....	—	—	—	—
Bad .....	—	—	—	—
	<u>755,437</u>	<u>100</u>	<u>9,254</u>	<u>1.2</u>
<b>31 December 2002</b>				
<b>Total Off Balance Sheet<sup>(3)</sup></b>				
Good .....	798,829	100	7,396	0.9
Special mention .....	—	—	—	—
Substandard .....	—	—	—	—
Doubtful .....	—	—	—	—
Bad .....	—	—	—	—
	<u>798,829</u>	<u>100</u>	<u>7,396</u>	<u>0.9</u>
<b>30 June 2003</b>				
<b>Total Off Balance Sheet<sup>(4)</sup></b>				
Good .....	951,044	100	6,469	0.7
Special mention .....	—	—	—	—
Substandard .....	—	—	—	—
Doubtful .....	—	—	—	—
Bad .....	—	—	—	—
	<u>951,044</u>	<u>100</u>	<u>6,469</u>	<u>0.7</u>

Notes:

- (1) of which, undrawn loan commitments were U.S.\$227,996,000, letters of credit were U.S.\$318,922,000 and guarantees were U.S.\$72,407,000.
- (2) of which, undrawn loan commitments were U.S.\$292,716,000, letters of credit were U.S.\$368,355,000 and guarantees were U.S.\$94,366,000.
- (3) of which, undrawn loan commitments were U.S.\$436,263,000, letters of credit were U.S.\$274,233,000 and guarantees were U.S.\$88,333,000.
- (4) of which, undrawn loan commitments were U.S.\$593,984,000, letters of credit were U.S.\$252,273,000 and guarantees were U.S.\$104,787,000.

## Credit Policy and Procedures

### *CBR Guidelines and Breach of CBR Mandatory Economic Ratios*

The CBR sets strict guidelines for credit approval which are designed to ensure the good financial standing of the Borrower and due protection of the Borrower's creditors. In particular, the Borrower is required to maintain certain mandatory economic ratios represented by a set of limitations relating to the amount of maximum exposure in the credit portfolio, as well as minimum capital adequacy and liquidity of the Borrower. One of these ratios limits a bank's exposure to a single borrower or a group of related borrowers to 25 per cent. of the ratio between the total sum of the bank's claims to a single borrower or a group of related borrowers in respect of credits (including interbank), placed deposits (including interbank), discounted bills of exchange, loans, credits and deposits in precious metal and the amounts not collected by the bank on its guarantees, to the capital of the bank (i.e., the bank's own resources).

The Yamal-Europe Loan exceeds the CBR's mandatory economic ratio on a single borrower or a group of related borrowers exposure. The Borrower reduced its excess of the exposure limit from 5.2 times as at 31 December 2001 to 4.2 times as at 31 December 2002. The Borrower does not expect the additional U.S.\$60 million tranche to negatively affect this ratio because in the second quarter of 2003 Gazprom made several subordinated deposits with the Borrower, thereby increasing the capital of the Borrower. As at 30 June 2003 the exposure of the Borrower exceeded the limit determined by the CBR by 3.5 times. The Borrower expects further improvement of its exposure by the end of 2003. The CBR is aware of such breach and the current status of financing under the Yamal-Europe Project, including the planned U.S.\$60 million loan tranche to be extended to Europolgaz. As for any Russian bank, the Borrower reports to the CBR on compliance with the CBR's mandatory economic ratios on a monthly basis and is monitored by the CBR. The Borrower consulted the CBR in connection with the Loans, and the CBR conducted its own investigation of the exposure. Although the CBR is not entitled under Russian legislation to waive breaches or to agree to lower mandatory economic ratios in relation to a single bank, the CBR has approved a set of measures with which the Borrower plans to attain the required limit on the single-borrower exposure.

In addition, the Borrower's gross exposure to the Gazprom Group, excluding Europolgaz, also exceeds the CBR's mandatory economic ratio on a single borrower or a group of related borrowers limit. The Borrower's excess of exposure compared to the limit determined by the CBR varies depending on the proportion between the actual exposure of the Borrower to the relevant borrowers of the Gazprom Group and the capital of the Borrower, on any given reporting date. The Borrower reduced its excess of the exposure limit from 4.2 times as at 31 December 2002 to 3.5 times as at 30 June 2003. The Borrower expects further improvement of its exposure by the end of 2003. Previously, the Borrower was also in breach of the CBR's mandatory economic ratio on borrowings to a single shareholder in relation to Gazprom. This breach was monitored by the CBR and has been cured by the Borrower. As in the case of the Yamal-Europe Loan, the CBR has been consulted on an ongoing basis in connection with the Borrower's exposure to the Gazprom Group and the CBR has conducted its own investigation of the exposure. The Borrower is in the process of discussing with the CBR a plan to implement a set of measures to be agreed with the CBR to reduce this exposure.

Nevertheless, until the mandatory economic ratios have been met, both with respect to the Yamal-Europe Loan and the Gazprom Group, the Borrower is technically still exposed to the risk that the CBR may impose sanctions on the Borrower for such non-compliance. Such sanctions could include a fine, initiation of a temporary administration of the Borrower by the CBR or revocation of a banking licence. Under Russian law, the CBR may appoint a temporary administration for a term of up to six months if the Borrower has failed to comply with the CBR orders to remedy breaches, or if these breaches by the Borrower have created an actual threat to the interests of its creditors (depositors). As for revocation of the banking licence, such sanction may be applied to the Borrower only after a repeated imposition on the Borrower of other sanctions during the same calendar year. To date, no sanctions have been imposed on the Borrower by the CBR for either of these breaches of the CBR's mandatory economic ratios. See "Certain Investment Considerations — Risks relating to the Group's Business — Loan Concentration Risk, Yamal-Europe Project and Breach of CBR Mandatory Economic Ratios".

The CBR also sets limits on a bank's exposure to a single creditor/depositor pursuant 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 of 1 October 1997, with further amendments. However, the CBR stated in Directive No. 795-u of 24 May 2000 that it resolved not to impose sanctions in relation to credit organisations for breach of the single creditor/depositor exposure limit. Further, the law "On the Central Bank of the Russian Federation (Bank of Russia)" of 10 July 2002, which sets out an exhaustive list of ratios and limits that may be regulated by the CBR, does not provide for such limit. The CBR has not yet amended Instruction No.1 following enactment of the law in 2002 to rescind the single creditor/depositor exposure limit. As a result of certain loans provided by Deutsche Bank, Luxembourg, and loans and deposits by the Gazprom Group, the Borrower found itself in breach of the



single creditor/depositor exposure limit in relation to such creditors. Nevertheless, owing to Directive No. 795-u and the banking law currently in effect, the Borrower has not been, and does not expect to be, sanctioned for such breach by the CBR.

The Borrower's procedures for the approval and monitoring of credit and collateral comply with the CBR guidelines and are set out in a clearly defined credit policy approved by the Management Board of the Borrower.

#### *Credit Procedures*

In the credit process the Borrower applies a number of internal guidelines, including various regulations applicable to certain departments. Depending on terms of the proposed facility, the credit policy provides for standard or flexible approaches to be used by the Borrower when determining the amount of interest rates, limits and tariffs applicable to particular clients. Subject to certain requirements, the Borrower may apply lower interest rates to certain clients.

Specific procedures for the approval of related party and major transactions as required by Russian law are set out in the Borrower's charter documents. Major transactions require either unanimous approval by the Board of Directors (where the value of assets involved falls between 25 per cent. and 50 per cent. of the value of the Borrower's assets as of the date of such approval) or qualified majority approval by the Shareholders' Meeting (where the value of assets involved exceeds 50 per cent. of the value of the Borrower's assets as of the date of such approval or where no unanimity was achieved when approving a transaction of up to up to 50 per cent. of the value of the Borrower's assets). Depending on certain conditions and subject to certain exceptions, related party transactions require approval either by the Board of Directors or the Shareholders' Meeting. See "— Related Party Transactions" below.

All credit applications are submitted on standard forms, together with a set of supporting documents, and registered in the Borrower's central register of applications. The initial review of applications (including, where appropriate, financial analysis, feasibility study, examination of financial standing, reputation and experience of the applicant) is initially conducted by one of four credit units. The specialisations of these credit units is as follows: investment projects in the gas industry, project financing, commercial lending and trade finance retail lending. These units are either separate departments, in the case of investment projects in the gas industry and project financing, or sub-units of other departments, in the case of commercial lending and retail lending. A separate and independent specialised risk management unit within the Risk Management Department also participates in reviewing credit applications at the initial stage and prepares an independent report for the respective credit committee assessing risk concentration across the Borrower's credit portfolio.

Following review of a credit application by each of the credit unit and the independent risk management unit, a credit application is then submitted together with the reports prepared by these units for approval to the relevant credit committees. Credit committees operating in branches and the head office Credit Committee ("CC") are each authorised to approve credit applications submitted to them within their respective limits. The limits for credit committees operating in branches are approved by the CC, whilst limits for the CC are approved by the Management Board. Where the amount of a credit exceeds the limit set for the credit committees of the branches, such credit is approved by the CC. Where the amount of a credit exceeds the limit set for the CC, such credit is approved by the Management Board.

The CC is currently authorised to make credit decisions up to U.S.\$30 million. Each branch office is assessed individually on various criteria including managerial experience, bad debt history, regional needs and number of customers. Maximum limits for credit extended by branch offices currently amount to U.S.\$300,000 per borrower and up to U.S.\$10 million per branch. Credit extended through branch offices comprised approximately 13 per cent. of total exposures in 2002 and 15.4 per cent. as at 30 June 2003.

Once credit has been extended, the monitoring of performance and financial standing is conducted within the Borrower's head office. A separate internal account control and settlement department, which is overseen by the Chief Accountant, monitors the timely payment of interest and other amounts payable by corporate borrowers. In addition, the four credit units monitor a borrower's ongoing creditworthiness, the use of proceeds and the value of collateral and produces a monthly report on each credit. A report on any credit exposure where repayment is doubtful is submitted to the respective credit committee and, thereafter, the exposure is monitored more closely.

The Borrower uses special procedures for reviewing credit applications and extending loans to retail customers. Review of applications (including creditworthiness analysis and collateral evaluation), with the exception of factoring schemes, is conducted by the retail lending unit, sub-division of the retail customer department. In factoring schemes, such as for financing the purchases of goods and home appliances, debtors are evaluated and contractual relationships are established with private customers by the retail sales organisations with which the

Borrower has entered into lending agreements. The CC has set limits, within which the decision to extend a retail loan can be made without approval from the relevant credit committees.

The retail lending unit monitors the timely payment of interest and other amounts payable by retail borrowers. In order to reduce credit exposure, in most of its lending programmes for individuals, the Borrower takes out additional insurance policies on collateral, life, employment, etc., depending on the conditions of a loan.

#### *Collateral*

It is the Borrower's policy to seek collateral for most of its exposures, except where the exposure is to a Gazprom Group company and funded by Gazprom Group deposits or accounts with the Borrower. Where collateral is taken, the credit department assesses both its value and its legality and enforceability. The main types of collateral accepted are guarantees from Gazprom, charges over inventory, real property and other assets and securities. The Borrower's credit policy contains a description of preferable and non-acceptable types of collateral and sets out criteria for determining a sufficient value of the proposed collateral. The CBR does not regulate the type of collateral required, although the amount of provisioning under CBR guidelines will depend in part on the collateral received. The frequency of a collateral review will depend on the type of collateral taken. Collateral with a market quotation, such as shares, is reviewed daily. All other collateral is generally reviewed on a monthly basis. In normal circumstances, the Borrower can realise liquid collateral, such as shares, promissory notes and bonds, within a few days and other collateral within 180 days. However, the realisation of certain collateral, such as State-owned property, may take longer.

#### **Securities Trading Portfolio**

Trading activities generated significant income for the Borrower in 2002 and the first half of 2003. The Borrower is one of the main traders of Gazprom shares which represented 47.4 per cent. of the Borrower's securities trading portfolio as at 30 June 2003. According to the monthly activity rating published by the RTS Stock Exchange throughout 2002, the Borrower was one of the three most active traders (in terms of trading volume) of Gazprom shares on the RTS Stock Exchange. The Borrower is also one of the leading traders of Russian Federation Foreign Currency Bonds (OFGVZ) and Eurobonds issued by the Russian Federation. In order to increase profitability and improve the efficiency of cash flow management, in 2002 the Borrower began trading in domestic bonds issued by Russian municipalities and corporates and currently is among the largest operators in this market.

The Borrower has established internal limits in respect of its trading securities portfolio and securities trading activities. These limits include (i) a limit on the amount of securities of any particular issue that can be purchased or held in the Borrower's portfolios; and (ii) a limit on the proportion (a maximum percentage) of any issue of securities that can be purchased or held. Securities that are not part of issues in relation to which the Borrower has established an internal limit may only be purchased if the issuer of such securities has a credit rating of "B" or higher issued by an established credit rating agency such as Standard & Poor's, Moody's or Fitch IBCA. There is a special limit on the maximum amount of such securities in the Borrower's portfolio.

The following table shows the carrying value of the Borrower's securities trading portfolio as at 31 December 2000, 2001, 2002 and 30 June 2003. See also corresponding Notes to the Consolidated Financial Statements and Condensed Interim Consolidated Financial Statements.

	As at 31 December						As at 30 June	
	2000	%	2001	%	2002	%	2003	%
	<b>(Audited)</b>						<b>(Unaudited)</b>	
	<i>(U.S.\$'000, except percentages)</i>							
Gazprom Shares .....	63,200	22.2	123,377	48.3	288,185	35.6	687,278	47.4
Russian Federation Eurobonds .....	59,898	21.1	60,724	23.8	145,911	18.0	86,332	5.9
Corporate bonds .....	—	—	—	—	72,641	9.0	91,619	6.3
Russian Federation Foreign Currency Bonds (OVVZ) .....	40,503	14.2	20,201	7.9	29,089	3.6	8,761	0.6
Russian Federation Rouble Bonds (GKO, OFZ) .....	6,766	2.4	2,880	1.1	2,542	0.3	11,865	0.8
Russian Federation Municipal Bonds .....	228	0.1	—	—	2,655	0.3	8,335	0.6
Equity Securities <sup>(1)</sup> .....	226	0.1	—	—	58	0.0	324,516	22.5
Gazprom Shares <sup>(2)</sup> .....	84,621	29.8	—	—	—	—	—	—
Promissory notes <sup>(3)</sup> .....	28,620	10.1	48,140	18.9	268,993	33.2	232,896	16.0
	<u>284,062</u>	<u>100</u>	<u>255,322</u>	<u>100</u>	<u>810,074</u>	<u>100</u>	<u>1,451,602</u>	<u>100</u>

Notes:

- (1) Excluding Gazprom Shares.
- (2) Comprises shares held under a REPO transaction with Gazprom and recorded at historical cost. All other assets stated at market value.
- (3) Promissory notes are comprised mainly of short term notes issued by members of the Gazprom Group.

### Foreign Exchange Trading

Foreign exchange trading generates significant income for the Borrower, amounting to U.S.\$28.25 million for the six months ended 30 June 2003. Management estimates that in 2002 the Borrower handled approximately 10 per cent. of Russia's foreign trade inflows. Currency trading volumes have increased significantly since 1998 when the Borrower became Gazprom's preferred bank and assumed responsibility for servicing the majority of the Gazprom Group's hard currency gas export proceeds.

### Funding, Indebtedness and Contingent Liabilities

The Borrower's major sources of funds for its lending and investment activities are current accounts and deposits from corporate and retail customers and banks. In addition, the Borrower derives funds from the issuance of debts in the form of eurobonds, promissory notes and certificates of deposit and also from cash flow from interest payments, fees and commissions and some bank lending. The availability of deposits is influenced by factors such as prevailing interest rates, market conditions and levels of competition. The Borrower may compensate for reductions in the availability of funds from deposits or other sources by borrowing on the interbank market. Gazprom Group companies provide a significant proportion of the Borrower's funding (40 per cent. of total liabilities as at 30 June 2003).

As at 30 June 2003, the total amount of borrowings and indebtedness was U.S.\$5,113.17 million, comprising U.S.\$ 3,444.79 million in customer deposits, U.S.\$ 352.82 million in amounts due to banks and other financial institutions and U.S.\$ 1,315.56 million in other indebtedness. Of this amount, U.S.\$ 404.20 million is indebtedness of GazInvest Finance B.V. ("GazInvest Finance") under a debt issuance programme, which is guaranteed by the Borrower. See "— Debt Issuance" below. The Group does not have any loan capital outstanding.

In addition, as at 30 June 2003, the aggregate amount of credit related commitments and contingencies of the Borrower amounted to U.S.\$951.04 million, comprising U.S.\$593.98 million in undrawn loan commitments, U.S.\$252.27 million in letters of credit and U.S.\$104.79 million in guarantees given. See Note 27 to the Condensed Interim Consolidated Financial Statements included in this Offering Circular.

### Sources of Funding

The following table shows the Borrower's sources of funding as at 31 December 2000, 2001, 2002 and 30 June 2003.

	As at 31 December						As at 30 June	
	2000	%	2001	%	2002	%	2003	%
	(Audited)						(Unaudited)	
	(U.S.\$'000, except percentages)							
Due to banks and other financial institutions:								
Deposits accepted .....	267,097	62	143,588	59	207,155	58	206,648	59
Vostro accounts .....	164,589	38	98,307	41	148,271	42	146,170	41
Total .....	431,686	100	241,895	100	355,426	100	352,818	100
Certificates of deposit and promissory notes .....	458,635	100	513,928	75	730,777	68	911,358	69
Eurobonds issued .....	—	—	173,375	25	339,523	32	404,203	31
Total .....	458,635	100	687,303	100	1,070,300	100	1,315,561	100
Customer accounts:								
Current accounts and other demand deposits .....	531,793	41	1,060,112	51	1,421,287	55	2,027,293	59
Term deposits .....	768,129	59	1,025,991	49	1,168,834	45	1,417,495	41
Total .....	1,299,922	100	2,086,103	100	2,590,121	100	3,444,788	100
<b>Total</b> .....	2,190,243		3,015,301		4,015,847		5,113,167	

The maturity breakdown of the Borrower's funding as at 31 December 2000, 2001, 2002 and 30 June 2003 was as follows:

	As at 31 December						As at 30 June	
	2000	%	2001	%	2002	%	2003	%
	<i>(U.S.\$'000, except percentages)</i>							
<b>Funding</b>								
Less than 3 months .....	1,329,430	60.7	1,515,796	50.3	2,042,344	50.9	3,112,086	60.8
3 to 6 months .....	347,019	15.8	310,016	10.3	168,929	4.2	512,100	10.0
6 to 12 months .....	62,460	2.9	352,546	11.7	916,869	22.8	467,977	9.2
Over 12 months .....	451,334	20.6	836,943	27.7	887,705	22.1	1,021,004	20.0
Total .....	2,190,243	100.0	3,015,301	100.0	4,015,847	100.0	5,113,167	100.0

### Current Accounts and Deposits

As at 30 June 2003, current accounts and deposits from customers comprised 66 per cent. of the Borrower's liabilities, of which 59 per cent. were due to Gazprom Group companies. The Borrower offers a full range of deposit products, including overnight deposits, term deposits and call deposits. Current deposits comprise the largest type of deposits, accounting for approximately 59 per cent. of total customer deposits as at 30 June 2003.

As at 30 June 2003, deposits and balances from banks and other financial institutions comprised 7 per cent. of the Borrower's total liabilities, 28 per cent. and 12 per cent. of which were due to Vnesheconombank and Société Générale, London, respectively.

The following table sets out the amount of current accounts and deposits from customers, banks and other financial institutions as at 31 December 2000, 2001, 2002 and 30 June 2003.

	As at 31 December						As at 30 June	
	2000 Balance	%	2001 Balance	%	2002 Balance	%	2003 Balance	%
(U.S.\$'000, except percentages)								
<b>Current accounts and deposits:</b>								
current (RUR) .....	277,524	21.3	450,611	21.4	675,966	25.9	971,838	28.2
current (foreign currency) .....	254,269	19.6	556,220	26.4	745,822	28.6	1,048,688	30.4
term (RUR) .....	96,612	7.4	349,986	16.6	178,518	6.8	384,138	11.2
term (foreign currency) .....	657,765	50.6	729,286	34.6	989,815	37.9	1,028,626	29.9
Total current accounts and deposits	1,286,170	98.9	2,086,103	98.9	2,590,121	99.3	3,433,290	99.7
Accrued interest due .....	13,752	1.1	23,902	1.1	18,420	0.7	11,498	0.3
Total with accrued interest due .....	1,299,922	100.0	2,110,005	100.0	2,608,541	100.0	3,444,788	100.0
<b>Certificates of deposits and promissory notes (by remaining maturity):</b>								
Less than 1 month .....	128,161	27.9	274,000	38.9	269,510	23.7	173,391	13.2
1-6 months .....	184,995	40.4	111,916	15.9	94,403	8.3	513,534	39.0
6 months 1 year .....	19,669	4.3	39,846	5.7	274,807	24.1	179,527	13.7
More than 1 year .....	125,469	27.3	261,541	37.1	431,580	37.9	445,066	33.8
Total certificates and promissory notes .....	458,294	99.9	687,303	97.5	1,070,300	94.0	1,311,518	99.7
Accrued interest due on certificates	341	0.1	17,284	2.5	68,429	6.0	4,043	0.3
Total certificates and promissory notes with interest due .....	458,635	100.0	704,587	100.0	1,138,729	100.0	1,315,561	100.0
Total current accounts and deposits and certificates and promissory notes .....	1,744,464	99.2	2,773,406	98.5	3,660,421	97.7	4,744,808	99.7
Accrued interest due .....	14,093	0.8	41,186	1.5	86,849	2.3	15,541	0.3
Total deposits and certificates and promissory notes with accrued interest due .....	1,758,557	100.0	2,814,592	100.0	3,747,270	100.0	4,760,349	100.0

#### Debt Issuance

*Certificates of Deposit and Promissory Notes.* The issue of certificates of deposit ("CDs") and promissory notes ("PNs") is a significant source of funding to the Borrower. As at and 30 June 2003, outstanding CDs and PNs totalled U.S.\$911.36 million, representing 17 per cent. of the Borrower's total liabilities, of which, 28 per cent. are held by Gazprom Group companies. Of the CDs and PNs issued by the Borrower, 84 per cent. were denominated in Roubles. The Borrower's Rouble denominated PNs make up a significant proportion of the Russian PN market.

*Debt Issuance Programme.* In December 2001, the Borrower established a €300 million Debt Issuance Programme, which was increased to €500 million in October 2002 (the "Programme"). Under the Programme, the Borrower's wholly-owned subsidiary GazInvest Finance may from time to time issue medium-term notes denominated in any currency. Notes issued by GazInvest Finance under the Programme are unconditionally and irrevocably guaranteed by the Borrower.

In December 2001, GazInvest Finance made its debut issue under the Programme by issuing €200 million 9.75 per cent. notes due 2003 (the "2003 Notes"). This was a significant event for the Russian banking system, as the Borrower (through GazInvest Finance) became the first Russian financial institution to tap the international market after the 1998 Russian banking crisis. As a result of this issue, the Borrower is also acknowledged as the first Russian non-governmental organisation to issue eurobonds denominated in euro. A second issue under the Programme took place in October 2002, when GazInvest Finance issued €150 million 9.75 per cent. notes due 2005.

## **Asset and Liability Management**

The primary objective of the Borrower's asset and liability management is to satisfy the dual requirements of controlling exposure to liquidity and market risks while maximising profitability by the appropriate share holding of the assets and liabilities. With this objective in mind, the Borrower aims to maintain a structure of assets and liabilities which optimises both long and short-term financial income while minimising the income volatility within the constraints of general market conditions. Market risks include interest rate and exchange rate risks, which require ongoing monitoring and control.

The Management Board approves risk management policies and sets the maximum level of risk that can be taken by the Borrower. Risk management standards, models and parameters are determined by the Risk Management Committee which was established in the summer of 2002. The Risk Management Committee reports to the Management Board. The main objectives of the Risk Management Committee are co-ordinating the establishment and development of the Borrower's risk management system, integrating the risk management system in the various departments and assessing and analysing the risks associated with new products, business processes and key performance indicators. In 2002 the entire risk management system underwent significant changes and the functions and tasks of committees and the internal audit department were restructured and rules and regulations were revised. The Borrower's risk management systems are based on recommendations of the Basle Committee, although Russian legislation does not yet impose obligatory compliance with these standards.

### *Liquidity Risk Management*

The Borrower's liquidity policy is reviewed and approved by the Management Board. The Asset and Liability Management Committee (the "ALM Committee") determines the policies for asset and liability management, the basis of which is to match the maturity of assets and liabilities and to maintain strict controls over permitted variances. In addition, long-term credit or investment (over three years) is generally extended only against receipt of a matching liability or contribution to equity capital. The ALM Committee meets weekly.

The ALM Committee adopts a yearly financial plan comprising targeted asset and liability ratios and forecasted interest rates. The financial plan is reviewed and revised by the ALM Committee on a quarterly basis. Assets are managed by the ALM Committee by setting limits on sums and dates to maturity of the extended credits, investments in securities and in the inter-bank market. Decisions to realise or restructure assets are made as needed. Liabilities are managed by the ALM Committee by setting limits on the volume and the interest rates of liabilities and the refinancing of assets.

Long-term liquidity (over one year) is managed by the ALM Committee on a quarterly basis. In connection with its ongoing review, the ALM Committee considers such factors as the size and maturity of the loan portfolio and securities trading portfolio, size and maturity of demand and time deposits, the Borrower's net foreign currency position, operational ratios established by the CBR and exchange rates and other economic data.

The Treasury, which also covers trading activities, carries out day to day liquidity management. The Treasury manages short-term liquidity (up to one week) on a real time basis and medium-term liquidity (up to one year) on a weekly basis. In carrying out its liquidity management function, the Treasury conducts transactions in foreign currency, funds and stock markets to regulate the Borrower's liquidity positions and to timely respond to market fluctuations, subject to set limitations.

In addition, the Treasury continually monitors the liquidity position of the branch offices. The head office provides refinancing facilities to the branches which are also subject to limits set by the ALM Committee. Since 1999, the branch network has been a net creditor of the head office.

Management believes that asset and liability management is adequate. Since its establishment the Borrower has never, even during the 1998 crisis, deferred customer payments or liabilities. Moreover, in 1998 and 1999 the Borrower repaid aggregate liabilities of U.S.\$290 million in respect of international syndicated loans, at that time the largest repayment of liabilities by a Russian bank not subject to restructuring.

The contractual maturities of the Borrower's monetary assets and liabilities (including accumulated gap) as at 31 December 2001 and 2002 are included in Note 26 to the Consolidated Financial Statements for the year ended 31 December 2002 appearing in this Offering Circular.

### *Market Risk Management*

Market risk management function is centralised and run by the independent risk management department. The following market risks are measured and monitored: interest rate risk, foreign exchange risk, equity price risk and commodity price risk.



To measure these risks the Borrower employs and develops different approaches. Value-at-Risk models are used to assess market risk under normal market conditions. Model testing to assess risks is performed at four levels: for particular market instruments, for homogenous security portfolios (i.e., foreign currency, Russian government bonds and promissory notes), for different types of risks and for the entire trading and investment portfolio. The Bank uses a tiered system of limits to maintain acceptable levels of market risks. The Bank sets Value-at-Risk for the entire bank and for each business unit. The maximum allowed bank-wide Value-at-Risk is set as a certain fraction of the equity capital, then this amount is reduced to a particular open position. Limit values are set by the ALM Committee. In addition, each of the dealers, the chief dealer(s) and the Head of Treasury have prescribed limits and stop-loss levels which are closely monitored by the compliance department.

Stress analysis is also used to assess losses in emergency conditions. In addition, the Borrower examines the credit equivalent of risk to assess current and potential exposure to counterparties' claims which may arise owing to possible changes in the market value of liabilities on investment and banking transactions.

The risk management department monitors market risk on a daily basis and reports on market risks to the ALM Committee and/or the Management Board. Management believes that the Borrower effectively monitors its operations that are exposed to market risks.

## **Competition**

As at 1 September 2003, the CBR reported there were 1,281 banks operating in the Russian Federation, including Russian banks and Russian subsidiaries of foreign banks. Of these banks, a small number of Moscow-based banks dominate in the Russian banking industry. According to the CBR, as at 30 June 2003, Russia's ten largest banks accounted for 54 per cent. of total bank assets, and the top five banks accounted for 44 per cent. of total bank assets.

The Borrower has faced increasing competition over the past three years as it actively enters new customer markets in different industries. The Borrower's primary competitors are currently Sberbank, Vneshtorgbank, Alfa Bank and, to a lesser extent, International Industrial Bank, Bank of Moscow, MDM-Bank, Rosbank and Menatep Saint-Petersburg.

The Borrower services a large number of major corporate customers. As at 30 June 2003, the Borrower was servicing more than 26,000 corporate customers, including approximately 1,200 companies in the gas industry. The Borrower directly competes with Sberbank and Vneshtorgbank, each of which aims to attract and serve major Russian enterprises and organisations in industries targeted by the Borrower, including oil, machinery, telecommunications, energy and chemicals. The Borrower's competitors have a developed network of branches in cities within Russia other than Moscow, so that the Borrower competes with these banks not only in particular industries, but also on a regional basis.

In addition, in the medium-term loans market for Russian companies, the Borrower also faces increasing competition from major western banks, which are aggressively expanding into the Russian lending market and which are able to offer prospective borrowers low interest rates.

Although the Borrower has begun successfully to diversify its customer base, its business continues to be heavily concentrated on the Gazprom Group. As a consequence, any bank which could provide the Gazprom Group with equivalent financial services is a potential threat to the Borrower. There are several state-owned banks which either separately or together could provide the products and regional coverage necessary to compete for the position as the Gazprom Group's preferred bank. However, Management does not believe this possibility to be a significant threat to the business.

Despite increased competition from other Russian banks and increasingly, large western banks, the Borrower believes it has a number of competitive advantages over its competitors, including:

- its broad branch and depositary networks in many significant regions across Russia;
- a large and stable customer base;
- its strong and established business relationship with its parent, Gazprom;
- relatively long and stable credit and rating history;
- its broad product range that it is able to offer corporate and retail customers;
- its ability to adapt quickly to changing conditions in the market, enabling it to more effectively develop and market in-demand banking products;
- its implementation and application of advanced, modern banking technology and software; and
- effective and efficient internal management, risk assessment and compliance systems.

## Regional Network and Information Technology

The Borrower's network of branches and offices spans 35 out of 89 regions of Russia. The Borrower's strategy is aimed at constant advancement and strategic expansion of its presence in key industrial and financial regions in Russia. The Borrower has a branch network which currently comprises 31 branches throughout the Russian Federation. In 2002, new branches were opened in Barnaul, Omsk and Perm. The branch offices have 52 satellite offices and 49 teller desks outside their teller units. The branches have introduced modern banking technologies and new methods of customer service, with the objective of continuing to grow their customer base.

The Group owns its headquarter office building, as well as a number of other properties in Moscow and elsewhere where its branches are located. The majority of its branches are subject to lease arrangements. The following tables set forth certain information about the Borrower's ownership and tenancy of property as at 31 December 2002.

### *Private ownership in Moscow*

Address	Type	Area, square metres
63 Novocheremushkinskaya St., Moscow, Russia .....	Building	22,496
45 block 1 Varshavskoe highway, Moscow, Russia.....	Building	943
40 Mikluho-Maklay St., Moscow, Russia .....	Office area	1,333
30 Kahovka, Moscow, Russia .....	Garage	804
55 Moskovskaya St., Kirov town, Russia .....	Building	2,178
<b>Total</b> .....		<b>27,754</b>

### *Tenancy in Moscow*

Address	Type	Area, square metres
9 block 2 the Second Verhne-Mihailovsky passage, Moscow, Russia .....	Office area	1,723
16 block 1 Nametkina St., Moscow, Russia .....	Office area	2,846
27 block 2 Obrucheva St., Moscow, Russia .....	Office area	1,221
<b>Total</b> .....		<b>5,790</b>

### *Branches' private ownership and tenancy through Russia*

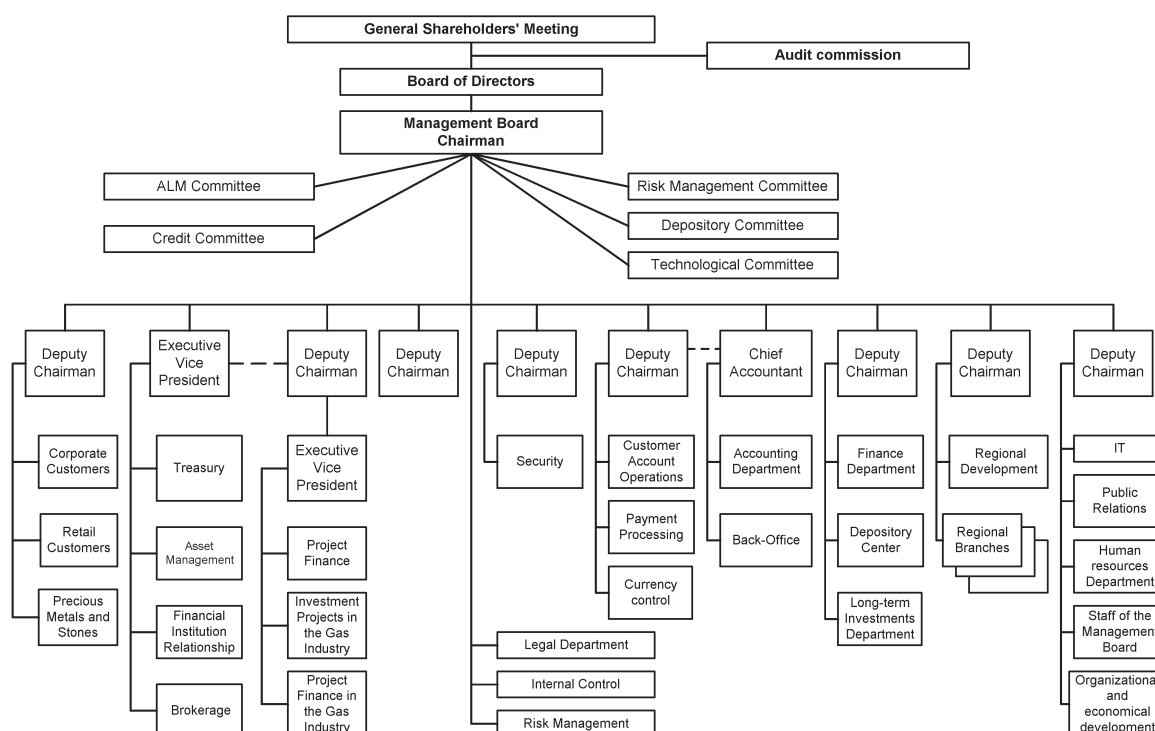
Type	Private ownership		Tenancy	
	Numbers	Area, square metres	Number	Area, square metres
Buildings/Office areas .....	11	15,829.47	148	37,566.71
Garages .....	20	921.80	11	738.40
Flats .....	4	219.80	—	—
Incompleted construction .....	1	2,437.50	—	—
<b>Total</b> .....	<b>36</b>	<b>19,408.57</b>	<b>159</b>	<b>38,305.11</b>

## Subsidiaries and Associates

As described in Note 1 to the Consolidated Financial Statements and Condensed Interim Financial Statements, the Group primarily consists of the parent company, Gazprombank, and its wholly owned subsidiaries (i) New Financial Technologies, located at 17a, Malaya Rybatskaya St., Uglich, Yaroslavl Region, 152610, Russian Federation, (ii) Gazcardservice, located at 45 Building 2, Varshavskoye shosse, 115230 Moscow, Russia, and (iii) GazInvest Finance, located at Herengracht 450 1017 CA Amsterdam, the Netherlands. Details of the Borrower's subsidiaries and associates are set out in Note 15 to the Consolidated Financial Statements and in Note 15 to the Condensed Interim Financial Statements set out in this Offering Circular.

## Management

### Organisational Chart



### Management Bodies

According to its Charter, the principal management bodies of the Borrower are the Shareholders' Meeting, the Board of Directors, the Management Board and the Chairman of the Management Board.

### Shareholders' Meeting

The Shareholders' Meeting is the Borrower's highest management body. The following specific matters can only be dealt with by the Shareholders' Meeting:

- alterations of the Borrower's charter and the size of its charter capital;
- electing members of the Board of Directors, the appointment of the Chairman of the Management Board and the early termination of their respective authorities;
- approval of the Borrower's annual reports and financial statements and the distribution of the Borrower's profits;
- decision as to the reorganisation or liquidation of the Borrower; and
- election of the Audit Commission.

Decisions of the Shareholders' Meeting are adopted by a simple majority of votes. On issues such as changes to the size of the Borrower's charter capital, reorganisation and liquidation of the Borrower, a three-quarters majority of votes present at the Shareholders' Meeting is required.

### Board of Directors

The Board of Directors supervises the Board of Management, approves the agendas for the Shareholders' Meeting, has the power to elect and dismiss the members of the Management Board, approves various regulations for the operation of various management bodies of the Borrower and approves the annual plan of the Borrower's operations.

Members of the Board of Directors are elected by the shareholders by a majority of votes for a one-year term. Persons elected to the Board of Directors may be re-elected an unlimited number of times. At the annual general meeting of shareholders held on 16 June 2003, the shareholders approved the composition of the Board of Directors, comprised of seven members. Mr. Akimov and Mr. Kruglov became new members of the Board of Directors.

The current members of the Board of Directors are:

<i>Name</i>	<i>Principal Occupation and Outside Functions</i>
Miller A.B.	Chairman of the Board of Directors, Chairman of the Gazprom Management Board; also member of the Board of Directors of CJSC Russian Company for the Reclamation of the Shelf
Akimov A.I.	Chairman of the Board of Directors, Chairman of the Borrower's Management Board (also see biography below)
Sereda M.L.	Chairman of the Board of Directors, Head of the Office of the Gazprom Management Board; also member of the Board of Directors of AEB, member of the Supervisory Boards of Wintershal Erdgaz Handelshaus GmbH and WINGAS GmbH, member of the Board of Directors of Gazprom UK Ltd., member of the Board of Directors of OJSC Vostokgazprom and Managing Director of Gazprom Finance B.V.
Ananenko A.G.	Deputy Chairman of the Gazprom Management Board; also Chairman of the Board of Directors of OJSC Vostokgazprom and member of the Board of Directors of OJSC Zapsibcombank
Vasilyeva E.A.	Deputy Chairman of the Gazprom Management Board and Chief Accountant of Gazprom; also member of the Board of Directors of CJSC Yamalgazinvest, member of the Board of Directors of Gazprom UK Ltd., and member of the Supervisory Board of Slavrusgaz
Krasnenkov A.V.	Member of the Management Board and Head of the Property Management and Corporate Relations Department of Gazprom; also member of the Boards of Directors of OJSC Sibur, OJSC Vostokgazprom and OJSC Volgogradneftemash
Kruglov A.V.	Member of the Management Board and Head of the Corporate Finance Department of Gazprom; also member of the Boards of Directors of OJSC Sibur and AEB

The business address of the above members of the Board of Directors is 63 Novocheremushkinskaya St., Moscow 117418, Russia.

#### *Management Board*

The Management Board is the executive body of the Borrower and is elected by the Board of Directors, which also establishes its structure. The Management Board is headed by a Chairman. Persons elected to the Management Board can be re-elected an unlimited number of times. The members of the Management Board and the Chairman are responsible for the day-to-day management and administration of the Borrower, and are accountable to the Borrower's General Meeting of Shareholders and the Board of Directors. The Chairman of the Management Board acts in the name of the Borrower and represents the Borrower without a power of attorney. On 22 May 2003 the Board of Directors approved the 12-member composition of the Management Board.

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

**Akimov A.I.** (50), Chairman of the Management Board, graduated from the Moscow Institute of Finance in 1975. From 1974 until 1990 he worked for Vneshtorgbank (USSR). In 1985, Mr. Akimov was appointed Deputy General Manager of the Zurich Branch of Vneshtorgbank and, in 1987 he was appointed the Chairman of the Management Board- General Director of Donau Bank (Austria), Vneshtorgbank's subsidiary bank. From 1991 to 2003, he worked as Management Director of IMAG Investment Management and Advisory Group GmbH (Austria). Mr. Akimov was elected Chairman of the Management Board in 2002.

**Dadasheva O.Yu.** (40), First Vice President, graduated from the Moscow Institute of Finance with a major in Finance and Credit in 1985 and obtained a Candidate Degree in Economics in 1996. Previously she was the Deputy Chairman of the Management Board of KB "Rostransbank", the Vice-President of AKB "Alexander-Bank", the First Deputy Chairman of the Management Board of KB "Neftianoy", the First Vice-President of AKB "Nadra" (Kiev, Ukraine), lecturer at the chair of Banking in the Finance Academy under the Government of the Russian Federation, the First Vice-President of KB "Alba Alliance". She has been in her current position since 2003 and co-ordinates the activity of the Borrower's branches and subsidiaries.

**Dubrov E.G.** (42), Deputy Chairman of the Management Board, graduated from the Novosibirsk Institute of Railway Engineers in 1984. Previously he was the Head of the Investments Section of the Novosibirsk Branch of the Youth Commercial Bank; the Head of the Economic Section and the Head of the Operational Management Division of the Commercial Bank Belonfinbank; the Head of the Economic Analysis and Projection Section, the

Vice-President and the acting President of OAO Sibekobank; and the First Vice-President and the Deputy Chairman of the Management Board of Legprombank. He has been in his current position since 2002.

**Korytov V.B.** (46), Deputy Chairman of the Management Board, graduated from the Leningrad Institute of Railway Engineers in 1979. Previously he was the Head of Security at ZAO Petersburg Fuel Company and Deputy General Director and General Director of ZAO OBIP; Adviser to the General Director of OAO Sea Port Saint-Petersburg. Currently, Mr. Korytov holds the position of the Head of the Security Service Department at the Borrower. He has been in his current position since 2003.

**Levin K.Y.** (34), Deputy Chairman of the Management Board, graduated from the Moscow Aviation Institute with a major in Economics and Management of Scientific Research and Projection in 1990. Previously he was the Deputy Head of the Customer Relations Section and the Head of the Customer Department at the Russian National Commercial Bank and the Head of the Customer Relations and Financial Resources Mobilization Department at the Borrower. He has been in his current position since 2000 and co-ordinates the activities of Corporate Customers and Retail Customers Departments.

**Malyuseva S.E.** (51), Chief Accountant of Gazprombank, graduated from the Leningrad Institute of Finance and Economics with a major in Finance and Credit in 1974. Previously she was the Head Accountant of the Petrodvorets Branch of the State Bank of the USSR, the Head Accountant, Vice-President on Economics and First Deputy Chairman of the Management Board of OAO Saint-Petersburg Bank and the Vice-President of OAO International Bank Saint-Petersburg. Currently, Ms. Malyuseva holds the position of the Head Accountant of the Borrower. She has been in her current position since 2002.

**Matveev A.A.** (39), Deputy Chairman of the Management Board, graduated from the Moscow Institute of Finance with a major in International Economic Relations in 1986. Previously he was the Chief Expert of the Finance Loans Section of Vnesheconombank (USSR), the Head of Finance Loans Section of the Currency and Conversion Operations and International Correspondent Relations Department of International Moscow Bank, the Executive Vice President of Interindustry Commercial Bank for Wholesale Trade Development, the Vice-President of Bank "CreditSwiss (Moscow) AO", the Advisor to the Chairman of the Management Board of AKB East European Investment Bank, the Head of the Investment and Banking Operations Department of ZAO "Fleming USB", the Managing Director of ZAO Investment Company "Troika Dialog". He has been in his current position in 2003 and co-ordinates the Borrower's investment and trading activity.

**Obozintsev A.A.** (39), Executive Vice President, graduated from the Moscow State Institute for International Relations with a major in International Economic Relations in 1986. Previously he was the Advisor in International Bank for Economic Development, Head of the Currency Operations Department in Interindustry Commercial Bank for Wholesale Trade Development, the Deputy Chairman of the Management Board of Mosbusinessbank, the Advisor to the Chairman of the Management Board of AKB "Forpost", the Advisor to the President of AKB "Avangard", the First Deputy Chairman of the Management Board of AKB "Avangard", Vice President of Vneshtorgbank. He has been in his current position since 2003 and co-ordinates the activities of Treasury, Asset Management Department, Financial Institution Relationship Department and Brokerage Division.

**Panfilov V.I.** (35), Deputy Chairman of the Management Board, graduated from the Russian Academy for Economics named after Plekhanov in 1995. Previously he was the Chairman of the Board of the All-Soviet Union Youth Centre at the Soviet Charity and Health Fund, the General Director of SFMZ enterprise of VMTS company, the Director of AO NITA, the Deputy Head of Administrative Services Department of the Secretariat of the Federal Assembly of the Russian Federation, the First Deputy Head of the Administrative Services Department of the Secretariat of the State Duma of the Federal Assembly of the Russian Federation, the Deputy Head of Administrative Affairs Department of the State Duma of the Federal Assembly of the Russian Federation, the Executive Director of Interregional Social Fund "Soglasie", the Deputy Head of the Secretariat of the Security Council of the Presidential Administration, the Deputy Head of the State Tax Service of the Russian Federation, the Deputy Minister of the Ministry for Taxes and Levies of the Russian Federation, the Deputy Head of the Federal Service of the Russian Federation for Financial Rehabilitation and Bankruptcy. He has been in his current position since 2003.

**Sobol A.I.** (34), Deputy Chairman of the Management Board, graduated from the Moscow Aviation Institute with a major in Economics and Engineering Management in 1991 and holds a Ph.D in economics. Previously he was the Head of the Finance Section, the Head of the Planning and Economic Department and the Vice-President and Deputy Chairman of the Management Board at the Russian National Commercial Bank. He has also been an advisor to the Chairman of the Management Board and Deputy Head of the Strategic Development and Planning Department at the Borrower. He has been in his current position since 1999 and co-ordinates the activities of the Finance Department and Depository Centre.

**Utkin P.V.** (45), Deputy Chairman of the Management Board, graduated from the Moscow Institute of Finance with a major in Finance and Credit in 1980. Previously he was the Head of the Planning and Finance Sector at the General State Customs Control Division under the Council of Ministers of the USSR and the Head of the External Economic Activity Division and the Currency Operations Division at the Borrower. He has been in his current position since 1998. Mr. Utkin co-ordinates the activities of Customer Account Operations Department, the Payment Processing Department and the Currency Control Department, and supervises the activity of the Chief Accountant.

**Von A.L.** (27), Vice President Head of Internal Audit Department, graduated from the Moscow State Social University with a major in Finance and Credit in 1995. Previously he was an economist at AB Gloriabank, an economist at the Customer Base Development Division of the Commercial Bank Russian Credit and a manager of the Audit Department of ZAO Arthur Andersen. He has been in his current position since 2002. Currently, Mr. Von occupies the position of Vice-President-Head of the Internal Control Department at the Borrower.

#### *Committees*

In addition, the Management Board has set up five committees, which all report to the Management Board. The CC is authorised to make credit decisions within the limits set by the Management Board. The CC also sets and monitors limits for the extension of credit by branch offices. The ALM Committee coordinates asset and liability management. The Risk Management Committee develops the Borrower's risk management system. The Depositary Committee sets the pricing policy for the Borrower's depositary services, determines the long-range directions of the Borrower's depositary network development and ensures the creation of compensation instruments intended to lower risks of the Borrower's depositary activity. The Technological Committee ensures the improvement of existing and the development of new banking technologies, and coordinates the IT system development strategy of the Borrower.

#### *Supervisory Bodies*

In addition to the above managerial bodies and committees, the Borrower also uses various supervisory bodies in order to assist managerial control. These bodies are the audit commission, internal control and the independent auditor of the Borrower.

#### *Audit Commission*

The Audit Commission's duties include the review of the Borrower's compliance with legislative and other acts regulating its activity, the Borrower's internal controls, credit, settlement and other operations conducted during each year and the condition of the cash department and the Borrower's property.

The Audit Commission is elected for a one-year term at the annual Shareholders' Meeting. The members of the Audit Commission are independent from the day-to-day management of the Borrower and may not simultaneously be members of the Board of Directors or hold any other position within the Borrower.

#### *Internal Control*

Internal control is a process performed by the Board of Directors, the Borrower's management and other employees designed to provide reasonable assurance regarding the achievement of objectives in reliability of financial reporting, safeguarding of assets, effectiveness and efficiency of operations, and compliance with applicable laws, regulations and internal policies and procedures.

One element of the Borrower's internal control system is the Internal Control Department, which carries out an internal audit function that identifies risks and makes relevant recommendations to improve control procedures and reduce risks to an acceptable level.

#### *Independent Auditor*

The consolidated financial statements of the Group for the year ended 31 December 2002 included in this Offering Circular have been audited by Deloitte & Touche, as stated in their report appearing herein.

The consolidated financial statements of the Group for the years ended 31 December 2001 and 2000 incorporated by reference to this Offering Circular have been audited by KPMG Limited as stated in their reports with respect thereto.

#### *Management Remuneration and Loans*

In accordance with the Borrower's Charter, the remuneration of top management is regulated by the Management Board. For the year ended 31 December 2002, the total remuneration of the Directors and



members of the Management Board amounted to U.S.\$13.17 million. Of this amount, U.S.\$10.60 million was paid, according to a decision of the annual Shareholders' Meeting of the Borrower held in June 2003, and accordingly, was not included in the Consolidated Financial Statements for the year ended 31 December 2002. The following table sets out the principal amounts of loans and guarantees outstanding to members of the Management Board and Board of Directors as at 30 June 2003.

	<b>As at 30 June 2003</b>
	<i>(U.S.\$'000)</i>
On demand .....	1,769.9
1-3 years .....	123.9
Over 3 years .....	1,781.1
Total amount .....	<b>3,674.9</b>

As at 30 June 2003, the total amount of outstanding loans to members of the Management Board, Board of Directors and other insiders comprised 0.8 per cent. of the Borrower's statutory capital and did not exceed the official limits set by the CBR (3 per cent.). There are no other outstanding loans, guarantees (or other contingent liabilities) granted by the Borrower to any member of the Management Board or Board of Directors.

### Employees

As at 30 June 2003, the Borrower had 3,827 full-time employees, of whom 2,621 were employed at branches or regional points of service outside Moscow. The average age of the Borrower's employees is approximately 37.5 years and approximately 73 per cent. of the employees in professional positions hold university degrees. The Borrower's Trade Union was established in December 2000 and, as at 30 June 2003, it had 1,157 members. On 30 March 2003, the Borrower's Trade Union Committee executed a collective bargaining agreement for the period 2002-2005.

The Borrower has established its own social programmes, including medical insurance, the funding of an internal non-state pension programme and the granting of mortgages and consumer loans to its employees. Since the execution of the collective bargaining agreement, the Borrower has extended the social employment benefits provided to its employees. As at 30 June 2003, outstanding loans and guarantees to employees (including members of the Management Board) were U.S.\$27.7 million.

The Borrower has not experienced any industrial action or other work stoppages resulting from labour disputes.

### Shareholders

As at 30 September 2003, the Borrower had aggregate share capital of U.S.\$979.98 million. Gazprom controls, directly or indirectly, 100 per cent. of the Borrower's charter capital. The following table sets out the Borrower's principal shareholders and their respective shares as at 30 September 2003.

	<b>As at 30 September 2003</b>
	<b>Participants Shareholder Funds</b>
	<i>(%)</i>
OAQ Gazprom .....	87.49
OOO Gazexport .....	6.64
Other Gazprom subsidiaries .....	3.70
Treasury stock <sup>(1)</sup> .....	2.17

Note:

(1) Voting stock held through New Financial Technologies, a wholly-owned subsidiary of the Borrower.

### Related Party Transactions

The Borrower is substantially owned by members of the Gazprom Group and its activities are closely linked with the business requirements of the Gazprom Group members. Determination of the pricing of the Borrower's services to the Gazprom Group is undertaken in conjunction with the other Gazprom Group companies with the

objective of achieving optimal pricing arrangements for the Gazprom Group as a whole. Certain transactions made by the Borrower with the companies of the Gazprom Group and the Group, as well as their affiliates, fall under the definition of the “interested party transactions” under Russian law. Subject to conditions set out in Russian law, such transactions require preliminary approval by either the majority of non-related members of the Board of Directors or majority of non-related holders of voting shares in the shareholders’ meeting. In certain cases formal approval in relation to the Borrower’s related party transactions is obtained after such transactions have been executed. Potentially, shareholders or the Borrower could bring a claim in court to invalidate related party transactions approved subsequent to execution rather than in advance. Details of the Borrower’s related party transactions are set out in Note 27 to the Consolidated Financial Statements appearing in this Offering Circular and Condensed Interim Consolidated Financial Statements.

### **Litigation and Contingent Liabilities**

Before the 1998 crisis in the Russian banking industry, high volumes of GKO issuance drove an active forward foreign exchange market, particularly for NDFs. The announcement of Russia’s intention to defer payment on GKOs and the abandonment of the Rouble corridor led to the rapid and significant devaluation of the Rouble which caused severe market disruption in late 1998. As a consequence, many counterparties were unable, or failed, to settle their NDF positions. Attempts to seek a market solution by involving the CBR were unsuccessful and the Borrower sought bilateral solutions with its counterparties. Although the Borrower successfully closed out certain NDF positions, it continued to hold open positions in a significant volume of NDFs. In some cases the counterparty is in financial difficulty and, in others there is uncertainty as to the validity and/or enforceability of the NDFs. A number of counterparties have taken proceedings against the Borrower in respect of unsettled NDFs. In all cases, the Borrower has received judgment in its favour. In July 2001, the Borrower resolved to write off all of the liabilities and claims arising out of its unsettled NDFs. Management has been advised that it is unlikely that any claimant would succeed in enforcing any claim in respect of such NDFs in a Russian court. As of 31 January 2003, all limitation periods in respect of unsettled NDFs have expired. However, were any such claims to be enforced against assets of the Borrower in Russia or abroad, it could have a material adverse effect on the Borrower’s financial condition. See “Certain Investment Considerations — Risks Relating to the Group’s Business — Unsettled NDFs”.

In October 2003, two claims for the total amount of approximately U.S.\$8.4 million brought against the Borrower by KB “Holding-Kredit” were under consideration of the Moscow Arbitration Court. The claims originate from the unsettled NDF transactions concluded between the Borrower and SBS-Agro in 1998. Upon its bankruptcy, SBS-Agro assigned the rights under both transactions to ARCO which subsequently re-assigned these to KB “Holding-Kredit”. Given that the limitation period in respect of each claim has expired and that each claim is unsubstantiated, the claims have no prospect of success against the Borrower and are likely to be rejected by the court. The preliminary hearings for each of the claims are scheduled for October and for November 2003 respectively.

On 17 March 2003, AO CAIB Investmentbank Aktiengesellschaft (“CAIB”) brought a claim in the Commercial Court of Vienna against the Borrower for the recovery of U.S.\$15 million. CAIB brought the claim following a purported assignment by ZAO “Finansovye Partnery”, Russia (“FP”) of its right to bring an action against the Borrower in connection with the Borrower’s depositary services, and in particular, of FP’s alleged claim for certain Gazprom shares which the Borrower holds as depositary. FP had previously, unsuccessfully brought a claim in Russian courts for damages in the amount of the Rouble equivalent of U.S.\$65 million for the Borrower’s alleged failure to comply with transfer instructions for delivery of Gazprom shares to FP. The Russian courts rejected FP’s suit against the Borrower. The claims which subsequently challenged the validity of the respective court decisions were dismissed by the Highest Arbitration Court of the Russian Federation.

Based on advice of Austrian counsel, management does not believe that the claim which CAIB has brought in the Austrian court will be successful. However, there can be no assurance that the Austrian court will render a judgment favourable to the Borrower. In addition, FP is currently in bankruptcy and subject to administration. Accordingly, the validity of the assignment to CAIB may be contested by the bankruptcy administrator.

In addition to the above, the Borrower is party to other legal proceedings in the ordinary course of its business operations. None of these other proceedings, either individually or in the aggregate, is expected to have a material adverse effect on the Borrower’s financial condition or results of operations.

In November 2002 the Borrower obtained an international comprehensive banking risk insurance policy (“BBB” — Bankers Blanket Bond) covering professional activities and crimes, including electronic and computer crimes. However, the Group does not have full insurance coverage. There is a risk that, until it obtains adequate coverage, the loss or destruction of certain assets could have a material adverse effect on the Group’s operations and the Borrower’s financial position.

Management believes it has adequately provided for tax liabilities based on its interpretation of the tax legislation. However, the tax authorities may have different interpretations and the impact of such interpretation could result in liabilities exceeding booked provisions.

## Capital Adequacy

The Borrower is required to comply with the capital adequacy requirements of the CBR, as set out in 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 of 1 October 1997, as amended ("Instruction No. 1"). For the purposes of calculating the Borrower's capital adequacy ratio, in accordance with the CBR requirements, the principal components of the Borrower's capital are authorised capital and an exchange rate revaluation of the hard currency component of the Borrower's share capital and the Borrower's assets are divided into five categories with different risk weightings. The minimum capital adequacy ratio required by the CBR is currently 10 per cent. for banks whose capital is EUR5 million or exceeds this figure, and 11 per cent. for the banks whose capital is less than EUR5 million. The Borrower's capital adequacy ratio was 14.6 per cent. as at 30 June 2003.

The Borrower also meets international standards with respect to capital adequacy. Details of the Borrower's capital adequacy as at 31 December 2000, 2001, 2002 and 30 June 2003, calculated in accordance with Basle Guidelines and based on the Consolidated Financial Statements and Condensed Interim Consolidated Financial Statements, are set out below:

	As at 31 December 2000	As at 31 December 2001	As at 31 December 2002	As at 30 June 2003
	<i>(U.S. \$'000 except percentages)</i>			
Paid up share capital <sup>(4)</sup>	907,057	907,057	907,057	907,057
Applicable reserves	(259,748)	(193,085)	(73,975)	52,655
Tier I Capital	647,309	713,972	833,082	959,712
Tier II Capital <sup>(1)</sup>	27,487	29,377	348,471	373,996
Total Capital	674,796	743,349	1,181,553	1,333,708
Adjustments <sup>(2)</sup>	(65,127)	(72,316)	(8,338)	(8,237)
Net available capital	609,669	671,033	1,173,215	1,325,471
Risk weighted assets	2,198,978	2,350,124	4,128,352	4,963,505
<b>Capital adequacy ratios</b>				
Tier I ratio (per cent.)	29.4%	30.4%	20.2%	19.3%
Total capital ratio (per cent.) <sup>(3)</sup>	28.0%	28.6%	28.4%	26.9%

Notes:

- (1) General provisions/general loan loss and fixed asset revaluation reserve.
- (2) Investment in unconsolidated banking/financial subsidiary plus investment in capital of other banks/financial institutions.
- (3) Net available capital as a percentage of risk weighted assets.
- (4) The amount of paid up share capital has been increased by U.S. \$34,156 thousand in 2002 as a result of restatement due to correction of an error relating to a prior period.

# 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, Gosbank. Until 2002, the CBR had been operating under the general terms of reference of the law "On the Central Bank of the Russian Federation (the Bank of Russia)" of 2 December 1990 as edited on 26 April 1995 with further amendment. In 2002 this law was superseded by the new law "On the Central Bank of the Russian Federation Bank of Russia" of 10 July 2002 (the "Central Bank Law"). According to the Central Bank Law, the State is not liable for the CBR's obligations, nor is the CBR liable for the State's obligations unless the relevant liability has been undertaken or is required under other Russian laws. The CBR's property is under federal ownership.

The CBR is legally and financially independent of the Russian Government. The CBR consists of the Moscow Head Office with the Board of Directors, and the National Banking Council, a collegial management body of the CBR carrying out certain governing functions, which were solely vested in the Board of Directors prior to adoption of the Central Bank Law (e.g. making decisions on maximum capital expenditures of the CBR, distribution of profits gained by the CBR, appointment of the CBR auditor, approval of the CBR's accounting rules and requirements). The CBR also has a number of regional branches in constitutive subjects of the Russian Federation (in some of the Russian republics the CBR's regional branches are called National Banks) and local branches. The Chairman of the CBR Board of Directors is appointed for a fixed term of four years by the State Duma (the lower chamber of the Russian Parliament) only on the recommendation of the President, can be replaced under the same procedure, and has the right to participate in government (Cabinet) meetings. The Ministers (deputy Ministers) of Finance and of the Economic Development and Trade have the right to participate in meetings of the CBR Board of Directors with consultative voting rights. The members of the National Banking Council are appointed by the Council of Federation (the upper chamber of the Russian Parliament), the State Duma, the President and 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 the laws "On Banks and Banking" (the "Banking Law") and "On Currency Regulation and Currency Control" (the "Currency Control Law") the CBR is authorised to adopt implementing regulations on issues of banking and currency operations. The CBR has actively used this authorisation 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 for the purposes of budget deficit financing.
Financing/Monetary policy	Refinancing of banks by way of granting credits; fixing reserve requirements for the banks; setting capital adequacy and similar ratio requirements for banks.
Transactions and deals with banks	Rendering decisions on the state registration of banks: registering securities issued by banks; extending credit to banks; maintaining correspondent accounts of banks in Roubles; provision of cash and settlement services to banks; providing banks with guarantees; purchase and sale of Russian state securities, CBR bonds, certificates of deposit, precious metals and natural gems and holding them in depositary accounts; purchase and sale of foreign currencies and payment documents in foreign currencies issued by Russian and foreign banks. Unless otherwise directly provided in federal laws, the CBR is not permitted to participate in the charter capital of banks.
Federal budget implementation and external debt service	Extending credits to the Ministry of Finance; acting as a placement agent with respect to government securities issued by the Ministry of Finance; budget accounts administration; servicing of the Russian Federation domestic state debt.
Exchange control	Regulation of dealing and settlements in Roubles; regulation of foreign currency operations; administration of the gold and currency reserves; establishment of regimes for Rouble and foreign currency accounts of residents and non-residents in Russia.

Licensing	Issuance, suspension and revocation of banking licences to banks; issuance of licences/permits with respect to “movement of capital” transactions.
Control and supervision	Bank supervision (compliance with mandatory economic ratios and reserves requirements, sanctions for violations, overseeing banking operations); defining format requirements for accounting and statistical reports; fixing reporting schedules; appointment of temporary administration to banks; control over acquisition (and/or a trust management) of significant (more than 5 per cent.) stakes in banks; assessment of financial standing of banks’ founders (shareholders/participants).

## Regulation

Banking activities in Russia are broadly governed by the Banking Law and the Currency Control Law. The CBR supervises banks in various aspects (as outlined below). Generally, other institutions have only indirect influence over banks. The Federal Commission for the Securities Market issues licences for banking institutions acting as professional participants of the Russian securities market. Tax authorities supervise tax assessments. Other fiscal authorities (e.g., the Ministry of Finance) are largely inactive in relation to banks. The Association of Russian Banks, comprising, as at 5 October 2003, 488 member credit organisations, was established pursuant to the provisions of the Banking Law as a non-commercial self-regulatory organisation, with general legal basis in the Banking Law. It offers various technical support to its members and lobbies the interests of banks in all branches of power.

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

### 1. *Licensing*

A licence must be obtained from the CBR for any “banking activity” as defined in the Banking Law. Applicants must be incorporated within the Russian Federation, submit an application for the state registration with an attached feasibility report and submit detailed information on the suitability of the management and other information. Under the CBR’s regulations 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. A licence may be denied if the legal documents are not in order, if the financial or banking records of the founders are unsatisfactory or if the proposed candidates for executive positions and for the position of chief accountant do not meet qualification requirements.

### 2. *Lending Limits/Mandatory Economic Ratios*

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 of 1 October 1997, with further amendments (“Instruction No. 1”). The value of the assets of a bank is assessed by applying risk ratios to five different groups of risks. Under Instruction No. 1, banks are not permitted to have an exposure to any single borrower or a group of related borrowers in excess of 25 per cent. of their capital, to a shareholder (participant) of a bank in excess of 20 per cent. of a bank’s capital and to an insider (such as officers and directors) and its related parties in excess of 2 per cent. of a bank’s capital). These limits, which initial figures became effective on 1 March 1996, currently apply to banks but are subject to further change and even abolishment 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. Under Directive of the CBR No. 586-u of 24 June 1999, the minimum capital requirement is set at €5 million for each newly founded bank (as from the end of September 2001), including those founded by foreign banks (as from the end of February 2002). Banks with capital of €5 million and more are required to maintain a risk-weighted capital-asset ratio of 10 per cent. and banks with capital of less than €5 million must maintain a ratio of 11 per cent. from 1 February 2000. Those banks whose charter capital exceeds their net worth, are required to adjust their net worth (or, if impossible, their charter capital) accordingly. The net worth of a bank is the aggregate amount of its fixed capital and additional capital decreased by certain mandatory reserves and some other amounts. A new procedure for reduction of banks’ charter capital to adjust the amount of their net worth is established by Directive of the CBR No. 1260-u of 10 May 2003.



#### 4. *Reporting Requirements*

Banks must regularly submit balance sheets, together with financial statements showing the actual financial position of the bank. They must also inform the CBR about providing large loans (exceeding 5 per cent. of a bank's capital). Banking groups (i.e. alliances of banks in which one bank directly or indirectly controls decisions of the governing bodies of other banks within this alliance) and consolidated groups (i.e. 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 accounts to the CBR. The CBR may at any time carry out full or selective checks of a bank's submissions, and may inspect all books and records of the bank. In addition, annual audits must be carried out by a licensed auditing company.

#### 5. *Liquidity and Reserve Requirements*

Banks and banking groups are obliged under the Central Bank Law to "ensure a necessary level of liquidity" to comply with Instruction No. 1. 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 liabilities). Mandatory reserves are calculated on the basis of monetary liabilities of banks. Mandatory reserves must be held on non-interest bearing deposits with the CBR. Particular reserve requirements are set by the Board of Directors of the CBR from time to time. The key elements of current CBR requirements for reserve deposits and liquidity are as follows:

- Mandatory reserve requirements in the amount of 10 per cent. in respect of funds in Roubles attracted from legal entities and funds in foreign currency attracted from legal entities and individuals, and 7 per cent. in respect of funds attracted from individuals in the form of Rouble deposits.
- Mandatory reserve requirements for potential losses in the amount of up to 100 per cent.
- The ratio of liquid assets to demand deposits must be maintained at/above a minimum level, currently 20 per cent.
- The ratio of assets over one year to deposits, loans and debts over one year must not exceed 120 per cent.
- The ratio of liquid assets to total assets must be maintained at or above a minimum level, currently 20 per cent.

#### 6. *Accounting Practices*

The CBR has established a standard format for the presentation of a bank's accounts and instructions on how transactions are recorded within the accounts. It requires the preparation of financial statements and other accountancy in accordance with the Directive of the CBR No. 7-U "On Preparation and Submitting of Accountancy by Lending Organisations to the CBR" dated 24 October 1997. Despite certain differences such accountant statements represent a close approximation to IAS.

Starting from 1 January 2004, all credit organisations will be required to prepare their accounting reports in accordance with IAS. Credit organisations will be except from financial reporting under the Russian accounting rules from 1 January 2006.

### **History of the Russian banking sector**

Under the Soviet regime, Gosbank allocated resources from the Government's budget according to the prevailing economic plan, and was in effect the only bank in existence. In 1987, with relaxation of controls over companies and interbank settlements, a small group of dependent, specialised banks developed to conduct business relating to savings, foreign trade, construction, industry, agriculture and small enterprises.

In 1988 and 1989, the second phase of reform saw regional commercial banks (primarily in the form of cooperatives or joint-stock companies) begin to emerge rapidly, with initial capital between Rbl500,000 and Rbl300 million. By the start of 1992, 1,500 licences 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.

The CBR assumed all the functions of Gosbank in November 1991 and Gosbank was liquidated in December of that year.

## **Banks**

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

The 1998 financial crisis revealed the lack of proper controls in the banking sector, and strengthened concerns of the public over the integrity of the banking system, with misleading advertising, laundering, corruption, and criminal contacts all being concerns.

Currently, the banking sector mostly offers services related to short-term financing, because few companies are transparent and can provide the collateral required.

The limited presence of foreign owned banks holding 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. The aggregate participation of foreign capital in the Russian banking system is determined by federal law proposed by the Government in conjunction with the CBR. No such law is currently in force.

On 17 August 1998, the Russian financial market suffered a serious crisis, causing major concern over the liquidity and solvency of the market as a whole. Many banks went into bankruptcy or fell under the administration of ARCO. As of 16 June 2003, two banks are being administered by ARCO. One of these banks has almost completed the process of financial restructuring and the other is undergoing the liquidation process. Meanwhile, due to the stabilisation of the banking sector in 2000 and 2001, the importance of ARCO has considerably decreased.

According to the latest available data, as at 1 August 2003, the CBR's assets amounted to Rbl2,514,093 million, and its gold-value reserves as at 19 September 2003, amounted to the equivalent of U.S.\$64,100 million.

## **Banking reform**

At the end of 2001, the Government of the Russian Federation and the CBR issued a joint declaration setting out the strategy for banking reform in Russia and calling for certain legislative steps and structural changes to be taken during the next five years. Among other measures aimed at increasing the stability of the Russian banking sector, the strategy envisages (i) an increase in capital adequacy requirements, (ii) the introduction of amendments to the Russian Civil Code preventing the early withdrawal of funds held on deposit accounts opened for a certain term, (iii) adoption of IAS by all Russian banks starting from 1 January 2004, and (iv) the gradual implementation of a mandatory system of securing private depositors' funds in the banks.

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

# Taxation

## Russian Taxation

### *Taxation of the Notes*

#### General

***The following is a summary of certain Russian tax considerations relevant to purchase, ownership and disposition of the Notes as well as taxation of payments of interest on the Loan. The summary is based on the laws of Russia in effect on the date of this Offering Circular. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal authorities of Russia. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there may be practical difficulties involved in claiming double tax treaty relief. Prospective investors should consult their own advisers regarding the tax consequences of investing in the Notes. No representation with respect to 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 Gazprombank to the Issuer under the Loan Agreement may affect the holders of the Notes. See “— Taxation of Interest on the Loan” below.

#### Resident Holders

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

#### Non-Resident Holders

##### *Taxation of Gains from Disposal of the Notes*

A non-resident holder generally should not be subject to any Russian taxes in respect of gains or other income realised on the sale or other disposition of the Notes outside Russia provided there is no income from a source within Russia.

A non-resident holder which is a legal person or organisation should not be subject to withholding tax on any gain on sale or other disposal of the Notes even if payment is received from a source within Russia, although there is some residual uncertainty regarding the treatment of any part of such gain which is attributable to accrued interest on the Notes. Accrued interest may be distinguished from the total gain and taxed at a rate of 20 per cent. The separate taxation of the interest accrued may create a tax liability in relation to interest even in a situation of a capital loss on the disposal of the Notes.

A non-resident holder who is a physical person will generally be subject to tax at the rate of 30 per cent. on the gross proceeds from the disposal of the Notes less any available cost deductions (taxable base) where the proceeds of such disposal are received from a source within Russia, subject to any available double tax treaty relief. If the Notes are disposed of in Russia, the proceeds of such disposal are likely to be regarded for personal income tax purposes as income from a source within Russia. In certain circumstances, if the disposal proceeds are payable by a Russian organisation, an individual entrepreneur or a Russian permanent establishment of a foreign organisation, the payer may be required to withhold this tax. There is a risk that the taxable base may be affected by changes in the exchange rates between the currency of acquisition of the Notes and the currency of sale and Roubles.

##### *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 Gazprombank 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 Grand-Duchy of Luxembourg. However, there can be no assurance that such relief

will be obtained. If, as a result of the enforcement by the Trustee of the security granted to it by 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 Grand-Duchy of Luxembourg would cease and payments of interest may be subject to Russian withholding tax.

Prior to 1 January 2002, a claim for treaty relief from Russian withholding tax was subject to preliminary approval by the Russian tax authorities after review of relevant contracts and tax residency certificates. As of 1 January 2002, such preliminary approval from and contract disclosure to the Russian tax authorities is no longer required. As a result of this new procedure, the Russian tax authorities may review the Issuer's eligibility for treaty relief in greater detail during tax audits.

If the payments under the Loan Agreement are subject to any withholding (as a result of which the Issuer would reduce payments under the Notes in the amount of such withholding), Gazprombank is obliged to increase payments as may be necessary so that the net payments received by the Fiduciary will be equal to 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 Gazprombank fails to increase payments, such failure would constitute an Event of Default under the Loan Agreement. If Gazprombank 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 on interest payments.

## **Luxembourg Taxation**

***The following is a discussion of the material Luxembourg tax consequences with respect to the Notes. The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular Noteholder, including tax considerations that arise from rules of general application or that are generally assumed to be known to Noteholders. This discussion is based on Luxembourg law as it stands on the date of this Offering Circular and is subject to any change in law that may take effect after such date.***

### *Withholding Tax*

Under Luxembourg tax laws currently in effect, there is no withholding tax for resident and non-resident Holders on payments of principal or interest, or on accrued but unpaid interest, nor is any Luxembourg withholding tax payable on payments received upon redemption, repurchase, or exchange of the Notes.

### *Taxes on Income and Capital Gains*

Noteholders will not become residents, or be deemed to be resident in Luxembourg by reason only of the holding of the Notes.

Noteholders who are non-residents of Luxembourg and who do not hold the Notes through a permanent establishment in Luxembourg are not liable to Luxembourg income tax on (i) payments of principal or interest, (ii) accrued but unpaid interest, (iii) payments received upon redemption, repurchase or exchange of the Notes, or (iv) capital gains on the sale of any Notes.

Noteholders residents of Luxembourg who are fully taxable, or non-resident Noteholders who have a permanent establishment in Luxembourg with which the holding of the Notes is connected, must for income tax purposes include any interest received in their taxable income. They will not be liable for any Luxembourg income tax on repayment of principal.

Individual Luxembourg resident Noteholders are not subject to taxation on capital gains upon the disposal of the Notes, unless the disposal of the Notes precedes the acquisition of the Notes, or the Notes are disposed of within six months of the date of acquisition of these Notes. Upon a repurchase, redemption or exchange of the Notes, individual Luxembourg resident Noteholders must, however, include the portion of the repurchase, redemption or exchange price corresponding to accrued but unpaid interest in their taxable income.

A corporate entity, or "*société de capitaux*", which is a Luxembourg resident Noteholder, or a foreign entity of the same type which has a Luxembourg permanent establishment, will need to include in its taxable income the difference between the sale, repurchase, redemption or exchange price (including accrued but unpaid interest) and the lower of cost or book value of the Notes sold, repurchased, redeemed or exchanged. These Noteholders should not be liable for any Luxembourg income tax on repayment of principal upon repurchase, redemption or exchange of the Notes.

### *Other Taxes*

There is no Luxembourg registration tax, stamp duty or any other similar tax or duty payable in Luxembourg by a Noteholder as a consequence of the issuance of the Notes, nor will any of these taxes be payable as a consequence of a subsequent transfer or redemption or repurchase of the Notes.

No gift, estate or inheritance taxes are levied on the transfer of the Notes upon the death of a Noteholder in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes.

Luxembourg net wealth tax will not be levied on a Holder, unless (i) such Noteholder is resident in Luxembourg for the purpose of the relevant legal provisions; or (ii) the Notes are attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg.

There is no Luxembourg value added tax payable in respect of payments in consideration for the issuance of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of the Notes.

Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg value added tax purposes such services are rendered or are deemed to be rendered in Luxembourg and an exemption from Luxembourg value added tax does not apply with respect to such services.

### *Taxation of interest on the Loan*

The Fiduciary, acting as a fiduciary, is considered not to be the beneficiary of the interest paid on the Loan. As a result, the Fiduciary is not taxed in Luxembourg on this income. JP Morgan Lux. may not invoke the provisions of double taxation treaties concluded by Luxembourg with the country of source of interest on the Loan for the purpose of reducing withholding tax on interest; the Luxembourg tax authorities will not deliver to foreign tax authorities any tax residence certificate stating that the Fiduciary is the effective beneficiary of the interest on the Loan.

The Issuer will be considered as the real beneficiary of the interest paid on the Loan by Gazprombank, and thus, might be entitled, as a Luxembourg resident company, to invoke the provisions of the double taxation treaty concluded by Luxembourg and the country of residence of Gazprombank. The Luxembourg tax authorities will deliver a tax residence certificate stating that the Issuer is the effective beneficiary of the interest on the Loan to any foreign tax authorities upon request.

No withholding tax will be levied in Luxembourg on payments made by the Fiduciary to the beneficiary of the interest on the Notes. However, according to the European Union Savings Directive, withholding tax could be levied in Luxembourg on interest paid on the Notes to EU resident individual Noteholders, when the Fiduciary is acting as a paying agent (unless the EU resident individual Noteholders opt for authorising the exchange of information).

### **Proposed EU Directive on the Taxation of Savings Income**

On 3 June 2003, the European Council of Economies 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). The respective Directive entered into force on 16 July 2003. It is anticipated to take effect from 1 January 2005.

## Subscription and Sale

J.P. Morgan Europe Limited, Dresdner Bank AG London Branch, Bank Evrofinance, Bank Zenit, Credit Suisse First Boston (Europe) Limited, Parex Bank, UBS Limited and UniCredit Banca Mobilaire S.p.A. (the “Managers”) have, pursuant to a Subscription Agreement (the “Subscription Agreement”) dated 24 October 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 0.75 per cent. of the principal amount of the Notes. Each of Gazprombank 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.

### 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 would not, if it was not an authorised institution, apply to the Issuer; 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 as part of their initial distribution or at any time thereafter any Notes to or for the benefit of any person (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation, unless to the extent otherwise permitted by Russian law.

### The Netherlands

Each Manager has represented and agreed that it has not offered, transferred, delivered or sold and will not offer, transfer deliver or sell any Notes in or from the Netherlands as part of its distribution or as part of any re-offering,



and that it may not distribute neither the Offering Circular nor any other document in respect of the Offering in or from the Netherlands, other than to individuals or legal entities, who are considered as professional market parties pursuant to the Netherlands Banking Act (*We toezicht kredietwezen 1992*) and which trade or invest in securities in the conduct of their profession or trade pursuant to the Netherlands Securities Act (*Web toezicht effectenverkeer 1995*) (which includes (among others) duly supervised banks, insurance companies, securities institutions, investment institutions and pension funds).

Each purchaser represents and acknowledges that the Notes in global or definitive form will bear a legend substantially to the following effect:

Any person who holds (a beneficial interest in) this obligation, who is resident in the Netherlands, shall be deemed to have represented and agreed that it is a professional market party as defined in Section 1(e) of the Exemption Regulation pursuant to the Netherlands Banking Act.

## **Luxembourg**

The Notes are not offered to the public in Luxembourg and each Manager has represented and agreed that it will not offer the Notes or cause the offering of the Notes or contribute to the offering of the Notes to the public in Luxembourg, unless all the relevant legal and regulatory requirements have been complied with. In particular, this offer has not been made and may not be announced to the public and offering material may not be available to the public. A listing of the Notes on the Luxembourg Stock Exchange does not necessarily imply that a public offering in Luxembourg has been authorised.

## **Italy**

The offering of the Notes has not been registered with the Commissione Nazionale per la Società e la Borsa ("CONSOB") pursuant to Italian securities legislation and accordingly each Manager has represented and agreed that (i) it has not offered or sold, and will not offer or sell the Notes in the Republic of Italy in a solicitation to the public at large (*sollecitazione all'investimento*) within the meaning of Article 1, paragraph 1, letter (t) of Legislative Decree no. 58 of 24 February 1998, (ii) the Notes shall not be placed, sold and/or offered either in the primary or in the secondary market to retail individuals residing in Italy and (iii) the Notes will be offered or sold in the Republic of Italy only:

- (a) to investors qualified as professional investors (*investitori qualificati*) pursuant to Article 31, Para 2 of the Regolamento Consob no. 11522 of 1 July 1998, as amended;
- (b) in compliance with Article 129 of the Legislative Decree no. 385 of 1 September 1993 and the implementing instructions of the Bank of Italy, pursuant to which the issue or offer 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 the characteristics of the securities, applies;
- (c) by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the relevant provisions of Italian law; and
- (d) in accordance with any other Italian securities, tax and exchange control and other applicable laws and regulations and any other applicable requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

## **General**

No action has or will be taken in any jurisdiction by the Issuer, Gazprombank 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 Gazprombank 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.

## General Information

1. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg with a Common Code of 017910256. The International Securities Identification Number for the Notes is XS0179102560.
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 the articles of incorporation of the Issuer 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 and copies may be obtained of (c) and (d) below upon request 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 are listed on the Luxembourg Stock Exchange:
  - (a) a copy of this Offering Circular, together with any supplement to this Offering Circular;
  - (b) the Agency Agreement;
  - (c) the Trust Deed, which includes the forms of the Global Notes and the definitive Notes;
  - (d) the audited financial statements of Gazprombank in respect of the financial years ended 31 December 2002, 2001 and 2000 (with an English translation thereof) and the unaudited condensed interim consolidated financial statements of Gazprombank in respect of the six month period ended 30 June 2003. Gazprombank currently prepares audited consolidated accounts on an annual basis;
  - (e) the most recently published audited annual financial statements of Gazprombank and the most recently published unaudited interim financial statements of Gazprombank (with an English translation thereof). Gazprombank currently prepares unaudited consolidated interim accounts on a quarterly basis that are reviewed by Deloitte & Touche;
  - (f) copies (with an English translation) of the authorisations listed below;
  - (g) the Subscription Agreement;
  - (h) the Fiduciary Deposit Agreement; and
  - (i) the Loan Agreement.
3. The Notes and the other documents to be entered into by it in relationship to the Notes and the Deposit have been authorised by a resolution of the Board of Directors of the Issuer dated 22 October 2003.
4. The Fiduciary has obtained all necessary consents, approvals and authorisations in connection with the Deposit, the Loan Agreement and the other documents to be entered into by it in connection with the Deposit and the Loan Agreement.
5. The Loan Agreement and the other documents to be entered into by it in relation to the issue of the Notes have been approved and authorised by resolutions of the Management Board of Gazprombank dated 1 and 21 October 2003.
6. Since 31 December 2002, there has been no material adverse change or any development involving a prospective material adverse change in the condition (financial or otherwise) or general affairs of Gazprombank that is material in the context of the issue of the Notes.
7. Gazprombank has obtained all necessary consents, approvals and authorisations in Russia in connection with its entry into, and the performance of its obligations under, the Loan Agreement.
8. No consents, approvals, authorisations or orders of any regulatory authorities are required by the Issuer under the laws of the Grand-Duchy of Luxembourg for its entry into, and the performance of its obligations under, the Loan Agreement or for the issue and performance of the Notes.
9. Except as disclosed in "Description of the Borrower — Litigation and Contingent Liabilities", 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 Gazprombank, threatened before any court, tribunal, arbitration panel or agency which might be material in the context of its entry into, and the performance of its obligations under, the Loan Agreement and the offering of the Notes by the Issuer.

10. In the event that there is a substitution of the Issuer, a supplemental Offering Circular will be prepared, copies of which will be made available at the specified office of the Paying Agents. The supplemental Offering Circular will be subject to review by the Luxembourg Stock Exchange.

11. Article 3 of the Borrower's Charter (approved by Resolution of the Shareholders' Meeting on 28 March 2001 and approved by the CBR on 17 September 2001, as amended) permits the Borrower to undertake a wide range of banking operations and transactions including deposit taking, lending, foreign exchange and security trading, and others as permitted by Russian law. Pursuant to Article 6 of the Charter, the Borrower conducts banking operations on the basis of a banking licence issued by the CBR. The Borrower is also allowed to participate in the capital of other organisations, carry out representative functions, render consulting services in finance and banking, etc. The Charter expressly precludes the Borrower from engaging in production, trade or insurance activities.

12. The Borrower was registered with the CBR as a closed joint stock company on 13 November 2001 (registration number 354). The Borrower was included in the Unified State Registry of Juridical Persons maintained by the Ministry on Taxes and Levies on 28 August 2002 (registration number 1027700167110).

13. The Trust Deed provides, *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 the liability of any of the above-mentioned persons in respect thereof.

14. The Group's Consolidated Financial Statements for the years ended 31 December 2000 and 2001 were audited by KPMG Limited and are contained in the "2000" and "2001" columns of the Consolidated Financial Statements. The Group's financial statements for the year ended 31 December 2002 were audited by Deloitte & Touche and are contained in the "2002" column of the three-year Consolidated Financial Statements.

In 2002, the Group's Management has corrected an error relating to prior periods, which effected certain changes in the 2000 and 2001 figures. See details in Note 2(c) to the Consolidated Financial Statements. Also, certain changes in presentation have been made to the Consolidated Financial Statements for 2000 and 2001 in order to promote better and more detailed understanding by users of the financial statements. As a result, conforming reclassifications were made to the 2000 and 2001 figures to achieve comparability in presentation with 2002. See details in Note 2(b) to the Consolidated Financial Statements. The Group's current auditor, Deloitte & Touche, has received the changes in presentation made by the Group's Management to the 2000 and 2001 figures, has checked their arithmetic accuracy and has found them to be in agreement with the reclassified and restated 2000 and 2001 Consolidated Financial Statements.

#### 15. Shareholding of the Bank

	% Ownership		
	2002	2001	2000
OA0 "Gazprom" .....	87.49	87.49	87.49
OOO "Gazexport" .....	6.64	6.64	6.64
OA0 "Gazprom" subsidiaries .....	3.70	3.89	5.87
Treasury stock.....	2.17	1.98	—
	100.00	100.00	100.00

16. The Fiduciary is a wholly-owned subsidiary of J. P. Morgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. The Fiduciary was incorporated in the Grand-Duchy of Luxembourg as a société anonyme, a form of limited liability company, with unlimited duration on 16 May 1973 under the name Chase Manhattan Bank Luxembourg S.A. (changed to J. P. Morgan Bank Luxembourg S.A. on or about 9 November 2001) under the laws of Luxembourg with the purpose of undertaking for its own account as well as for the account of third parties or a joint account with third parties either within or outside the Grand-Duchy of Luxembourg any banking or financial operations, including (but not limited to) acquiring collateral, issuing Notes and other investments, and entering into a carrying out its obligations in relation to such Notes and other investments and any swap agreements or other agreements entered into in relation thereto in accordance with clause 3 of the Statuts Coordonnées (coordinated Articles of Incorporation) of the Fiduciary.

The registered office of the Fiduciary is at 5, rue Plaetis, L-2338 Luxembourg-Grund, Luxembourg. The Fiduciary is registered with the Register of Commerce and Companies of Luxembourg under number B-10.958. The

authorised corporate capital of the Fiduciary is U.S.\$ 11,000,000 divided into 100,000 shares of a par value of U.S.\$110 each ("Shares"), all of which are issued and fully paid. 99,999 Shares are held by J. P. Morgan International Finance Limited, U.S.A. and one Share is held by Chase Manhattan Overseas Finance Corporation, U.S.A.

Board of Directors as of 1 January 2003

Name	Principal outside activity (if any) of significance to the Fiduciary
Mr. Mark S. Garvin, Chairman	Director, J. P. Morgan Securities Ltd.
Mr. Ramy Bourgi	
Mr. Anthony Carey	
Ms Kathe P. Dodd	
Mr. William R. Frasca	
Mr. James McAleenan (Managing Director)	

The business address of each of the directors is 5, rue Plaetis, L-2338 Luxembourg-Grund.

## Appendix A — Overview of the Russian Federation

*The following information has been extracted from publicly available sources, namely the CBR's website at [www.cbr.ru](http://www.cbr.ru) and Goskomstat's website at [www.gks.ru](http://www.gks.ru).*

### General

The Russian Federation, or Russia, is a sovereign and democratic federal republic, consisting of 89 sub-federal political units with different status (republics, krais, oblasts, cities of federal importance, autonomous districts and an autonomous oblast) (the "Federation Subjects"). It is the largest state to emerge from the former Soviet Union, covering an area of approximately 17.1 million square kilometres. Russia covers one-tenth of the world's land surface, making it the largest country in the world, almost twice the size of the United States of America.

Of the population of approximately 145.5 million, approximately 82 per cent. is ethnic Russian and a high percentage (approximately 73 per cent.) lives in cities and towns. The two largest cities are Moscow, with approximately 10.1 million inhabitants, and St. Petersburg, with approximately 4.7 million inhabitants.

Russia is a leading world producer of natural resources. The oil and gas industry plays an important role in the domestic economy. There are also substantial mineral deposits including iron, nickel, copper, diamonds and gold, as well as timber.

### International Relations

Russia is a member of the United Nations (and a permanent member of the Security Council), the IMF, the World Bank, the International Finance Corporation and the European Bank for Reconstruction and Development. Russia succeeded to the former Soviet Union's "observer status" to the General Agreement on Tariffs and Trade (currently, the World Trade Organisation) which was granted in May 1990 and in June 1993 made an official announcement of its intention to join the General Agreement on Tariffs and Trade. Discussions regarding Russia's admission to the World Trade Organisation started in 1995 and are still ongoing. Russia has also been awarded Most Favoured Nation status by several members of the Organisation for Economic Co-operation and Development ("OECD").

Russia has been granted observer status in a number of OECD committees and formally applied for membership in May 1996.

### Political Structure and Recent Political Developments

#### *Federal Structure*

In 1990, Russia declared its sovereignty (though not its independence from the Soviet Union). In December 1991 Russia, Belarus and Ukraine joined together to dissolve the Soviet Union and form the Commonwealth of Independent States (the "CIS"). The CIS was subsequently joined by another nine former Soviet republics. Members of the CIS have entered into a series of political and economic agreements among themselves.

The Federation Treaty of 31 March 1992, signed by the majority of the Federation Subjects, initially gave to each a measure of control over budgetary and external policy as well as over the natural resources of their territories, and the Constitution of Russia (the "Constitution") and individual treaties between the Federation and some of the Federation Subjects subsequently confirmed and refined the terms of the division of authority between the Federation and its subjects. See "Certain Investment Considerations — Risks Relating to the Russian Federation".

In general, disputes between the federal authorities and Federation Subjects have been resolved peacefully through a political process. The military confrontation in the Chechen Republic has been the exception. There was military confrontation in the Chechen Republic between December 1994 and August 1996 (followed by a peace treaty in May 1997) and then again from August 1999 to date, with the fighting now reduced to sporadic outbreaks. However, the situation is not stable and there have been no official talks between the federal authorities and rebel leaders. It is expected that the future of the Chechen Republic will only be decided after the completion of operations by the Russian interior and military troops.

#### *Constitution*

The Constitution provides for a tripartite governmental structure in which the power of the State is divided between the executive, legislative and judicial branches, each independent of the others. The Constitution also establishes a federal system, allocating responsibilities between federal and sub-federal authorities and setting out the principles of local government.

### *Executive, Legislative and Judicial Branches*

The Executive branch consists of the President and the Government of Russia.

The President of Russia has broad powers. The President is Head of State and Supreme Commander of the Armed Forces, with authority to declare states of military emergency and other states of emergency, subject to approval by the Council of Federation and has responsibility for foreign policy and national defence. The President has the power to issue decrees and orders having the force of law (although these may not contradict the Constitution or federal legislation), to suspend acts of sub-federal executive authorities and to call a national referendum on matters of special importance. The President also has the power to veto bills passed by the Federal Assembly and, under certain circumstances, to dissolve the State Duma. The President also enjoys significant powers of appointment, including the power to appoint the Prime Minister (with the consent of the Duma) and other members of the Government (who are nominated by the Prime Minister). The President may also dismiss deputy prime ministers and federal ministers at any time. In addition, the President nominates candidates for Governor of the CBR (for appointment by the Duma) and the Prosecutor General (for appointment by the Council of Federation) and also nominates judges for the Constitutional Court, the Supreme Court and the Supreme Arbitration Court (for appointment by the Council of Federation).

The President is elected in a national election for a term of four years. The Constitution provides for the early termination of the President's term of office in the event of his death, resignation or impeachment, or if he is persistently unable to exercise his powers for reasons of health, in which case the Prime Minister fulfils the responsibilities of the President until a new President is elected. New presidential elections must be held within three months of any such early termination.

The Government of Russia comprises the Prime Minister, deputy prime ministers and federal ministers, all of whom are appointed by the President as described above. The Government is automatically dissolved after each presidential election, in order to permit the President to form a new government. The Government is responsible for implementing federal laws, presidential decrees and international agreements. In particular, the Government is responsible for preparing and implementing the federal budget, establishing a unified financial, credit and monetary policy, carrying out social policy, preserving public order and defending the rights and freedoms of citizens.

The Legislative branch is the Federal Assembly, which consists of a lower chamber, the State Duma, and an upper chamber, the Council of Federation.

The State Duma consists of 450 members, elected by a mixed system of majority vote and proportional representation. Half of the members are elected by majority vote in individual electoral districts. The other half are chosen from "party lists" on the basis of a nationwide election, with seats being allocated in proportion to the number of votes received by the party. Generally, only parties receiving more than 5 per cent. of the votes qualify for these "party list" seats. "Party list" members are free to change their party affiliations during their terms in office without the need for a new election. The State Duma sits for four years and no person may simultaneously serve as a State Duma member and hold a position in the Government.

The Council of Federation represents Russia's 89 Federation Subjects. Each Federation Subject has two representatives on the Council of Federation, one representing its legislative body and the other representing its executive branch.

The Judicial branch is represented by the Constitutional Court, the Supreme Court and the Supreme Arbitration Court as well as lower courts of general jurisdiction and arbitration courts.

### *Political Parties and Elections*

Presidential elections were most recently held on 26 March 2000. The elections were scheduled to take place in the summer of 2000 but the premature resignation of President Yeltsin on 31 December 1999 brought these elections forward to March. At the time of Yeltsin's resignation, Vladimir Putin was the Prime Minister and, therefore, was elevated to the post of acting President.

Putin was successful in the first round of voting for the Presidential elections and secured over 52 per cent. of the votes cast with a turnout of 68.74 per cent. (more than 50 per cent. of the votes cast is required in order to be elected). His nearest challenger was the Communist candidate Gennady Zyuganov, who received almost 30 per cent. of votes.

The Government was appointed between May and July 2000. It has embarked on a course of significant reforms comparable to those in early 1992 aimed at strengthening the unity of the State and tightening federal control over the Federation Subjects.



In May 2000, President Putin reformed the structure of Presidential representatives in the regions. The Federation Subjects were divided into seven "federal areas" and authorised representatives with broad powers were appointed by the President to each federal area. The rights of the authorised representatives of the President include the right to participate in all activities of representative bodies of the Federation Subjects, to control the implementation of Presidential decrees and orders and federal economic programmes, and to control the use of federal property and federal funds by the Federation Subjects. The authorised representatives of the President in the Federation Subjects are financed by the Administration of the President.

The Duma elections were held on 19 December 1999 with the following results: the Communist party led by Gennady Zyuganov won 24.3 per cent. of the votes cast; the Unity party led by Sergei Shoigou, the Minister of Emergency Situations, 23.2 per cent.; the Fatherland-All Russia party led by former prime minister Yevgeny Primakov, Moscow Mayor Yuri Luzhkov and St Petersburg Mayor Vladimir Yakovlev 13.1 per cent.; the Union of Right Forces led by former prime minister Sergei Kiriyenko 8.6 per cent.; the Yabloko party led by Grigory Yavlinsky 5.9 per cent. and the LDPR led by Vladimir Zhirinovskiy 6.4 per cent. Other parties received the remaining 18.5 per cent.

As a result of the distribution of seats among political parties and winners in majority vote constituencies, the communists and their allies lost control over the Duma, which now has a broadly pro- Presidential majority.

The nearest Duma elections are scheduled for 7 December 2003, and the Presidential elections will be held on 14 March 2004.

### **Economic Conditions and Recent Economic Developments**

Following the dissolution of the Soviet Union, particularly during 1991 and 1992, Russia experienced an economic crisis, evidenced by a decline in industrial production and GDP, significant price increases, a decline in the average standard of living and an increase in foreign debt. In response, the Government instituted a series of measures designed to achieve financial stabilisation and price liberalisation and to create an impetus for a transition to a market economy. The Government has freed most wholesale and retail prices, reduced defence allocations, cut state subsidies, introduced a substantial value-added tax, removed most non-tariff restrictions on foreign trade and launched a broad privatisation effort.

Russia's financial stabilisation programme came under severe pressure in the second half of 1997 and the first half of 1998, when the repercussions of the Asian currency and financial crises and sharp falls in world prices for oil and other commodities adversely affected the Government's ability to continue to finance its budget deficits and to maintain the value of the rouble against the U.S. dollar. On 17 August 1998, the Government and the CBR announced a three-part programme intended to address these pressures. First, the Rouble trading corridor was revised from 5.25-7.15 Roubles for one U.S. dollar to 6.00-9.5 Roubles for one U.S. dollar. This corridor was subsequently abandoned. Second, domestic GKO/OFZ bonds issued prior to 17 August 1998 and maturing before 31 December 1999 were to be restructured into new longer-term instruments and trading of these instruments was suspended pending the restructuring. Finally, for a period of 90 days Russian private sector residents were restricted from conducting certain foreign currency operations of a capital nature, including payments of foreign currency under forward contracts and repurchase agreements and principal payments on long-term credits.

The events of 17 August led to:

- a severe devaluation of the Rouble;
- a sharp increase in the rate of inflation;
- the near collapse of the country's banking system;
- significant defaults by Russian public and private borrowers on their foreign currency obligations;
- dramatic declines in the prices of Russian debt and equity securities (including Russian eurobonds); and
- an inability of Russian borrowers to raise funds internationally.

The situation stabilised rapidly, however, and 1999-2003 witnessed several positive developments. These included:

- a slow-down in the depreciation, and then a stabilisation, in the value of the Rouble against the U.S. dollar (and appreciation of the value of the Rouble against the U.S. dollar in real, and most recently in nominal, terms);
- a decline in consumer price inflation;
- an increase in real industrial output, resulting in part from the devaluation of the Rouble;

- an improved balance of trade, resulting in part from the devaluation of the Rouble and a significant increase in oil prices;
- improved tax collection, resulting in a significant primary fiscal surplus;
- increasing prices for Russian debt and equity securities;
- a decrease in the share of barter transactions, both in inter-enterprise transactions and in the execution of regional budgets; and
- the restructuring of a significant portion of Russia's rouble-denominated domestic indebtedness and the reduction and restructuring of its London Club indebtedness.

President Putin's Government has announced plans for substantial economic reforms (including the tax reform, the pension reform, the housing and utilities reform) and has begun the process of implementing some of those reforms.

#### *Privatisation*

Russia commenced its privatisation programme in early 1992. About 15,000 medium and large-scale enterprises employing more than 70 per cent. of the industrial workforce had been privatised through the mass voucher privatisation programme by mid-1994. In a relatively short period of time, the companies in which the Government had had less than a majority equity interest came to represent over 50 per cent. of both GDP and employment.

The first stage of the Russian privatisation process, the so-called voucher privatisation, was completed in the summer of 1994. The second (post-voucher) phase of the privatisation process started in late July 1994, consisting of cash sales to domestic and foreign strategic investors with the primary objective of transferring control over the privatised companies to private management and ownership.

The transfer of assets from state to private control continued in 1995 through a loans-for-shares programme, cash auctions and investment tenders. As at 1 June 2003, there were 1,339 joint stock companies which were 25 to 50 per cent. state owned and 718 joint stock companies which were more than 50 per cent. state owned.

In late 2000, the State Duma halted privatisation of the largest Russian companies until a new privatisation law was passed. In December 2001, the new Federal Law "On Privatisation of State and Municipal Property" was passed and entered into force on 26 April 2002. This law introduces, *inter alia*, methods of state property privatisation.

The August 1998 financial crisis resulted in the suspension of several planned privatisation tenders.

The Government has announced its intention to return to some of its privatisation plans. In August 2003, the Government issued a plan for the privatisation of federal property in 2004 and guidelines for the privatisation of federal property up to 2006.

#### *Combating Money Laundering*

In order to build up the effective domestic system for combating money laundering, in July 2001 Russia adopted the Federal Law "On Combating of the Legalisation of Illegal Earnings (Money Laundering)" and subsequently passed certain legislation to implement this law. As a result of the implementation of recent reform to its anti-money laundering system, in October 2002 Russia was removed from the "black list" of non-cooperative countries and territories in the fight against money laundering maintained by the Financial Action Task Force on Money Laundering.

In line with the development of the anti-money laundering system, the CBR introduced certain restrictions relating to the banks' operations involving foreign entities and individuals registered (residing) in off-shore areas. The CBR compiled a list of such off-shore areas. In particular, the CBR restrictions apply to establishment by Russian banks of correspondent relationships with foreign banks registered in the off-shore areas. Also, subject to certain exceptions, Russian banks will be required to maintain specific reserve funds for the purposes of carrying out operations with the residents of the off-shore areas. The amount of such reserve funds depends of the category of the off-shore area in question and varies from 50 per cent. up to 100 per cent.

### Gross Domestic Product

The following table sets forth certain information regarding Russia's nominal GDP for the years 1996 to 2002 and as at 1 May 2003:

	1996	1997	1998	1999	2000	2001	2002	2003 <sup>(2)</sup>
Nominal GDP (RUR billions)	2,007.8	2,392.5	2,629.6	4,823.2	7,305.6	9,039.4	10,863.4	3,110.7
Nominal GDP per capita (RUR) .....	14,523.2	16,826.4	18,659.0	32,515.0	48,527.0	62,783.3	74,665.9	20,021
Consumer Price Index <sup>(1)</sup> (%)	147.8	114.7	127.8	185.7	120.8	121.5	115.8	114.3
Total population millions (end of period) .....	147.1	146.7	146.3	145.6	144.0	144.0	145.5	144.5

Notes:

(1) Average on the annual basis (Source: CBR website, 1 July 2003).

(2) The figures for 2003 are given as at 1 July 2003.

Source: Goskomstat's website, 1 July 2003. Certain data presented in this table differs from the previously published data due to revisions by Goskomstat.

### Employment

Employment has declined in Russia since reforms were initiated. The level of unemployment increased in 1998 due to the Russian financial crisis, and the labour market still remains relatively depressed. According to the CBR estimate (based on the methodology of the International Labour Organisation), the total number of unemployed in May 2003 was 6.1 million (8.6 per cent. of the labour force) as compared to 6.3 million (8.8 per cent. of the labour force) at the end of 2002, and 6.2 million (8.7 per cent. of the labour force) at the end of 2001.

Source: CBR website, 23 May 2003.

### Balance of Payments

The following table sets forth Russia's consolidated balance of payments for the years 1996 to 2002 and for the six month period ended 30 June 2003, unless indicated otherwise:

	Consolidated Balance of Payments							2003 (six months)
	1996	1997	1998	1999	2000	2001	2002	
	(U.S.\$ millions)							
<b>Current account</b> .....	11,725	2,032	659	24,731	47,294	34,620	31,091	21.3
Goods and non-factor services ....	17,087	11,080	12,786	31,845	53,961	39,338	37,212	24
Trade balance.....	22,471	17,025	16,869	36,129	60,703	47,839	46,281	28.5
Non-factor services .....	(5,383)	(5,995)	(4,083)	(4,284)	(6,743)	(8,501)	(9,070)	(4.5)
Income .....	(5,434)	(8,645)	(11,790)	(7,716)	(6,736)	(3,959)	6,117	(2.91)
Current transfers .....	72	(356)	(337)	601	69	(759)	5	(0.1)
<b>Capital and financial account</b> ...	(6,833)	2,818	8,425	(17,695)	(37,545)	(25,390)	(11,210)	(0.9)
Capital account .....	(463)	(797)	(382)	(328)	10,955	(9,356)	12,388	(0.1)
Financial account.....	(6,368)	3,615	8,807	(17,367)	(48,500)	(16,034)	10,197	0.7
Direct investments .....	1,656	1,681	1,492	1,102	(463)	(64)	328	2.3
Portfolio investments, net.....	4,410	45,775	8,618	(946)	(10,334)	(653)	2,500	(3.5)
Other investments <sup>(2)</sup> .....	(15,277)	(41,904)	(6,608)	(15,745)	(21,693)	(7,105)	994	923
Reserve assets <sup>(2)</sup> .....	2,841	(1,936)	5,305	(1,778)	(16,010)	(8,212)	11,375	7,589
Adjustments of reserve assets <sup>(3)</sup> ..	(1,484)	(20)	(50)	(176)	17	—	—	—
<b>Errors and omissions, net</b> .....	(4,892)	(4,851)	(9,084)	(7,036)	(9,749)	(9,232)	(8,506)	(4.7)

Notes:

(1) The figures for the first six months of 2003 are given as estimated data.

(2) The figures are given as at 1 April 2003.

(3) Adjustments of the reserve assets were introduced in order to reconcile the date in the payment balance and international investment position of Russia formed in accordance with the IMF guidelines with the

national official statistical data on international reserves. From 2001 adjustments of reserve assets are shown along with "current accounts and deposits extended" under the "other investment" category.

Certain data presented in this table differs from the previously published data due to revisions made by the CBR.

Source: CBR website, 1 July 2003.

#### *Official International Reserves*

The following table sets forth information with respect to official international reserves as at 1 January for the years 1997 to 2002 and as at 1 January 2003:

	Official International Reserves						
	1 January 1997	1 January <sup>(1)</sup> 1998	1 January <sup>(2)</sup> 1999	1 January 2000	1 January 2001	1 January 2002	1 January <sup>(4)</sup> 2003
	(U.S. \$ millions)						
Total gold and currency reserves .....	15,324	17,784	12,223	12,456	27,972	36,622	47,793
Currency reserves .....	11,276	12,895	7,801	8,457	24,264	32,542	44,054
Foreign currency .....	11,271	12,771	7,800	8,455	24,263	32,538	44,051
SDRs .....	5	122	0	1	1	3	1
Reserve position on IMF .....	1	1	1	1	1	1	2
Gold <sup>(3)</sup> .....	4,047	4,889	4,422	3,998	3,708	4,080	3,739

Notes:

- (1) From 1 August 1998 deposited gold is included in the international reserves figures.
- (2) From 1 September 1999 the amount of reserves excludes foreign currency balances in correspondent accounts of resident banks with the CBR, except for the funds transferred to Vnesheconombank for the purposes of servicing state external debt.
- (3) Valued at U.S.\$300 per fine troy ounce.
- (4) From 1 August 2002, the amount of reserves excludes the amount of short-term obligations of the CBR which are nominated in foreign currency.

Source: CBR website, 1 July 2003

#### *Monetary policy*

The decrease of the budget deficit between 1992 and 1997 with its elimination in 2001, and the increased access of the Government to financing from sources other than the CBR, have reduced the pace of monetary expansion. Prior to the 1998 financial crisis, slower monetary growth and increased exchange rate stability have helped the CBR to reduce inflation from over 2000 per cent. in 1992 to 11 per cent. in December 1997. In 1998, however, inflation rose sharply again. After the crisis, the Government changed its policy towards the Rouble and proclaimed a debt moratorium and a mandatory restructuring of a significant share of domestic rouble debt. Consumer price inflation was reduced to 10.3 per cent. in September 2002 (as compared to 18.6 per cent. for the year 2001, 20.2 per cent. for the year 2000 and 36.5 per cent. for the year 1999).

The CBR introduced a currency intervention band in July 1995. Another two "half-year" currency bands followed at the end of 1995 and in mid-1996. As confidence in the continuity of the exchange rate policy grew, the CBR introduced a full-year band for 1997. In November 1997, exchange rate policy was adjusted further, to allow the authorities more flexibility in accommodating shifts in short-term capital flows. The new (flat) trading band was announced for the three years from 1998 to 2000. This was supposed to help sustain the decline in inflation and domestic interest rates.

However, in 1998 the Government dropped the currency trading band and allowed the Rouble to float freely. By the end of 1999, the Rouble had stabilised at around 25 Roubles to the U.S. dollar. Since then, the CBR has conducted a tight monetary policy through a system of barriers to limit the flow of currency out of Russia and direct currency interventions helping to reduce inflation and keep the Rouble under control.

The Rouble was redenominated, 1,000-fold, effective as of 1 January 1998. The old bills were in circulation until 1999 and will continue to be accepted by the CBR until 2002.

The Rouble is fully convertible for current account transactions. In June 1996, the Russian Government committed itself to compliance with the obligations of Article VIII of the IMF Charter.

### *External Debt*

As at 1 July 2003, the state external debt of Russia amounted to U.S.\$159.1 billion (including indebtedness of the former USSR accepted by Russia). A significant proportion of that debt (U.S.\$39.3 is owed to the Paris Club of sovereign creditors. The Government has been making efforts to restructure this Paris Club debt and reschedule payments.

Source: CBR website, 1 July 2003.

### *Social Conditions*

The Russian standard of living declined with the beginning of economic reforms amid the country's severe economic problems. This decline has primarily affected the elderly and other segments of the population that are dependent on Government benefits. While reported real wages dropped sharply as a result of price liberalisation, Russian consumers have benefited from the wider range and improved quality of products available to them. Today, imported and domestic consumer products are available, although many goods are often beyond the means of most Russians and the market share of imported goods has been decreasing.

### *Legal Environment*

Russian law has undergone radical changes in recent years. Whole bodies of law unknown in the Soviet era have been adopted, covering a wide range of areas including corporate, securities, anti-trust, privatisation, property, banking and bankruptcy law. The adoption of the first, second and third parts of the new Civil Code, the Securities Market Law and the Joint Stock Companies Law are further important steps in establishing a comprehensive legal framework. At the same time, confusion and uncertainty continue to exist with respect to the state of law in Russia, not least because the pace of its development often results in ambiguities and inconsistencies.

Much business-related legislation remains to be put in place. The absence of comprehensive business laws and regulations presents particularly difficult problems for businesses operating in Russia.

Business-related legislation is also susceptible to revision in reaction to political influences and the pressure on the Government to generate revenue or to conserve foreign currency. In addition, a significant amount of Russian legislation has been adopted based on a more or less explicit understanding that it would serve as a general framework, with more detailed issues to be subsequently clarified by amendment or administrative regulation. In many cases, this clarification has yet to occur.

Regulations are interpreted and applied with little consistency and the decisions of one Government official may be overruled or contested by another. Moreover, many of the new Russian laws have never been interpreted by courts or administrative bodies. Both the Soviet experience and recent Russian practice suggest that the enforcement of legal rights in Russia will continue to be subject to greater discretion and political influence than is usual for most Western jurisdictions.

### *Exchange Controls and Repatriation*

Russian currency exchange legislation limits the exchangeability of Roubles for foreign currency and the use of foreign currency in Russia. Russian currency legislation currently permits, and Russian foreign investment legislation currently guarantees, the right of foreign investors to convert Rouble income received on investments in Russia (including dividends, profits and interest) and to transfer it abroad. However, the actual repatriation of proceeds from the sale of certain investments may be postponed for as long as 365 days.

Foreign currency may be freely exchanged for Roubles in Russia, but the exchange of Roubles for foreign currency in Russia is restricted and roubles may not be exported or exchanged outside Russia. Non-residents may freely convert foreign currency into Roubles, but may only do so through rouble accounts which are subject to strict regulations.

The currency exchange rules govern transactions in foreign currencies and currency valuables (including foreign currency-denominated securities) between Russian residents (including citizens, permanent residents and legal entities established under Russian law) and foreign currency and Rouble transactions between residents and non-residents. Russian currency legislation distinguishes between "current" foreign currency transactions and foreign currency transactions involving a "movement of capital".

"Current" foreign currency transactions generally may be freely carried out between residents and between residents and non-residents. "Movement of capital" transactions in foreign currency generally require a licence from the CBR subject to exemptions enacted by the CBR. The prevailing view is that the licence is only required for Russian residents involved in such "movement of capital" transactions. Cash transactions in foreign currency are generally prohibited within Russia.

Following the financial crisis of 1998, additional regulations on foreign currency exchange were enacted. For example, the mandatory exchange of 75 per cent. of export revenues of Russian companies was required to be effected through the domestic foreign currency market. This requirement has been assisting the CBR in increasing its foreign currency reserves. The mandatory exchange requirement has been recently reduced to 25 per cent. of export revenues.

In 2001, certain steps were taken to remove some of the more onerous currency control requirements. In particular, Russian companies can now receive long-term loans from foreign lenders without a CBR licence provided that certain conditions are met.



## Financial Statements of the Borrower

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## **Review report**

### **To the Shareholders and Board of Directors of the Joint Stock Bank Gazprombank:**

We have reviewed the accompanying condensed interim consolidated balance sheet of the Joint Stock Bank Gazprombank and its subsidiaries and associates (the "Group") as at 30 June 2003 and the related condensed interim consolidated profit and loss account, and condensed interim consolidated statements of cash flows and shareholders' funds for the six months then ended. These condensed interim consolidated financial statements are the responsibility of the Group's management. Our responsibility is to issue a report on these condensed interim consolidated financial statements based on our review.

We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the condensed interim consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of Group personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

The condensed interim consolidated financial statements do not present information for the three months ended 30 June 2003 and the related comparative information in condensed interim consolidated profit and loss account as required by International Accounting Standard 34 "Interim Financial Reporting".

Based on our review, except for the omission of the information in condensed interim consolidated profit and loss account as described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements are not presented fairly in all material respects as at 30 June 2003 in accordance with International Financial Reporting Standards.

Deloitte & Touche  
Moscow, Russian Federation  
16 September 2003

## Condensed interim consolidated profit and loss accounts

For the six months ended 30 June 2003 and 2002

	Notes	6 months 2003	6 months 2002
(thousands of U.S. Dollars)			
Interest income .....		149,785	119,544
Interest expense .....		(99,284)	(65,201)
<b>Net interest income</b> .....	4	50,501	54,343
Recovery of/(provision for) losses .....	5	34,265	(14,640)
<b>Net interest income after provision for losses</b> .....		84,766	39,703
Dealing profits, net .....	6	77,955	128,257
Foreign exchange gains, net .....		28,248	25,222
Fees and commissions income .....	7	27,132	21,334
Translation gains, net .....		22,577	17,966
Dividend income .....		636	7,978
Other operating income .....	8	6,481	3,888
<b>Non interest income</b> .....		163,029	204,645
Salaries and employment benefits .....	9	(49,181)	(30,709)
Administrative expenses .....	9	(23,787)	(24,270)
Fees and commissions expense .....	7	(1,946)	(1,394)
Depreciation and amortization .....	16	(3,543)	(4,639)
Other(provisions)/recovery of provisions .....	5	(192)	2,971
<b>Non interest expense</b> .....		(78,649)	(58,041)
<b>Profit from operations</b> .....		169,146	186,307
Income from associate .....	15	8,582	4,271
<b>Profit before tax</b> .....		177,728	190,578
Profit tax expense .....	10	(23,803)	(37,895)
<b>Net profit</b> .....		153,925	152,683

Signed on behalf of the Management Board:

Andrey I. Akimov  
Chairman of the Board

Alexander I. Sobol  
Deputy Chairman of the Board

16 September 2003

The accompanying notes are an integral part of these condensed interim consolidated financial statements.  
Independent accountants' review report is on F – 2.

## Condensed interim consolidated balance sheets

As of 30 June 2003 and 31 December 2002

	Notes	30 June 2003	31 December 2002
(thousands of U.S. Dollars)			
<b>Assets</b>			
Cash and due from the Central Bank of the Russian Federation .....	11	471,329	512,604
Due from credit institutions, net .....	12	1,344,520	1,076,840
Trading securities .....	13	1,451,602	810,074
Loans to customers, net .....	14	2,683,986	2,369,913
Investments in unconsolidated subsidiaries and associates, net .....	15	98,615	87,497
Property, equipment and intangibles, net .....	16	58,770	49,220
Other assets, net .....	17	91,665	31,201
<b>Total assets</b> .....		<b>6,200,487</b>	<b>4,937,349</b>
<b>Liabilities</b>			
Amounts owed to credit institutions .....	18	352,818	355,426
Amounts owed to customers .....	19	3,444,788	2,590,121
Certificated debts .....	20	911,358	730,777
Eurobonds issued .....	20	404,203	339,523
Deferred tax liabilities .....	10	85,063	72,030
Provisions for other risks .....	5	6,469	7,396
Other liabilities .....	21	36,076	8,994
<b>Total liabilities</b> .....		<b>5,240,775</b>	<b>4,104,267</b>
<b>Shareholders' funds</b>			
Share capital .....	22	907,057	907,057
Treasury stock .....	22	(10,112)	(10,112)
Foreign currency translation reserve .....	15	(3,351)	(1,421)
Retained earnings/(Accumulated deficit) .....		66,118	(62,442)
<b>Total shareholders' funds</b> .....		<b>959,712</b>	<b>833,082</b>
<b>Total liabilities and shareholders' funds</b> .....		<b>6,200,487</b>	<b>4,937,349</b>
<b>Financial commitments and contingencies</b> .....	27	<b>961,355</b>	<b>814,224</b>

Signed on behalf of the Management Board:

Andrey I. Akimov  
Chairman of the Board

Alexander I. Sobol  
Deputy Chairman of the Board

16 September 2003

The accompanying notes are an integral part of these condensed interim consolidated financial statements.  
Independent accountants' review report is on F – 2.

# Condensed interim consolidated statements of shareholders' funds

For the six months ended 30 June 2003 and 2002

	Share capital	Foreign currency translation reserve	Treasury stock	(Accumulated deficit)/ Retained earnings	Shareholders' funds
			(U.S.\$'000)		
<b>31 December 2001</b> .....	907,057	(10,282)	(9,321)	(173,482)	713,972
Net profit .....	—	—	—	152,683	152,683
Foreign exchange difference from translation of foreign associate .....	—	5,006	—	—	5,006
Dividends declared .....	—	—	—	(5,051)	(5,051)
<b>30 June 2002</b> .....	907,057	(5,276)	(9,321)	(25,851)	866,610
<b>31 December 2002</b> .....	907,057	(1,421)	(10,112)	(62,442)	833,082
Net profit .....	—	—	—	153,925	153,925
Foreign exchange difference from translation of foreign associate .....	—	(1,930)	—	—	(1,930)
Dividends declared (Note 22) .....	—	—	—	(25,365)	(25,365)
<b>30 June 2003</b> .....	907,057	(3,351)	(10,112)	66,118	959,712

The Foreign currency translation reserve as of 30 June 2003 has been shown net of deferred tax of USD 1,058 thousand (31 December 2002 — USD 449 thousand) (see Note 10).

Signed on behalf of the Management Board:

Andrey I. Akimov  
Chairman of the Board

Alexander I. Sobol  
Deputy Chairman of the Board

16 September 2003

The accompanying notes are an integral part of these condensed interim consolidated financial statements.  
Independent accountants' review report is on page F – 2.

## Condensed interim consolidated cash flow statements

For the six months ended 30 June 2003 and 2002

	Notes	30 June 2003	30 June 2002
		(U.S.\$'000)	
<b>Cash flows from operating activities</b>			
Interest received .....		149,385	119,634
Fees and commissions received .....		27,132	21,334
Interest paid .....		(58,504)	(43,705)
Fees and commissions paid .....		(1,946)	(1,394)
Dealing profits .....		36,125	21,876
Foreign exchange gains .....		28,248	25,222
Other operating income .....		6,481	3,888
Salaries and employment benefits .....		(45,041)	(30,709)
Administrative expenses .....		(23,787)	(24,270)
<i>Cash flows from operating profits before changes in operating assets and liabilities .....</i>		118,093	91,876
<b>(Increase) decrease in operating assets</b>			
Obligatory reserve with the Central Bank of the Russian Federation...		(85,214)	(46,567)
Due from credit institutions .....		251,725	(9,151)
Trading securities .....		(584,962)	(301,734)
Loans to customers .....		(274,987)	(296,186)
Other assets .....		(29,709)	(8,565)
<b>Increase (decrease) in operating liabilities</b>			
Amounts owed to credit institutions .....		(3,664)	(14,261)
Amounts owed to customers .....		856,579	20,611
Other liabilities .....		(3,933)	6,143
<i>Net cash flows from operating activities before profit taxes .....</i>		243,928	(557,834)
Profit taxes paid .....		(20,750)	(15,480)
<i>Net cash flows from operating activities .....</i>		223,178	(573,314)
<b>Cash flows from investing activities</b>			
Investments in associates purchased .....		(6,705)	(35)
Available-for-sale securities purchased .....		(22,175)	—
Available-for-sale securities sold .....		2,237	46
Property, equipment and intangibles purchased .....		(17,332)	(3,472)
Property, equipment and intangibles sold .....		4,698	631
Dividends received — affiliated undertakings .....		636	7,978
<i>Net cash flows from investing activities .....</i>		(38,641)	5,148
<b>Cash flows from financing activities</b>			
Certificated debts .....		172,924	(68,978)
Eurobonds issued .....		8,301	(3,567)
<b>Net cash flows from financing activities .....</b>		181,225	(72,545)
<b>Change in cash and cash equivalents .....</b>		365,762	(640,711)
<b>Cash and cash equivalents, beginning of the period .....</b>	24	1,011,466	1,025,279
<b>Cash and cash equivalents, end of the period .....</b>	24	1,377,228	384,568

Signed on behalf of the Management Board:

Andrey I. Akimov  
Chairman of the Board

Alexander I. Sobol  
Deputy Chairman of the Board

16 September 2003

The accompanying notes are an integral part of these condensed interim consolidated financial statements.  
Independent accountants' review report is on page 2.



**Notes to condensed interim consolidated financial statements**  
**30 June 2003**

**Note 1 — Principal activities and organization**

*(a) Activities and organization*

The Gazprombank Group (the "Group") consists of the parent company, Gazprombank (the "Bank"), and its wholly owned subsidiaries Novfintech, Gazcardservice and GazInvest Finance B.V.

A description of the operations of each of these companies follows:

- Gazprombank was established as a limited liability partnership in 1990. In November 2001 the Bank changed its legal form from a limited liability partnership to a closed joint stock company. The Bank possesses a general banking license and a license for operations with precious metals from the Central Bank of the Russian Federation (the "CBR"), and licenses for securities operations and custody services from the Federal Stock Market Commission.

The Bank primarily services gas industry clients in the Russian Federation, with its main activities including deposit taking, lending, and operations with securities and foreign exchange. As of 30 June 2003, these functions were carried out by Head office located in Moscow and through 31 branches, all located in the Russian Federation. The Bank is the third largest bank in the Russian Federation in terms of total assets calculated under the local accounting rules (source: *Interfax Information Agency*). The Bank's legal address is: Nametkina Str., 16, Bld. 1, Moscow, 117420, Russian Federation.

- Novfintech and Gazcardservice are incorporated and operate in the Russian Federation. Both companies were established as limited liability companies in 1999. The main activity of Novfintech is securities operations. Gazcardservice primarily engaged in debit and credit card transaction processing and securities operations.
- GazInvest Finance B.V. was established as a limited liability company in 2000 and is incorporated in the Netherlands. The entity was founded to issue eurobonds to finance the Group's activity.

The Group had an average of 3,730 employees during the six months ended 30 June 2003 (six months ended 30 June 2002 — an average of 3,189 employees).

These condensed interim consolidated financial statements were authorized for issue by the Management Board of the Group on 16 September 2003.

*(b) Economic dependence*

As of 30 June 2003, OAO "Gazprom" owned directly or through its' subsidiaries 97.83% of the outstanding shares of the Group. The majority of the Group's funding is from, and credit exposures are to the OAO "Gazprom" Group. As such the Group is economically dependent on the OAO "Gazprom" Group. The activities of the Group are closely linked with the requirements of the OAO "Gazprom" Group and determination of pricing of transactions with the OAO "Gazprom" Group is undertaken in conjunction with other OAO "Gazprom" Group companies. See also Note 26.

**Note 2 — Basis of presentation**

*(a) General*

The condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting", except as follows. The Group has not presented profit and loss account for the three months ended 30 June 2003 and the related comparative figures, as required by IAS 34. The condensed interim consolidated financial statements are presented in the thousands of U.S. Dollars.

The condensed interim consolidated financial statements should be read in conjunction with the 2002 annual consolidated financial statements of the Group, which were authorized for issue on 25 April 2003.

Since the results of the Group's operations closely relate to and depend on changing market conditions the results of the Group's operations for the interim period do not necessarily reflect a trend for the total year-end results.

The Bank, Gazcardservice and Novfintech maintain their books of account and prepare statements for regulatory purposes in accordance with Russian accounting and banking legislation and instructions (RAL). GazInvest Finance B.V. maintains its accounting records in accordance with legislation of the Netherlands and is considered to be a foreign operation that is integral to the operations of the Bank. The accompanying consolidated financial

statements are based on the statutory records, which are maintained under the historical cost convention as modified by the revaluation of trading portfolio of state securities. At each reporting date all Group members make appropriate adjustments and reclassifications to their unconsolidated statutory financial statements for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board. The accompanying condensed interim consolidated financial statements have been prepared based on those financial statements.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*(b) Measurement and presentation currency*

The currency of the Russian Federation, which is the country in which the Bank is domiciled, is the Russian Ruble. However, the U.S. Dollar is used to a significant extent and has a significant impact on the operations of the Group. The majority of the Group's assets and liabilities and operations are denominated in U.S. Dollars. The Group's budgeting and management accounting is performed in the US Dollars. As a result, the Group's management has determined that the U.S. Dollar is to be used as the measurement and presentation currency of the financial statements prepared in accordance with the IFRS.

*(c) Reconciliation of equity and profit between Statutory Accounting Legislation and IFRS*

Shareholders' equity and profit as of 30 June 2003 and for the six months then ended are reconciled between Statutory Accounting Legislation and IFRS as follows:

	<b>Equity</b>	<b>Profit</b>
<b>Statutory Accounting Legislation</b> .....	746,021	102,192
Effect of accrued interest, net .....	110,865	(37,818)
Fair value adjustments, net .....	66,821	1,631
Provisions for losses .....	35,514	102,572
Income from associates .....	56,393	8,582
Translation gains, net .....	39,070	9,573
Deferred taxation .....	(86,121)	(13,642)
Current taxation .....	13,248	13,248
Expenses recorded to funds .....	—	(27,033)
Treasury stock .....	(10,112)	—
Foreign currency translation reserve .....	(3,351)	—
Depreciation .....	(2,960)	(1,434)
Other accruals and deferred income .....	(6,986)	(6,986)
Other, net .....	1,310	3,040
<b>International Financial Reporting Standards</b> .....	<u>959,712</u>	<u>153,925</u>

**Note 3 — Principal accounting policies**

*(a) Principles of consolidation and accounting for associates*

The consolidated financial statements of the Group include the Bank and the companies that it controls (subsidiaries). This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The purchase method of accounting is used for acquired businesses. Companies acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or to the date of disposal.

Investments in associated companies (generally investments of between 20% to 50% in a company's equity) where the Group exercises a significant influence are accounted for by using the equity method. When the investee incurs losses the Group recognizes its share of losses until the carrying amount of the investment is reduced to nil. Recognition of further losses is discontinued.

Intercompany balances and transactions, including intercompany profits and losses, are eliminated. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

*(b) Foreign currency translation*

Income and expenses, and non-monetary items included in the balance sheet at period end, denominated in currencies other than the presentation currency, are recorded by applying the exchange rate prevailing on the date of the transaction. Exchange differences resulting from a change in the prevailing exchange rate between the transaction date and the date of settlement are recognized in the profit and loss account as translation gains or losses. Differences between the contractual exchange rate and the prevailing exchange rate on the date of the transaction settlement represent a dealing income or loss and are recognized as foreign exchange gain or loss.

Non U.S. Dollar denominated monetary items included in the period end balance sheet of the Group are translated at the exchange rate prevailing at the period end.

Exchange differences arising from the translation from the Hungarian Forint to the U.S. Dollar of the investment in Altalanos Ertekgalml Bank (the "AEB"), whose operations are not considered integral to the operations of the Group, are included directly in equity in the "Foreign currency translation reserve".

Non U.S. Dollar share capital contributions have been included in the financial statements at the exchange rate prevailing on the date of contribution.

*(c) Income and expense recognition*

Interest income and expense are recognized on an accrual basis. Commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognized at the time the transaction occurs.

Materials and supplies are expensed in full to the profit and loss account on purchase date.

*(d) Recognition and derecognition of financial instruments*

The Group recognizes financial assets held for trading and available-for-sale assets on the date it commits to purchase the assets. Held-to-maturity instruments and originated loans and receivables are recognized on the day they are transferred to or originated by the Group.

A financial asset is derecognized when the Group loses control over contractual rights that comprise that asset. This occurs when the rights are realized, expire or are surrendered. A financial liability is derecognized when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as of the date the Group non-recourse commits to sell the asset. Held-to-maturity instruments and originated loans and receivables are derecognized on the day they are transferred by the Group.

*(e) Due from credit institutions*

In the normal course of business, the Group lends or deposits funds for various periods with other credit institutions. Such amounts are categorized as loans originated by the Group and are carried at amortized cost. As these placements of funds are typically unsecured extensions of credit, some of the assets may be impaired. The principles used to create provision for loan impairment on amounts due from credit institutions are the same as for loans to customers (see below).

*(f) Trading and available-for-sale securities*

The Group classified its securities into the following two categories:

- Securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or included in a portfolio in which a pattern of short-term profit-taking exists are classified as trading securities,
- Securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale.

The classification of investments is determined by management at the time of the purchase.

All securities are initially recognized at cost (including transaction costs), which is the fair value of the consideration given for them. Subsequently trading and available-for-sale securities are measured as follows:

- Trading securities are subsequently measured at fair value based on quoted bid prices. All related realized and unrealized gains and losses are included in dealing profit.

- Available-for-sale investment securities are subsequently measured at fair value based on quoted bid prices or present value of future cash flows. Unrealized gains and losses arising from changes in the fair value of available-for-sale securities are recognized as profit or loss from investment securities in the profit and loss account. It is impossible to determine fair value for certain securities. Such securities are accounted for at cost. An impairment allowance is recorded for these securities, if required.

Interest earned while holding trading and available-for-sale securities is reported as interest income. Dividends receivable are included in dividend income when a dividend is declared.

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognized at trade date, which is the date that the Group commits to purchase or sell the asset. Otherwise such transactions are treated as derivatives until settlement occurs.

#### *(g) Repurchase and reverse repurchase agreements*

The Group, as an element of its treasury management and trading business, utilizes repurchase and reverse repurchase agreements. Repurchase agreements ("repos") are accounted for as financing transactions. As such, the related securities are recorded in the Group's accounts and the related payable is included as an amount due to credit institutions or customers, respectively. Any related expense arising from the pricing spreads for the underlying securities is recognized as interest expense and accrued over the period that the related transactions are open using the effective yield method. Securities lent to counter-parties are also included in the financial statements.

Reverse repurchase agreements ("reverse repos") are accounted for as due from credit institutions or loans to customers, respectively. Securities borrowed are not recognized in the financial statements. Any related income arising from the pricing spreads for the underlying securities is recognized as interest income over the period that the related transactions are open using the effective yield method.

#### *(h) Derivatives*

The Group enters into derivative financial instruments for trading purposes. Derivatives are initially recognized at cost (including transaction costs), which approximates the fair value of the consideration given for them, and subsequently are measured at their fair value. Fair values are obtained from quoted market prices (if available) and discounted cash flow models. Since at present there is a very limited market for derivatives in the Russian Federation, the fair value of the foreign currency derivative position is calculated based on the exchange rate effective as of the reporting date.

Changes in the fair value of derivatives are included in net dealing profit.

#### *(i) Loans to customers*

Loans granted by the Group by providing money directly to the borrower are categorized as loans originated by the Group. They are initially recognized at cost which is the fair value of the consideration given and are subsequently measured at amortized cost. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. All loans and advances are recognized when cash is advanced to borrowers.

A credit risk allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at inception.

The loan loss allowance 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, the credit ratings allocated to borrowers and reflecting the current economic conditions in which the borrowers operate. When a loss is uncollectable, it is written off against the related allowance for impairment. Subsequent recoveries are credited to the provision for loan losses expense in the profit and loss account.

If the amount of the impairment subsequently decreases due to an event occurring after the writedown, the release of the allowance is credited to the provision for loan losses expense.

(j) *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(k) *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 Group using available market information, where it exists, and appropriate valuation methodologies, as described in accounting policies for the financial instruments that are carried at fair value as prescribed by IAS 39. However, judgment is necessarily required to interpret market data to determine the estimated fair value. As described in more detail in Note 27(f), the Russian Federation has signs of an emerging market and has relatively small volume of activity in its financial markets. 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 realized in the current circumstances.

Management considers that it is not possible to reliably estimate the fair value of loans and advances to banks and customers, time deposits and certificated debt, which are carried at amortized cost as prescribed by IAS 39. These instruments are not currently traded in the Russian financial markets, and an objective estimate of their fair value is not available. The instability of the interest rate and exchange rate environment significantly affects the fair value of these financial instruments. Because of these factors, management does not believe that an objective basis for the fair value of loans and advances to customers, time deposits and certificated debt can be obtained with sufficient reliability to provide meaningful information to users.

(l) *Property, equipment and intangibles*

Property, equipment and intangibles are recorded at historical cost, except for those carried at revalued amounts, less accumulated depreciation (amortization). Depreciation (amortization) is provided to write off the cost on a straight-line basis over the estimated useful economic life of the asset. The economic lives are as follows:

	<b>Years</b>
Buildings.....	50-100
Office equipment.....	3-14
Leasehold improvements .....	Over expected life of the lease
Software.....	3- 10

Assets under construction are not depreciated. Depreciation of these assets will begin when the related assets are placed in service.

Repairs and maintenance are charged to the profit and loss account.

(m) *Bullion in vault*

The Group enters into operations with bullion for trading purposes. Bullion in vault is measured at fair value based on official RUR/gram of gold bullion quotations of the Central Bank of the Russian Federation, which are linked to London Metal Exchange fixing rates.

(n) *Operating leases*

The Group enters into operating lease agreements as a lessee. The total payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(o) *Amounts owed to credit institutions and to customers*

Amounts owed to credit institutions and to customers are initially recognized at cost, which amount to the initiation/issue proceeds, less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective yield method. If the Group purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of a liability and the consideration paid is included in net interest income.

(p) *Certificated debts*

Certificated debts represent promissory notes, certificates of deposit and bonds issued by the Group to customers. They are accounted for according to the same principles used for amounts owed to credit institutions and customers.

(q) *Dividends and treasury stock*

Dividends on ordinary shares are recognized in equity in the period in which they are declared. Dividends for the year, which are declared after the balance sheet date, are treated as a subsequent event under IAS 10 "Events after the balance sheet date".

Where the Bank or its subsidiaries purchase the Bank's share capital or obtain rights to purchase its share capital, the consideration paid is shown as a deduction from total shareholders' equity.

(r) *Provisions*

Provisions are recognized when the Group 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 amount of the obligation can be made.

(s) *Taxation*

The taxation charge is calculated in accordance with the regulations of the Russian Federation and other jurisdictions in which the Bank has offices and branches or where its' subsidiaries are located and; is based on the results reported in the profit and loss accounts of the Bank and its subsidiaries prepared under RAL or other statutory legislation after adjustments for tax purposes. Deferred taxes are provided on temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

The Russian Federation also has various operating taxes, which are assessed on the Group's activities. These taxes are included as a component of administrative expenses in the profit and loss account.

(t) *Cash and cash equivalents*

The Group considers cash, current account with the Central Bank of the Russian Federation and due from credit institutions with maturity of three months or less when originated to be cash equivalents.

**Note 4 — Net interest income**

Net interest income for the six months ended 30 June 2003 and 2002 comprises:

	6 months 2003	6 months 2002
	(U.S.\$'000)	
<b>Interest income</b>		
Loans to customers .....	112,498	85,037
Debt securities .....	23,304	13,825
Due from credit institutions .....	13,983	20,682
	<u>149,785</u>	<u>119,544</u>
<b>Interest expense</b>		
Amounts owed to customers .....	35,659	24,490
Certificated debts .....	34,820	20,860
Eurobonds issued .....	19,822	9,804
Amounts owed to credit institutions .....	8,983	10,047
	<u>99,284</u>	<u>65,201</u>
<b>Net interest income</b> .....	<u><u>50,501</u></u>	<u><u>54,343</u></u>

Interest income from debt securities includes coupon interest received and accrued and discount accretion.



## Note 5 — Provisions for losses

Provisions for losses in the profit and loss account represent the charge required in the current year to establish total allowance for losses carried forward in accordance with IFRS.

The movement in the allowances for interest earning assets during the six months ended 30 June 2003 and 2002 was:

	Loans to banks	Loans to customers	Total allowances
		(U.S.\$'000)	
<b>31 December 2001</b> .....	35,046	133,748	168,794
(Recoveries)/provisions charged to profit .....	(3,957)	18,597	14,640
<b>30 June 2002</b> .....	31,089	152,345	183,434
<b>31 December 2002</b> .....	20,238	178,206	198,444
Recoveries charged to profit .....	(11,191)	(23,074)	(34,265)
<b>30 June 2003</b> .....	9,047	155,132	164,179

The movement in the allowances and provisions for other risks during the six months ended 30 June 2003 and 2002 was:

	Investments in unconsolidated subsidiaries and associates	Available- for-sale securities	Other assets	Other risks	Total allowances
			(U.S.\$'000)		
<b>31 December 2001</b> .....	27,744	78	888	9,254	37,964
Provisions/(recoveries) charged to profit.....	39	—	(518)	(2,492)	(2,971)
<b>30 June 2002</b> .....	27,783	78	370	6,762	34,993
<b>31 December 2002</b> .....	22,143	1,220	1,073	7,396	31,832
Provisions/(recoveries) charged to profit.....	1,631	(1,122)	610	(927)	192
<b>30 June 2003</b> .....	23,774	98	1,683	6,469	32,024

Allowances for losses are deducted from the related asset. In accordance with the statutory legislation, loans may only be written off with the approval of the Council of the Bank and, in certain cases, with the respective decision of the Court. Provisions for other risks are recorded in liabilities (see Note 27).

## Note 6 — Dealing profits

Net dealing profits for the six months ended 30 June 2003 and 2002 comprise:

	6 months 2003	
	Fair value adjustment	Sale and redemption
		(U.S.\$'000)
Trading securities .....	44,566	32,496
Derivative financial instruments .....	(1,758)	3,697
Bullion .....	(978)	(68)
<b>Dealing profit, net</b> .....	41,830	36,125
		Total
		77,955

	6 months 2002		
	Fair value adjustment	Sale and redemption	Total
		(U.S.\$'000)	
Trading securities .....	98,157	21,630	119,787
Derivative financial instruments .....	(48)	(161)	(209)
Bullion .....	8,272	407	8,679
<b>Dealing profit, net</b> .....	<b>106,381</b>	<b>21,876</b>	<b>128,257</b>

#### Note 7 — Fees and commissions income and expense

Fees and commissions income for the six months ended 30 June 2003 and 2002 comprise:

	6 months 2003	6 months 2002
	(U.S.\$'000)	
Settlements operations .....	17,192	10,882
Cash operations .....	5,124	4,931
Custody operations.....	2,751	2,859
Guarantees issued .....	759	353
Securities operations.....	285	593
Other .....	1,021	1,716
<b>Fees and commissions income</b> .....	<b>27,132</b>	<b>21,334</b>

Fees and commissions expense for the six months ended 30 June 2003 and 2002 comprise:

	6 months 2003	6 months 2002
	(U.S.\$'000)	
Settlements operations .....	911	964
Guarantees received .....	225	30
Cash operations .....	213	146
Other .....	597	254
<b>Fees and commissions expense</b> .....	<b>1,946</b>	<b>1,394</b>

#### Note 8 — Other operating income

USD3,257 thousand of Other operating income relates to fines and penalties received by the Bank for overdue loans in the second quarter of 2003.

**Note 9 — Salaries and administrative expenses**

Salaries and administrative expenses for the six months ended 30 June 2003 and 2002 comprise:

	6 months 2003	6 months 2002
	(U.S.\$'000)	
Salaries.....	42,205	25,075
Social security costs .....	6,929	5,574
Other .....	47	60
<b>Salaries and employment benefits .....</b>	<b>49,181</b>	<b>30,709</b>
Occupancy .....	8,141	5,355
Rental .....	3,353	5,121
Charity expense .....	3,238	53
Communications .....	1,959	1,757
Business development .....	1,685	2,085
Operating taxes .....	1,652	5,539
Professional services .....	1,587	714
Other .....	2,172	3,646
<b>Administrative expenses .....</b>	<b>23,787</b>	<b>24,270</b>

USD10,466 thousand of salaries relate to bonus payments to members of the Council of the Bank and Management Board based on 2002 financial results of the Group, approved by general meeting of shareholders in June 2003.

The Group does not have pension arrangements separate from the State pension system of the Russian Federation. The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense, included in social security costs, is charged to the profit and loss account in the period the related compensation is earned by an employee.

**Note 10 — Profit tax**

The provision for profit taxes for the six months ended 30 June 2003 and 2002 comprises:

	6 months 2003	6 months 2002
	(U.S.\$'000)	
Current tax charge.....	10,161	15,970
Deferred taxation .....	13,642	21,925
<b>Profit tax expense .....</b>	<b>23,803</b>	<b>37,895</b>

Russian legal entities must individually report taxable income and remit profit taxes thereon to the appropriate authorities. Beginning 1 January 2002 profit tax for Russian banks is calculated based on accrued incomes and expenses. Prior to 2002, profit tax was assessed based on cash incomes and expenses. The majority of the Group's profit tax is paid by the Bank.

As of 30 June 2003, the Group's net deferred profit tax liability was USD 85,063 thousand (31 December 2002 — USD 72,030 thousand). Deferred tax liabilities are the amounts of profit taxes payable in future periods in respect of taxable temporary differences. The following represents an analysis of the deferred tax balance sheet position as of 30 June 2003 and 31 December 2002, respectively.

	30 June 2003	31 December 2002
	(U.S.\$'000)	
<b>Tax effect of deductible temporary differences</b>		
Provision for losses .....	8,122	15,029
Effect of translation of the Group's share of AEB net assets into USD .....	1,058	449
Other .....	3,524	1,639
<b>Deferred tax asset</b> .....	<u>12,704</u>	<u>17,117</u>
<b>Tax effect of taxable temporary differences</b>		
Interest capitalized .....	43,612	45,546
Provision for losses .....	16,646	7,150
Fair value adjustments .....	16,037	15,836
Income from associate .....	13,534	11,475
Foreign currency translation effect .....	7,419	8,081
Other .....	519	1,059
<b>Deferred tax liability</b> .....	<u>97,767</u>	<u>89,147</u>
<b>Net deferred tax liability</b> .....	<u>85,063</u>	<u>72,030</u>

Deferred tax asset arising from translation of the Group's share of net assets of AEB from the Hungarian Forint to the US Dollar in the amount of USD 1,058 thousand (31 December 2002 — USD 449 thousand) is recorded directly to equity as part of Foreign exchange translation reserve.

A reconciliation of changes in the balance sheet deferred tax position during six months ended 30 June 2003 follows:

	(U.S.\$'000)
<b>Deferred tax liability as of 31 December 2002</b> .....	72,030
Deferred tax charged to the profit and loss account .....	13,642
Change in deferred tax recorded directly to equity .....	(609)
<b>Deferred tax liability as of 30 June 2003</b> .....	<u>85,063</u>

As of 30 June 2003 tax assets consist of current profit tax asset of USD 21,623 thousand (31 December 2002 — USD 11,034 thousand). Current tax asset arises from over-payment of profit tax by the Bank due to the statutory advance tax payments system and is usually realized either by offsetting with the Bank's profit tax liabilities in subsequent periods, or by repayment from tax authorities. USD 13,464 thousand of current profit tax assets relate to advance payments of the current year, USD 8,159 thousand relate to advances made in the prior year. The recorded current tax asset is expected to be realized by the Bank in the foreseeable future.

The Russian Federation currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, profit tax, and social tax. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations (like the Ministry of Taxes and Levies and its various inspectorates); thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in the Russian Federation substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Group is in substantial compliance with the tax laws affecting its operations.

**Note 11 — Cash and due from Central Bank of the Russian Federation**

Cash and due from the Central Bank of the Russian Federation comprise:

	30 June 2003	31 December 2002
	(U.S.\$'000)	
Cash on hand .....	65,781	61,064
Current accounts .....	101,468	232,674
Obligatory reserve .....	304,080	218,866
<b>Cash and due from the Central Bank of the Russian Federation .....</b>	<b>471,329</b>	<b>512,604</b>

The Central Bank of the Russian Federation requires credit institutions to maintain non-interest earning cash deposit (obligatory reserve) with the Central Bank of the Russian Federation, the amount of which depends on the level of funds attracted by a credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

**Note 12 — Due from Credit Institutions**

Due from credit institutions comprise:

	30 June 2003	31 December 2002
	(U.S.\$'000)	
Current accounts .....	501,750	622,690
Time deposits .....	851,817	474,388
	1,353,567	1,097,078
Less — Allowances for loan losses .....	(9,047)	(20,238)
<b>Due from credit institutions, net .....</b>	<b>1,344,520</b>	<b>1,076,840</b>

As of 30 June 2003, 47% (USD 640,720 thousand) of the gross amount of due from credit institutions relates to placements with Deutsche Bank AG (Germany). As of 31 December 2002, 34% (USD 367,338 thousand) of the gross amount of due from credit institutions relates to placements with Deutsche Bank AG (Germany) and Commerzbank Bank AG (Germany).

Amounts due from AEB (Hungary) constituted 9% (USD 123,020 thousand) of the gross amount due from credit institutions (31 December 2002 — 21% or USD 225,240 thousand). Included in this amount is a USD 60,000 thousand non-convertible subordinated loan to AEB, which bears one-year LIBOR interest. The above loan has been established by the Group to AEB in December 1997 with maturity in December 2007.

Additionally, the Group has pledged USD 81,039 thousand of placements with Deutsche Bank AG and AEB as collateral for syndicated loans received by OAO "Gazprom" (31 December 2002 — USD 78,198 thousand). Same amounts are blocked as collateral on escrow accounts of OAO "Gazprom" (see Note 19).

As of 30 June 2003 the Bank had USD 154,952 thousand placed on time deposits with foreign banks that represent amounts transferred under letters of credit opened with the Bank (31 December 2002 — USD 239,203 thousand). These placements are covered by USD 212,977 thousand of customer funds blocked on their time deposit accounts (31 December 2002 — USD 270,330 thousand) (see Note 19).

### Note 13 — Trade Securities

Trading securities comprise:

	30 June 2003		31 December 2002	
	Nominal value	Carrying value	Nominal value	Carrying value
	(U.S.\$'000)			
Corporate shares .....	250,820	1,011,794	61,277	288,243
Promissory notes.....	246,390	232,896	288,271	268,993
Corporate bonds.....	85,801	91,619	73,320	72,641
Russian eurobonds.....	64,617	86,332	145,077	145,911
State bonds (OFZ).....	10,566	11,865	2,586	2,542
Vnesheconombank bonds.....	9,581	8,761	36,192	29,089
Moscow government eurobonds .....	7,078	7,951	1,,042	1,102
Moscow government bonds.....	337	384	1,521	1,553
	675,190	1,451,602	609,286	810,074

USD 687,278 thousand of corporate shares represent OAO "Gazprom" ordinary shares (31 December 2002 — USD 288,185 thousand). The rest of the portfolio is represented by other Russian "blue-chip" companies corporate shares.

USD 186,190 thousand of promissory notes represent short-term notes issued by members of OAO "Gazprom" Group (31 December 2002 — USD 260,956 thousand). The rest of the portfolio is represented by marketable promissory notes of Russian "blue-chip" companies.

Corporate bonds consist of USD 12,785 thousand of OAO "Gazprom" Ruble and foreign currency denominated bonds (31 December 2002 — USD 35,426 thousand). The remaining balance comprises corporate bonds of Russian "blue-chip" telecommunication, energy and metallurgical enterprises.

Russian eurobonds are securities issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. The Group's portfolio of Russian eurobonds consists of 7 tranches with maturity dates ranging from 2004 to 2030. The annual coupon rates on these bonds range from 5% to 12.75% and interest is paid semi-annually.

OFZ bonds are Ruble denominated government securities issued and guaranteed by the Ministry of Finance of the Russian Federation. OFZ bonds are issued at a discount to face value and have a medium to long-term maturity periods with a coupon rate of approximately 13-14% depending on the type of bond issue.

Vnesheconombank (VEB) bonds are U.S. Dollar denominated bearer securities, which carry the guarantee of the Ministry of Finance of the Russian Federation. The bonds are purchased at a discount to nominal value and carry an annual coupon of 3%. The portfolio consists of 5 tranches with maturity dates ranging from 2006 to 2011.

As of 30 June 2003, the Group has pledged USD 15,596 thousand of Russian eurobonds and USD 51,006 thousand of corporate bonds under repurchase agreements with foreign counterparties. Subsequently these repurchase agreements were settled in the normal course of business. As of 31 December 2002 the Group did not pledge any securities in lieu to its' financing activities.

Trading securities are measured at fair value based on quoted bid prices. It should be noted that because of the relative illiquidity in the Russian securities markets, the reliability of market quotations used in valuing the Group's securities may not be reflective of their fair value in an exchange between a willing buyer and a willing seller due to the Group's volume of holdings.

After 30 June 2003 a notable decline in bonds prices was evidenced on Russian financial markets. Management regards the decline as temporary short-term fluctuations.



**Note 14 — Loans to customers**

Loans to customers are made within the Russian Federation and abroad comprise:

	30 June 2003	31 December 2002
	(U.S.\$'000)	
Gas extraction, transportation and sale enterprises .....	1,588,720	1,337,629
Manufacturing .....	483,950	405,147
Trading enterprises .....	176,262	261,640
Real estate construction .....	162,438	108,717
Oil extraction, transportation and sale enterprises .....	118,589	226,662
Individuals .....	86,818	71,975
Precious metals mining .....	59,527	48,630
Other .....	162,814	87,719
	2,839,118	2,548,119
Less — Allowances for loan losses .....	(155,132)	(178,206)
<b>Loans to customers, net</b> .....	<b>2,683,986</b>	<b>2,369,913</b>

The Group has a significant concentration of loans extended to OAO "Gazprom" Group. As of 30 June 2003, loans to OAO "Gazprom" Group accounted for 65% (USD 1,834,236 thousand) of the total loan portfolio (31 December 2002 — 69% or USD 1,762,812 thousand).

As of 30 June 2003 one loan to Europol Gaz SA, a OAO "Gazprom" Group company, represented 30% (USD 838,478 thousand) of the gross loans to customers balance (31 December 2002 — 34% or USD 860,430 thousand). Europol Gaz SA is a joint-stock company incorporated in Poland and established for the purpose of constructing gas pipelines from Belarus through Poland to Western Europe. Construction began in 1997 and the first pipeline was completed at the end of 1999, allowing gas deliveries to commence in Poland. Construction of the remaining pipeline is scheduled to be completed in 2005. Europol Gaz SA will retain ownership of the pipelines and repay the loan from transport fees it charges for gas shipment via the pipelines. First principal repayments on the Group's loan exposure to Europol Gaz SA began in February 2002.

The Group's loan portfolio has been extended to the following types of enterprises:

	30 June 2003	31 December 2002
	(U.S.\$'000)	
State controlled companies.....	1,934,874	1,910,842
Private companies.....	817,426	565,302
Individuals .....	86,818	71,975
<b>Loans to customers</b> .....	<b>2,839,118</b>	<b>2,548,119</b>

As of 30 June 2003 the amount of overdue loans was USD 42,739 thousand (31 December 2002 — USD 26,797 thousand).

**Note 15 — Investments in unconsolidated subsidiaries and associates**

Investments in unconsolidated subsidiaries and associates consist of the following investments:

	30 June 2003	31 December 2002
	(U.S.\$'000)	
Unconsolidated subsidiaries.....	9,067	9,066
Associates:		
— Associate accounted for under the equity method .....	71,771	65,728
— Associates accounted at cost.....	41,551	34,846
	122,389	109,640
Less — Allowances for impairment .....	(23,774)	(22,143)
<b>Investments in unconsolidated subsidiaries and associates, net .....</b>	<b>98,615</b>	<b>87,497</b>

As of 30 June 2003, the Group has investments in the following unconsolidated subsidiaries:

Name	Principal activity	Country	Group's holding, %	Cost of investment
				(U.S.\$'000)
Sibirgazbank	Banking	Russia	60%	5,852
Raschetno-Depositarnaya Kompanya	Clearing & custody	Russia	56%	1,249
Sochigazprombank	Banking	Russia	85%	822
Volgobait	Information technology	Russia	94%	613
Regionalnaya Investitsionnaya Kompanya	Securities trading	Russia	98%	162
Commerz Investments	Securities trading	Russia	100%	151
Exsor-2000	Catering	Russia	100%	106
Gaztechleasing	Leasing	Russia	100%	92
Tulagiprokhim	Chemical	Russia	50%	9
Kompanya Risk-Management Consulting	Consulting	Russia	100%	6
Energoinvest-Finance	Real estate	Russia	100%	4
FinCom	Securities trading	Russia	90%	1
				9,067

As of 30 June 2003, the Group has investments in the following associates:

Name	Principal activity	Country	Group's holding, %	Cost of investment
				(U.S.\$'000)
Altalanos Ertekforgalmi Bank	Banking	Hungary	26%	71,771
Sovfintrade	Banking	Russia	26%	18,701
Gazenergoprombank	Banking	Russia	33%	10,984
Belgazprombank	Banking	Belarus	34%	6,447
Severgazbank	Banking	Russia	21%	3,584
Evropeyskiy	Banking	Russia	34%	1,525
Eta & Co.	Information technology	Russia	25%	150
Spetsialisirovanny Registrator Draga	Custody	Russia	20%	81
Energogazleasing	Leasing	Russia	50%	44
Sofrasi	Representative office	France	30%	21
Ecomet-S	Chemical	Russia	27%	9
Sibirskaya Investitsionnaya Kompanya	Securities trading	Russia	50%	5
				113,322

Investments in Altalanos Ertekforgalmi Bank ("AEB"), a Hungarian privately owned commercial bank in which the Group owns 25.52% of the common stock, was accounted for under the equity method. The Group's share of net assets of AEB as of 30 June 2003 was USD 71,771 thousand (31 December 2002 USD 65,728 thousand). The Group's share of income of AEB for six months ended 30 June 2003 and 2002 net of tax and intercompany profits

and losses was USD 8,582 thousand and USD 4,271 thousand, respectively. This amount was disclosed in the consolidated profit and loss account of the Group as income from associate. The foreign currency translation reserve in amount of USD 3,351 thousand (31 December 2002 — USD 1,421 thousand) arising from the translation of Hungarian Forints into U.S. Dollars has been shown net of deferred tax of USD 1,058 thousand (31 December 2002 — USD 449 thousand).

The investments in unconsolidated subsidiaries and in associates other than AEB are accounted for using the cost method. The investments have not been consolidated with the results of the Group nor accounted for under the equity method, as the effect would not materially alter the financial position of the Group as of 30 June 2003 or the results of its operations or cash flows of the Group for the period then ended.

The equity instruments disclosed above (other than AEB) are carried at cost, because they do not have a quoted market price in an active market and other methods of reasonably estimating fair value are unworkable due to the absence of comparable quoted companies and the lack of reliable information for discounted cash flow analysis. It is also currently impossible to calculate the range of estimates within which fair value of the equity investments is highly likely to lie.

#### **Note 16 — Property, equipment and intangibles**

The movements of property, equipment and intangibles during the six months ended 30 June 2003 and 2002 were as follows:

	<b>Land and buildings</b>	<b>Office equipment and leasehold improvements</b>	<b>Software</b>	<b>Assets under construction</b>	<b>Total</b>
			(U.S.\$'000)		
<b>Cost of acquisition</b>					
<b>31 December 2001</b> .....	18,165	34,664	4,861	963	58,653
Additions .....	19	2,640	213	600	3,472
Equipment booked under leasing agreements .....	—	3,658	—	—	3,658
Disposals .....	(77)	(212)	(27)	(467)	(783)
<b>30 June 2002</b> .....	18,107	40,750	5,047	1,096	65,000
<b>31 December 2002</b> .....	20,404	50,000	5,244	4,646	80,294
Additions .....	637	2,337	3,607	10,751	17,332
Disposals .....	—	(1,716)	—	(2,982)	(4,698)
<b>30 June 2003</b> .....	21,041	50,621	8,851	12,415	92,928
<b>Accumulated depreciation and amortization</b>					
<b>31 December 2001</b> .....	751	11,583	2,518	—	14,852
Equipment booked under leasing agreements .....	—	3,658	—	—	3,658
Charge for the period .....	184	3,931	524	—	4,639
Disposals .....	(4)	(175)	(21)	—	(200)
<b>30 June 2002</b> .....	931	18,997	3,021	—	22,949
<b>31 December 2002</b> .....	1,054	26,973	3,047	—	31,074
Charge for the period .....	167	2,905	471	—	3,543
Disposals .....	—	(459)	—	—	(459)
<b>30 June 2003</b> .....	1,221	29,419	3,518	—	34,158
<b>Net book value</b>					
30 June 2002 .....	17,176	21,753	2,026	1,096	42,051
<b>30 June 2003</b> .....	19,820	21,202	5,333	12,415	58,770

During the 6 month ended 30 June 2002 USD 3,658 thousand of additions to office equipment and leasehold improvements and accumulated depreciation, respectively, relate to fully depreciated office equipment which was received by the Bank after the expiration of leasing agreements and is still in active use.

#### Note 17 — Other assets

Other assets comprise:

	Note	30 June 2003	31 December 2002
		(U.S.\$'000)	
Available-for-sale securities .....		25,116	5,178
Tax assets .....	10	21,623	11,034
Bullion in vault .....		16,141	784
Settlements on acquisition of shares .....		13,181	—
Accrued income and deferred expenses .....		8,162	3,963
Advances to employees .....		2,180	—
Trade debtors and prepayments .....		2,064	2,147
Receivable arising from bullion operations .....		1,567	2,083
Derivative financial assets .....	23	514	2,371
Prepaid operating taxes .....		363	—
Other .....		2,535	5,934
		93,446	33,494
Less — Allowance for impairment .....		(1,781)	(2,293)
<b>Other assets, net .....</b>		<b>91,665</b>	<b>31,201</b>

As of 30 June 2003, USD 20,099 thousand of available-for-sale securities represent shares of SOCO International Plc., a London-based international oil and gas exploration and production company in which the Group has acquired a participating interest of 5%.

As of 30 June 2003, USD 13,181 thousand of other assets represents settlements on acquisition of shares of Insurance Company of Gas Industry ("Sogaz"). In the end of 2002 the Group's Management Board made a decision to increase the Group's shareholding in this company from 16% to 45%. The transaction is yet to be approved by federal authorities.

#### Note 18 — Amounts owed to credit institutions

Amounts owed to credit institutions comprise:

	30 June 2003	31 December 2002
	(U.S.\$'000)	
Current accounts .....	146,170	148,271
Time deposits .....	206,648	207,155
<b>Amounts owed to credit institutions .....</b>	<b>352,818</b>	<b>355,426</b>

#### Note 19 — Amounts owed to Customers

Amounts owed to customers comprise:

	30 June 2003	31 December 2002
	(U.S.\$'000)	
Current accounts .....	2,027,293	1,421,287
Time deposits .....	1,417,495	1,168,834
<b>Amounts owed to customers .....</b>	<b>3,444,788</b>	<b>2,590,121</b>

Current accounts and time deposits of OAO "Gazprom" Group composed 59% (USD 2,028,542 thousand) of the Group's total amounts owed to customers (31 December 2002 — 49% or USD 1,259,708 thousand).

The following represents amounts, which were blocked by the Group as collateral against the Bank's placements with Deutsche Bank AG and AEB related to syndicated loans received by OAO "Gazprom" ("escrow accounts"); and as coverage under letters of credit opened with the Bank as of 30 June 2003 and 31 December 2002 (see Note 12).

	30 June 2003	31 December 2002
	(U.S.\$'000)	
Escrow accounts .....	81,039	78,390
Coverage under letters of credit .....	212,977	270,330
<b>Blocked customer accounts</b> .....	<b>294,016</b>	<b>348,720</b>

As of 30 June 2003 the Group had USD,341,688 thousand of subordinated deposits, which mature between 2005 and 2016 (31 December 2002 — USD 308,052 thousand).

#### Note 20 — Certificated Debts and Eurobonds Issued

Certificated debt and Eurobonds issued comprise:

	30 June 2003	31 December 2002
	(U.S.\$'000)	
Promissory notes issued .....	822,155	698,241
Certificates of deposit issued .....	89,203	32,536
<b>Eurobonds issued</b> .....	<b>404,203</b>	<b>339,523</b>
	<b>1,315,561</b>	<b>1,070,300</b>

Eurobonds issued represent internationally traded Euro Medium Term Notes issued by the Group on 21 December 2001 and 4 October 2002 with the face value of Euro 200,000 thousand and Euro 150,000 thousand, respectively. The issues mature in December 2003 and October 2005, respectively.

#### Note 21 — Other Liabilities

Other liabilities comprise:

	Note	30 June 2003	31 December 2002
		(U.S.\$'000)	
Dividends payable .....	22	25,365	—
Accrued expenses .....		6,986	1,237
Payable arising from foreign exchange operations .....		505	—
Operating taxes payable .....		362	2,916
Derivative financial liabilities .....	23	200	299
Payable to suppliers .....		106	1,141
Advances received .....		—	1,259
Other .....		2,552	2,142
<b>Other liabilities</b> .....		<b>36,076</b>	<b>8,994</b>

#### Note 22 — Share Capital

The share capital of the Bank has been contributed by shareholders mainly in foreign currency. Shareholders are entitled to dividends and capital distributions in Rubles. The historical value adjustment of the capital contributions as of 30 June 2003 and 31 December 2002 was as follows:

	30 June 2003	31 December 2002
	(U.S.\$'000)	
Share capital in Rubles at period end rate .....	439,295	419,446
Translation adjustment to reflect historical value of capital contributed .....	467,762	487,611
	<b>907,057</b>	<b>907,057</b>

The authorized, issued and outstanding share capital comprises of 13,331,851 ordinary shares at 30 June 2003. All shares have par value of 1,000 Rubles. The holders of ordinary shares are entitled to receive dividends as annually declared and are entitled to one vote per share at annual and other general meetings of the Bank's shareholders.

As at 30 June 2003 the Group held 289,590 of its own shares.

On 14 July 2003 the Bank's annual general meeting of shareholders approved a Ruble dividend payout of USD 25,365 thousand for the year ended 31 December 2002.

### Note 23 — Derivative financial instruments

The Group enters into deals with derivative financial instruments for trading purposes.

As of 30 June 2003 the Group's derivative financial assets amounted to USD 514 thousand (31 December 2002 — USD 2,371 thousand). Derivative financial liabilities amounted to USD 200 thousand (31 December 2002 — USD 299 thousand).

The Group's position and fair value of derivatives outstanding as of 30 June 2003 are as follows:

	Notional principal equivalent	Fair value  (U.S.\$'000)	Receivables/ (payables) under derivative contracts
<b>Securities forward contracts</b>			
Liabilities foreign .....	(4,844)	(4,850)	(6)
	(4,844)	(4,850)	(6)
Assets domestic .....	7,440	7,760	320
Liabilities domestic .....	(44,597)	(44,791)	(194)
	(37,157)	(37,031)	126
<b>Foreign exchange contracts</b>			
Foreign options bought.....	(33,400)	(33,206)	194
	(33,400)	(33,206)	194

The fair value of the Group's position on securities derivatives was calculated based on closing bid rates for corporate shares and debt securities quoted on MICEX and RTS as of the period-end.

The fair value of these transactions is believed to reflect the credit and other types of economic risk for the Group.

The resulting effect of fair value adjustment of derivatives on the Group's profits for the 6 months ended 30 June 2003 was USD 1,758 thousand (30 June 2002 — USD 48 thousand).

The maturities of all derivative financial instruments are less than one month. Subsequently the deals were settled in the normal course of business.



**Note 24 — Cash and cash equivalents**

Cash and cash equivalents as at 30 June 2003 and 2002 as shown in the Consolidated cash flow statement comprised:

	30 June 2003	31 December 2002	30 June 2003
		(U.S.\$'000)	
Cash on hand .....	65,781	61,064	44,402
Current account with the Central Bank .....			75,682
of the Russian Federation .....	101,468	232,674	
Due from credit institutions:			
— Current accounts .....	501,711	618,997	226,837
— Time deposits with a maturity of three months or less when originated .....	708,268	98,731	37,647
<b>Cash and cash equivalents .....</b>	<b>1,377,228</b>	<b>1,011,466</b>	<b>384,568</b>

**Note 25 — Risk management policies**

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The Group considers risk management and risk controls to be vitally important aspects of its business operations and management activities, establishing and integrating these functions into corporate organization in the form of continuous process. The Group has set internal standards of risk transparency as the basis for controlling, limiting and managing risks. The Group has established Risk Management Department, which directly reports to Management Board and is responsible for developing methods used to measure risks and for independently measuring and monitoring risks on an ongoing basis.

In addition to that, the Group has an Internal Control Department, one of the activities of which is aimed specifically at preventing losses for the Group and its customers. Management believes that all the regulatory requirements of the Central Bank of the Russian Federation regarding an internal audit function are fully satisfied.

The main risks inherent to the Group's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Group's risk management policies in relation to those risks follows.

**Credit risk**

The Group is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group 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. Such risks are monitored on a revolving basis and subject to a quarterly or more frequent review. Limits on the level of credit risk by borrowers are approved on a monthly basis by the Credit Committee.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures are set by the Credit Committee which is called once a week. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal 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 credit risk exposure on derivatives is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments.

Credit-related commitments ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are frequently fully or partially covered by the funds deposited by customers and therefore bear no credit risk.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

The Group's credit policy is approved and periodically reviewed by the Management Board.

### **Liquidity risk**

The Group is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs, guarantees and from margin and other derivatives settled by cash. The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

The Asset and Liability Management Committee sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

### **Interest rate risk**

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

Interest rate risk is managed by increasing or decreasing positions within limits, specified by the Group's management. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest-sensitive assets and liabilities.

The Group's interest rate policy is reviewed and approved by the Asset and Liability Management Committee.

### **Foreign exchange rate risk**

The Group has assets and liabilities denominated in several foreign currencies. The Group's financial position and cash flows are exposed to the effects of fluctuations in the prevailing foreign currency exchange rates.

The Group's Asset and Liability Management Committee sets limits on the level of exposure by currency. These limits also comply with the minimum requirements of the Central Bank of the Russian Federation.

### **Note 26 — Related parties**

Related parties, as defined by IAS 24, are those counter parties that represent:

- (a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);
- (b) associates — enterprises in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group, and anyone expected to influence, or be influenced by, that person in their dealings with the Group;
- (d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group and close members of the families of such individuals; and
- (e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding with related parties:

	30 June 2003		31 December 2002	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
	(U.S.\$'000)			
Due from credit institutions, gross .....	259,829	1,353,567	419,863	1,097,078
Trading securities .....	886,253	1,451,602	584,567	810,074
Loans to customers, gross .....	1,834,236	2,839,118	1,765,714	2,548,119
Investments in unconsolidated subsidiaries and associates, gross .....	122,389	122,389	109,640	109,640
Amounts owed to credit institutions .....	41,853	352,818	81,095	355,426
Amounts owed to customers .....	2,028,542	3,444,788	1,501,795	2,590,121
Undrawn loan commitments .....	180,681	593,984	217,284	436,263
Letters of credit .....	203,305	252,273	131,083	274,233
Guarantees given .....	51,246	104,787	41,265	88,333

	6 months 2003		6 months 2002	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
	(U.S.\$'000)			
Interest income .....	53,490	149,785	40,032	119,544
Fees and commissions income .....	16,619	27,132	7,716	21,334
Interest expense .....	10,882	99,284	11,115	65,201

## Note 27 — Financial commitments and contingencies

### (a) Credit related financial commitments

The credit related financial commitments as of 30 June 2003 and 31 December 2002 comprise:

	30 June 2003	31 December 2002
	(U.S.\$'000)	
Undrawn loan commitments .....	593,984	436,263
Letters of credit .....	252,273	274,233
Guarantees given .....	104,787	88,333
	<u>951,044</u>	<u>798,829</u>

The Group's management evaluated the likelihood of probable losses arising from credit related commitments and concluded that a provision of USD 6,469 thousand was necessary as of 30 June 2003 (31 December 2002 — USD 7,396 thousand).

(b) *Operating lease obligations*

In the normal course of business, the Group enters into operating lease agreements for office equipment and branch facilities. Future minimum payments under non-cancelable operating leases are as follows:

	30 June 2003	31 December 2002
	(U.S.\$'000)	
Not later than 1 year .....	1,428	916
Later than 1 year and not later than 5 years.....	5,469	10,890
Later than 5 years .....	3,414	3,589
	<u>10,311</u>	<u>15,395</u>

(c) *Capital commitments*

In the normal course of business, the Group enters into contracts for construction and repair works of the Banks' buildings, with suppliers of consulting and systems services and other. At of 30 June 2003, there were no material future contracted liabilities with respect to these contracts.

(d) *Legal*

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

(e) *Insurance*

The Group has not currently obtained insurance coverage related to property owned or liabilities arising from errors or omissions except for insurance coverage for the Group's vehicles. Liability insurance is generally not available in the Russian Federation at present.

(f) *Operating environment*

Over the past two years the Russian Federation has begun the transformation to a developed economy, with all the relevant implications for politics, corporate behavior and financial markets. A GDP growth of 4.3% in 2002 was accompanied by continuous strengthening of Russia's finances, evidenced by high fiscal surplus, surging corporate profits, reduction and simplification of personal and corporate tax, boosting of currency reserves and appreciation of the Ruble in real terms, stability of the FOREX market and further monetarization of the economy. The major benefits of these developments are easing in external debt payments and suppression of inflation, growth of domestic fixed-capital investment and start of restructuring in the industrial sector, revival of Russia's banking sector and a boost of the corporate bond market.

Nevertheless, operations in the Russian Federation still involve risks that are not typically associated with those in developed economies. Such risks persist in the current environment with results that include, but are not limited to, a currency that is not freely convertible outside of the country, various currency controls, low liquidity levels for debt and equity markets, dependence of the economy on raw materials export and lack of progress in structural reforms (land, pension system, natural monopolies).

**Note 28 — Capital adequacy**

The Central Bank of the Russian Federation requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on RAL. As of 30 June 2003 and 31 December 2002 the Bank's capital adequacy ratio calculated on this basis exceeded the statutory minimum.

The Group's international risk based capital adequacy ratio as of 30 June 2003 and 31 December 2002 was 26.87% and 28.4%, respectively, which exceeds the minimum ratio of 8% recommended by the Basel Accord.

## **Independent Auditors' Report — 2002**

To the Shareholders and Board of Directors of the Joint Stock Bank Gazprombank

We have audited the consolidated balance sheet of the Joint Stock Bank Gazprombank and its subsidiaries and associates (the "Group") as at 31 December 2002 and the related consolidated statements of profit and loss account, cash flows and shareholders' funds for the year then ended which are presented under column "2002" on pages F – 29, F – 30, F – 31 and F – 32. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements as of 31 December 2001 and 2000 and the years then ended were audited by another auditor whose reports dated 13 May 2002 and 31 May 2001 expressed an unqualified opinion with regard to these financial statements.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2002, and the results of its operations and its cash flows for the year then ended, in accordance with International Accounting Standards.

Deloitte & Touche  
Moscow, Russian Federation

25 April 2003

## Consolidated profit and loss accounts

For the years ended 31 December 2002, 2001 and 2000

	Notes	2002	2001	2000
			(U.S.\$'000)	
Interest income .....		261,778	234,764	226,483
Interest expense .....		(153,187)	(142,168)	(143,884)
<b>Net interest income</b> .....	4	108,591	92,596	82,599
Provision for losses .....	5	(35,799)	(103,969)	8,269
<b>Net interest income after provision for losses</b> .....		72,792	(11,373)	90,868
Dealing profits, net .....	6	58,622	83,669	16,339
Fees and commissions income .....	7	51,845	33,665	23,133
Foreign exchange gains, net .....		49,619	59,831	38,355
Translation gains, net .....		29,979	15,164	24,285
Dividend income .....	8	11,273	2,834	—
Other operating income .....		4,605	1,041	7,189
<b>Non interest income</b> .....		205,943	196,204	109,301
Salaries and employment benefits .....	9	(77,417)	(66,100)	(50,505)
Administrative expenses .....	9	(44,875)	(35,778)	(34,949)
Depreciation and amortization .....	16	(9,084)	(8,068)	(6,479)
Fees and commissions expense .....	7	(3,552)	(2,092)	(2,016)
Other recoveries/(provisions) .....	5	6,132	(1,820)	(9,793)
<b>Non interest expense</b> .....		(128,796)	(113,858)	(103,742)
<b>Profit from operations</b> .....		149,939	70,973	96,427
Income (loss) from associate .....	15	8,488	9,039	(5,319)
<b>Profit before tax and minority interest</b> .....		158,427	80,012	91,108
Profit tax (expense)/benefit .....	10	(42,336)	795	(60,480)
<b>Profit before minority interest</b> .....		116,091	80,807	30,628
Minority interest .....		—	—	(5,600)
<b>Net profit</b> .....		116,091	80,807	25,028

The accompanying notes are an integral part of these consolidated financial statements.

**Consolidated balance sheets**  
31 December 2002, 2001 and 2000

	Notes	2002	2001	2000
			(U.S.\$'000)	
<b>Assets</b>				
Cash and due from the Central Bank of the Russian Federation .....	11	512,604	452,871	265,442
Due from credit institutions, net .....	12	1,076,840	1,278,026	897,356
Trading securities .....	13	810,074	255,322	284,062
Loans to customers, net .....	14	2,369,913	1,681,330	1,378,123
Investments in unconsolidated subsidiaries and associates, net .....	15	87,497	72,754	59,114
Property, equipment and intangibles, net .....	16	49,220	43,801	43,483
Other assets, net .....	17	31,201	26,867	9,883
<b>Total assets</b> .....		<u>4,937,349</u>	<u>3,810,971</u>	<u>2,937,463</u>
<b>Liabilities</b>				
Amounts owed to credit institutions .....	18	355,426	241,895	431,686
Amounts owed to customers .....	19	2,590,121	2,086,103	1,299,922
Certificated debt .....	20	730,777	513,928	458,635
Eurobonds issued .....	20	339,523	173,375	—
Deferred tax liabilities .....	10	72,030	57,276	74,455
Provisions for other risks .....	28	7,396	9,254	7,927
Other liabilities .....	21	8,994	15,168	17,529
<b>Total liabilities</b> .....		<u>4,104,267</u>	<u>3,096,999</u>	<u>2,290,154</u>
<b>Shareholders' funds</b>				
Share capital .....	22	907,057	907,057	907,057
Treasury stock .....	22	(10,112)	(9,321)	—
Foreign currency translation reserve .....	15	(1,421)	(10,282)	(8,475)
Accumulated deficit .....	23	(62,442)	(173,482)	(251,273)
<b>Total shareholders' funds</b> .....		<u>833,082</u>	<u>713,972</u>	<u>647,309</u>
<b>Total liabilities and shareholders' funds</b> .....		<u>4,937,349</u>	<u>3,810,971</u>	<u>2,937,463</u>
<b>Financial commitments and contingencies</b> .....	28	814,224	774,123	629,244

The accompanying notes are an integral part of these consolidated financial statements.



## Consolidated statements of shareholders' funds

For the years ended 31 December 2002, 2001 and 2000

	Share capital	Foreign currency translation reserve	Treasury stock	Accumulated deficit	Shareholders' funds
			(U.S.\$'000)		
<b>31 December 1999 (as reported)</b> .....	583,558	(15,534)	—	(238,992)	329,032
Correction of error (Note 2) .....	34,156	—	—	(34,156)	—
<b>1 January 2000 (as restated)</b> .....	617,714	(15,534)	—	(273,148)	329,032
Net profit .....	—	—	—	25,028	25,028
Foreign exchange difference from translation of foreign associate .....	—	(672)	—	—	(672)
Reduction resulting from partial disposal of foreign subsidiary/associate .....	—	7,731	—	—	7,731
Capital contributions .....	289,343	—	—	—	289,343
Dividends paid .....	—	—	—	(3,153)	(3,153)
<b>31 December 2000</b> .....	907,057	(8,475)	—	(251,273)	647,309
Net profit .....	—	—	—	80,807	80,807
Treasury stock purchased .....	—	—	(9,321)	—	(9,321)
Foreign exchange difference from translation of foreign associate .....	—	(1,807)	—	—	(1,807)
Dividends paid .....	—	—	—	(3,016)	(3,016)
<b>31 December 2001</b> .....	907,057	(10,282)	(9,321)	(173,482)	713,972
Net profit .....	—	—	—	116,091	116,091
Treasury stock purchased .....	—	—	(791)	—	(791)
Foreign exchange difference from translation of foreign associate .....	—	8,861	—	—	8,861
Dividends paid .....	—	—	—	(5,051)	(5,051)
<b>31 December 2002</b> .....	907,057	(1,421)	(10,112)	(62,442)	833,082

The foreign currency translation reserve as of 31 December 2002 has been shown net of deferred tax of U.S.\$449 thousand (2001 — U.S.\$3,248 thousand, 2000 — U.S.\$6,394 thousand).

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated cash flow statements

For the years ended 31 December 2002, 2001 and 2000

	Notes	2002	2001	2000
			(U.S.\$'000)	
<b>Cash flows from operating activities</b>				
Interest received .....		260,136	175,235	227,340
Fees and commissions received .....		51,845	33,665	23,133
Interest paid .....		(107,054)	(125,648)	(132,624)
Fees and commissions paid .....		(3,552)	(2,092)	(2,016)
Dealing profits .....		8,809	46,426	39,979
Foreign exchange gains .....		49,619	59,831	38,355
Other operating income .....		4,605	1,041	7,189
Salaries and employment benefits .....		(77,417)	(66,100)	(50,505)
Administrative expenses .....		(44,875)	(35,778)	(34,949)
<i>Cash flows from operating profits before changes in operating assets and liabilities .....</i>		142,116	86,580	115,902
<b>(Increase) decrease in operating assets</b>				
Obligatory reserve with the Central Bank of the Russian Federation .....		(47,484)	(10,563)	(22,518)
Due from credit institutions .....		185,439	(276,519)	(259,616)
Trading securities .....		(504,689)	65,983	(151,864)
Derivative financial assets .....		6,865	(4,529)	1,621
Loans to customers .....		(726,459)	(329,176)	70,904
Bullion .....		(281)	(481)	—
Other assets .....		662	(3,262)	10,050
<b>Increase (decrease) in operating liabilities</b>				
Amounts owed to credit institutions .....		114,298	(190,164)	199,685
Derivative financial liabilities .....		8,916	5,270	3,047
Amounts owed to customers .....		514,551	775,992	(133,292)
Other liabilities .....		1,505	2,383	(12,085)
<i>Net cash flows from operating activities before profit taxes ..</i>		(304,561)	121,514	(178,166)
Profit taxes paid .....		(41,415)	(19,003)	(10,557)
<b>Net cash flows from operating activities .....</b>		<b>(345,976)</b>	<b>102,511</b>	<b>(188,723)</b>
<b>Cash flows from investing activities</b>				
Investments in unconsolidated subsidiaries and associates purchased .....		(230)	(4,333)	—
Investments in unconsolidated subsidiaries and associates sold .....		9,021	—	—
Available-for-sale securities purchased .....		(168)	(1,154)	(13,658)
Proceeds from the partial sale of subsidiary, net of cash disposed .....		—	—	(91,461)
Property, plant and intangibles purchased .....		(22,402)	(8,386)	(14,467)
Property, plant and intangibles sold .....		8,659	—	3,491
Dividends received — affiliated undertakings .....		11,273	2,834	—
<b>Net cash flows from investing activities .....</b>		<b>6,153</b>	<b>(11,039)</b>	<b>(116,095)</b>
<b>Cash flows from financing activities</b>				
Share capital issue .....		—	—	289,343
Treasury stock purchased .....		(791)	(9,321)	—
Certificated debts and Eurobonds issued .....		331,852	221,723	177,358
Dividends paid .....		(5,051)	(3,016)	(3,153)
<b>Net cash flows from financing activities .....</b>		<b>326,010</b>	<b>209,386</b>	<b>463,548</b>
<b>Change in cash and cash equivalents .....</b>		<b>(13,813)</b>	<b>300,858</b>	<b>158,730</b>
<b>Cash and cash equivalents, beginning of the period .....</b>		<b>1,025,279</b>	<b>724,421</b>	<b>565,691</b>
<b>Cash and cash equivalents, end of the period .....</b>	25	<b>1,011,466</b>	<b>1,025,279</b>	<b>724,421</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Notes to consolidated financial statements**  
**31 December 2002, 2001 and 2000**

**Note 1 — Principal activities and organization**

*(a) Activities and organization*

The Gazprombank Group (the “Group”) primarily consists of the parent company, Gazprombank (the “Bank”), and its wholly owned subsidiaries Novfintech, Gazcardservice and GazInvest Finance B.V.

A description of the operations of each of these companies follows:

- Gazprombank was established as a limited liability partnership in 1990. In November 2001 the Bank changed its legal form from a limited liability partnership to a closed joint stock company. The Bank possesses a general banking license and a license for operations with precious metals from the Central Bank of the Russian Federation, and licenses for securities operations and custody services from the Federal Stock Market Commission.

The Bank primarily services gas industry clients in the Russian Federation, with its main activities including deposit taking, lending, and operations with securities and foreign exchange. As of 31 December 2002, these functions were carried out by Head office located in Moscow and through 31 branches, all located in the Russian Federation. The Bank is the third largest bank in the Russian Federation in terms of total assets calculated under the local accounting rules (source: *Interfax Information Agency*). The Bank’s legal address is: Nametkina Str., 16, Bld.1, Moscow, 117420, Russian Federation.

- Novfintech and Gazcardservice are incorporated and operate in the Russian Federation. Both companies were established as limited liability companies in 1999. The main activity of Novfintech is securities operations. Gazcardservice primarily engaged in debit and credit card transaction processing and securities operations.

- GazInvest Finance B.V. was established as a limited liability company in 2000 and is incorporated in the Netherlands. The entity was founded to issue eurobonds to finance the Group’s activity.

The Group had an average of 3,285 employees during the year 2002 and 3,618 employees at the end of 2002 (2001 and 2000 — an average of 3,000 employees).

*(b) Economic dependence*

As of 31 December 2002, OAO “Gazprom” owned directly or through its’ subsidiaries 97.83% of the outstanding shares of the Group. The majority of the Group’s funding is from, and credit exposures are to the OAO “Gazprom” Group. As such the Group is economically dependent on the OAO “Gazprom” Group. Some major activities of the Group are linked with the requirements of the OAO “Gazprom” Group and determination of pricing of transactions with the OAO “Gazprom” Group is undertaken in conjunction with other OAO “Gazprom” Group companies. See also Note 27.

**Note 2 — Basis of presentation**

*(a) General*

The consolidated financial statements have been prepared in accordance with International Accounting Standards (IAS) and are presented in thousands of U.S. dollars.

The Bank, Gazcardservice and Novfintech maintain their books of account and prepare statements for regulatory purposes in accordance with Russian accounting and banking legislation and instructions (RAL). GazInvest Finance B.V. maintains its accounting records in accordance with legislation of the Netherlands and is considered to be a foreign operation that is integral to the operations of the Bank. The accompanying consolidated financial statements are based on the statutory records, which are maintained under the historical cost convention as modified by the revaluation of property and equipment and the mark-to-market adjustment of trading portfolio of securities as defined by RAL. At each reporting date all Group members make appropriate adjustments and reclassifications to their unconsolidated statutory financial statements for the purpose of fair presentation in accordance with International Accounting Standards issued by the International Accounting Standards Board. The accompanying consolidated financial statements have been prepared based on those financial statements.

The preparation of financial statements in conformity with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(b) *Changes in presentation*

Certain changes in presentation have been made in these financial statements compared to the Group's financial statements as of 31 December 2001 and 2000. The changes in presentation do not result from changes in significant accounting policies and are viewed to provide more details and better understanding for users. As a result, respective reclassifications were made to the 2001 and 2000 figures to achieve conformity and comparability in presentation.

The major changes in presentation of financial statements as of 31 December 2001 and 2000 are:

2001	2000	Financial caption per previous presentation	Financial caption per current presentation	Comment
26,538	21,028	Dealing profits	Interest income	Coupon interest received and accrued and discount accretion on debt securities
1,221	(13,998)	Foreign exchange gains and losses	Dealing profits	Net income (loss) from derivative financial instruments
50,547	31,192	Fees and commissions received	Foreign exchange gains	Realised foreign exchange gains
15,164	24,285	Foreign exchange gains and losses	Translation gains, net	Unrealised foreign exchange gains
9,236	—	Placements with banks	Other assets	Receivables under unmatured derivative contracts
9,215	—	Deposits and balances from banks	Other liabilities	Payables under unmatured derivative contracts

Also, "Cash and cash equivalents" include cash, current account with the Central Bank of the Russian Federation and due from credit institutions with maturity of three months or less when originated. Previously cash and cash equivalents included trading receivables under unmatured deliverable forward contracts. Also, due from credit institutions was limited by amounts with an original maturity of one month or less.

Furthermore, in 2002 the Group adopted the direct method of reporting cash flows from operating activities. As a result presentation of the cash flow statement for 2001 and 2000 was changed.

(c) *Correction of error*

The presented consolidated financial statements include the restatement of the opening amounts of Shareholders' funds, Provisions for losses, Investments in unconsolidated subsidiaries and associates as of 31 December 1999 due to discovery of a material fundamental error. The error has occurred as a result of misinterpretation of facts, which led to offsetting of the amount of contribution to the Group's share capital made by one of the shareholders against assets, which were contributed by it. For changes resulting from correction of the error see Notes 5, 15 and 22.

(d) *Measurement and presentation currency*

The currency of the Russian Federation, which is the country in which the Bank is domiciled, is the Russian Ruble. However, the U.S. dollar is used to a significant extent and has a significant impact on the operations of the Group. The majority of the Group's assets and liabilities and operations are denominated in U.S. dollars. As a result, the Group's management has determined that the U.S. dollar is to be used as the measurement and presentation currency of the financial statements prepared in accordance with the International Accounting Standards.

(e) *Reconciliation of profit between Statutory Accounting Legislation and IAS*

Shareholders' profit are reconciled between Statutory Accounting Legislation and IAS as follows:

	<b>2002 Profit</b>	<b>2001 Profit</b>	<b>2000 Profit</b>
		(U.S.\$'000)	
<b>Statutory Accounting Legislation</b> .....	127,073	36,612	19,143
Effect of accrued interest, net .....	(11,312)	36,659	77,568
Translation gains (losses) .....	(7,568)	25,322	13,525
Provisions for losses .....	9,761	(43,874)	1,278
Mark-to-market of securities to fair value .....	35,737	18,730	(648)
Deferred taxes .....	(11,945)	20,315	(49,808)
Current taxation .....	(27,140)	(19,530)	(9,896)
Expenses recorded to funds .....	(3,540)	(2,365)	(5,005)
Income from associates .....	8,488	9,039	(13,166)
Depreciation .....	(1,694)	—	—
Minority interest .....	—	—	(5,600)
Other, net .....	(1,769)	(101)	(2,363)
<b>International Accounting Standards</b> .....	<b>116,091</b>	<b>80,807</b>	<b>25,028</b>

**Note 3 — Principal accounting policies**

(a) *Principles of consolidation and accounting for associates*

The consolidated financial statements of the Group include the Bank and the companies that it controls (subsidiaries). This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The purchase method of accounting is used for acquired businesses. Companies acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or to the date of disposal.

Investments in associated companies (generally investments of between 20% to 50% in a company's equity) where the Group exercises a significant influence are accounted for by using the equity method. When the investee incurs losses the Group recognises its share of losses until the carrying amount of the investment is reduced to nil. Recognition of further losses is discontinued.

Intercompany balances and transactions, including intercompany profits and losses, are eliminated. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

(b) *Foreign currency translation*

Income and expenses, and non-monetary items included in the balance sheet at period end, denominated in currencies other than the presentation currency, are recorded by applying the exchange rate prevailing on the date of the transaction. Exchange differences resulting from a change in the prevailing exchange rate between the transaction date and the date of settlement are recognised in the profit and loss account as translation gains or losses. Differences between the contractual exchange rate and the prevailing exchange rate on the date of the transaction settlement represent a dealing income or loss and are recognised as foreign exchange gain or loss.

Non U.S. dollar denominated monetary items included in the period end balance sheet of the Group are translated at the exchange rate prevailing at the period end.

Exchange differences arising from the translation from the Hungarian Forint to the U.S. dollar of the investment in Altalanos Ertekgalmi Bank (the "AEB"), whose operations are not considered integral to the operations of the Group, are included directly in equity in the "Foreign currency translation reserve".

Non U.S. dollar share capital/charter fund contributions have been included in the financial statements at the exchange rate prevailing on the date of contribution.

(c) *Income and expense recognition*

Interest income and expense are recognised on an accrual basis. Commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognised at the time the transaction occurs.

Materials and supplies are expensed in full to the profit and loss account on purchase date. Prior to 2002 materials and supplies were expensed on commencement of active use. Management believes that the change in the

accounting policy will result in a more appropriate presentation. The change is applied prospectively since adjustments to prior periods are not reasonably determinable. Amounts of materials are not significant.

*(d) Recognition and derecognition of financial instruments*

The Group recognises financial assets held for trading and available-for-sale assets on the date it commits to purchase the assets. Held-to-maturity instruments and originated loans and receivables are recognised on the day they are transferred to or originated by the Group.

A financial asset is derecognised when the Group loses control over contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Group non-recourse commits to sell the asset. Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the Group.

*(e) Due from credit institutions*

In the normal course of business, the Group lends or deposits funds for various periods with other credit institutions. Such amounts are categorised as loans originated by the Group and are carried at amortised cost. As these placements of funds are typically unsecured extensions of credit, some of the assets may be impaired. The principles used to create provision for loan impairment on amounts due from credit institutions are the same as for loans to customers (see below).

*(f) Trading and available-for-sale securities*

The Group classified its securities into the following two categories:

- Securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or included in a portfolio in which a pattern of short-term profit-taking exists are classified as trading securities,
- Securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale.

The classification of investments is determined by management at the time of the purchase.

All securities are initially recognised at cost (including transaction costs), which is the fair value of the consideration given for them. Subsequently trading and available-for-sale securities are measured as follows:

- Trading securities are subsequently measured at fair value based on quoted bid prices. All related realised and unrealised gains and losses are included in dealing profit.
- Available-for-sale investment securities are subsequently measured at fair value based on quoted bid prices or present value of future cash flows. Unrealised gains and losses arising from changes in the fair value of available-for-sale securities are recognised as profit or loss from investment securities in the profit and loss account.

Interest earned while holding trading and available-for-sale securities is reported as interest income. Dividends receivable are included in dividend income when a dividend is declared.

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at trade date, which is the date that the Group commits to purchase or sell the asset. Otherwise such transactions are treated as derivatives until settlement occurs.

*(g) Repurchase and reverse repurchase agreements*

The Group as an element of its treasury management and trading business utilises repurchase and reverse repurchase agreements. Repurchase agreements ("repos") are accounted for as financing transactions. As such, the related securities are recorded in the Group's accounts and the related payable is included as an amount due to credit institutions or customers, respectively. Any related expense arising from the pricing spreads for the underlying securities is recognised as interest expense and accrued over the period that the related transactions are open using the effective yield method. Securities lent to counter-parties are also included in the financial statements.

Reverse repurchase agreements ("reverse repos") are accounted for as loans and advances to banks or customers, respectively. Securities borrowed are not recognised in the financial statements. Any related income

arising from the pricing spreads for the underlying securities is recognised as interest income over the period that the related transactions are open using the effective yield method.

*(h) Derivatives*

The Group enters into derivative financial instruments for trading purposes. Derivatives are initially recognised at cost (including transaction costs), which approximates the fair value of the consideration given for them, and subsequently are measured at their fair value. Fair values are obtained from quoted market prices (if available) and discounted cash flow models. Since at present there is a very limited market for derivatives in the Russian Federation, the fair value of the foreign currency derivative position is calculated based on the exchange rate effective as of the reporting date.

Changes in the fair value of derivatives are included in net dealing profit.

*(i) Loans to customers*

Loans granted by the Group by providing money directly to the borrower are categorised as loans originated by the Group. They are initially recognised at cost which is the fair value of the consideration given and are subsequently measured at amortised cost. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. All 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 Group will not be able to collect all amounts due. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at inception.

The loan loss allowance 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, the credit ratings allocated to borrowers and reflecting the current economic conditions in which the borrowers operate. When a loss is uncollectable, it is written off against the related allowance for impairment. Subsequent recoveries are credited to the provision for loan losses expense in the profit and loss account.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the allowance is credited to the provision for loan losses expense.

*(j) Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

*(k) 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 Group using available market information, where it exists, and appropriate valuation methodologies, as described in accounting policies for the financial instruments that are carried at fair value as prescribed by IAS 39. However, judgment is necessarily required to interpret market data to determine the estimated fair value. As described in more detail in Note 27(f), the Russian Federation has signs of an emerging market and has relatively small volume of activity in its financial markets. 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 in the current circumstances.

Management considers that it is not possible to reliably estimate the fair value of loans and advances to banks and customers, term deposits and certificated debt, which are carried at amortised cost as prescribed by IAS 39. These instruments are not currently traded in the Russian financial markets, and an objective estimate of their fair value is not available. The instability of the interest rate and exchange rate environment significantly affects the fair value of these financial instruments. Because of these factors, Management does not believe that an objective basis for the fair value of loans and advances to customers, term deposits and certificated debt can be obtained with sufficient reliability to provide meaningful information to users.



(l) *Property, equipment and intangibles*

Property, equipment and intangibles are recorded at historical cost, except for those carried at revalued amounts, less accumulated depreciation (amortization). Depreciation (amortization) is provided to write off the cost on a straight-line basis over the estimated useful economic life of the asset. The economic lives are as follows:

	<b>Years</b>
Buildings.....	50-100
Office equipment.....	3-14
Leasehold improvements .....	Over expected life of the lease
Software.....	3-10

Assets under construction are not depreciated. Depreciation of these assets will begin when the related assets are placed in service.

Repairs and maintenance are charged to the profit and loss account.

(m) *Operating leases*

The Group enters into operating lease agreements as a lessee. The total payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(n) *Amounts owed to credit institutions and to customers*

Amounts owed to credit institutions and to customers are initially recognised at cost, which amount to the initiation/issue proceeds, less transaction costs incurred. Subsequently amounts due are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective yield method. If the Group purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of a liability and the consideration paid is included in net interest income.

(o) *Certificated debts*

Certificated debts represent promissory notes, certificates of deposit and bonds issued by the Group to customers. They are accounted for according to the same principles used for amounts owed to credit institutions and customers.

(p) *Dividends and treasury stock*

Dividends on ordinary shares are recognised in equity in the period in which they are declared. Dividends for the year, which are declared after the balance sheet date, are treated as a subsequent event under IAS 10 "Events after the balance sheet date".

Where the Bank or its subsidiaries purchase the Bank's share capital or obtain rights to purchase its share capital, the consideration paid is shown as a deduction from total shareholders' equity.

(q) *Provisions*

Provisions are recognised when the Group 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 amount of the obligation can be made.

(r) *Taxation*

The taxation charge is calculated in accordance with the regulations of the Russian Federation and other jurisdictions in which the Bank has offices and branches or where its' subsidiaries are located and is based on the results reported in the profit and loss accounts of the Bank and its subsidiaries prepared under RAL or other statutory legislation after adjustments for tax purposes. Deferred taxes are provided on temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

The Russian Federation also has various operating taxes, which are assessed on the Group's activities. These taxes are included as a component of administrative expenses in the profit and loss account.

(s) *Cash and cash equivalents*

The Group considers cash, current account with the Central Bank of the Russian Federation and due from credit institutions with maturity of three months or less when originated to be cash equivalents.

**Note 4 — Net interest income**

Net interest income comprises:

	2002	2001	2000
		(U.S.\$'000)	
<b>Interest income</b>			
Loans to customers .....	190,269	172,539	167,030
Debt securities .....	36,447	26,538	21,028
Due from credit institutions .....	35,062	35,687	38,425
	<u>261,778</u>	<u>234,764</u>	<u>226,483</u>
<b>Interest expense</b>			
Amounts owed to customers .....	57,023	54,133	66,472
Certificated debts .....	50,928	60,783	34,900
Eurobonds .....	22,902	488	—
Amounts owed to credit institutions .....	22,334	26,764	42,512
	<u>153,187</u>	<u>142,168</u>	<u>143,884</u>
<b>Net interest income</b> .....	<u>108,591</u>	<u>92,596</u>	<u>82,599</u>

Interest income from debt securities includes coupon interest received and accrued and discount accretion.

**Note 5 — Provisions for losses**

Provisions for losses in the profit and loss account represent the charge required in the current year to establish total allowance for losses carried forward in accordance with IAS.

The movement in the allowances for interest earning assets during 2002, 2001 and 2000 was:

	Loans to banks	Loans to customers	Total allowances
		(U.S.\$'000)	
<b>31 December 1999 (as reported)</b> .....	1,201	61,068	62,269
Correction of error (Note 2) .....	10,526	1,133	11,659
<b>1 January 2000 (as restated)</b> .....	11,727	62,201	73,928
Provisions/(recoveries) charged to profit .....	3,478	(11,747)	(8,269)
Amounts written off .....	—	(834)	(834)
<b>31 December 2000</b> .....	15,205	49,620	64,825
Provisions charged to profit .....	19,841	84,128	103,969
<b>31 December 2001</b> .....	35,046	133,748	168,794
(Recoveries)/provisions charged to profit .....	(14,808)	50,607	35,799
Amounts written off .....	—	(6,149)	(6,149)
<b>31 December 2002</b> .....	<u>20,238</u>	<u>178,206</u>	<u>198,444</u>

In accordance with the statutory legislation, loans may only be written off with the approval of the Shareholders' Council and, in certain cases, with the respective decision of the Court.

The movement in other allowances and provisions for other risks during 2002, 2001 and 2000 was:

	Investments in unconsolidated subsidiaries and associates	Available- for-sale securities	Other assets	Other risks	Total allowances
			(U.S.\$'000)		
<b>31 December 1999 (as reported)</b> .....	5,129	—	7,913	4,550	17,592
Correction of error (Note 2) .....	17,075	—	—	—	17,075
<b>1 January 2000 (as restated)</b> .....	22,204	—	7,913	4,550	34,667
Provisions/(recoveries) charged to profit .....	4,471	403	1,542	3,377	9,793
Foreign exchange difference .....	—	—	(260)	—	(260)
Amounts written off .....	—	(403)	(2,946)	—	(3,349)
<b>31 December 2000 (as reported)</b> .....	26,675	—	6,249	7,927	40,851
Provisions/(recoveries) charged to profit	1,069	78	(654)	1,327	1,820
Amounts written off .....	—	—	(4,707)	—	(4,707)
<b>31 December 2001</b> .....	27,744	78	888	9,254	37,964
(Recoveries)/provisions charged to profit	(5,601)	1,142	185	(1,858)	(6,132)
<b>31 December 2002</b> .....	22,143	1,220	1,073	7,396	31,832

Allowances for losses are deducted from the related assets. Provisions for other risks are recorded in liabilities (see Note 27).

#### Note 6 — Dealing profits

Net dealing profits for the year 2002 comprise:

	2002		
	Fair value adjustment	Sale and redemption	Total
		(U.S.\$'000)	
Trading securities .....	47,719	7,834	55,553
Derivative financial instruments .....	2,072	(64)	2,008
Bullion .....	22	1,039	1,061
<b>Dealing profit, net</b> .....	49,813	8,809	58,622

Net dealing profits for the year 2001 comprise:

	2001		
	Fair value adjustment	Sale and redemption	Total
		(U.S.\$'000)	
Trading securities .....	37,233	44,296	81,529
Derivative financial instruments .....	21	1,200	1,221
Bullion .....	(11)	930	919
<b>Dealing profit, net</b> .....	37,243	46,426	83,669

Net dealing profits for the year 2000 comprise:

	2000		
	Fair value adjustment	Sale and redemption	Total
		(U.S.\$'000)	
Trading securities .....	(9,155)	39,477	30,322
Derivative financial instruments .....	(14,485)	487	(13,998)
Bullion .....	—	15	15
<b>Dealing profit, net</b> .....	(23,640)	39,979	16,339

**Note 7 — Fees and commissions income and expense**

Fees and commissions income comprises:

	2002	2001	2000
		(U.S.\$'000)	
Settlements operations .....	29,572	16,219	6,728
Cash operations .....	11,626	8,217	6,346
Securities operations .....	8,298	7,298	7,059
Guarantees issued .....	938	1,683	743
Other .....	1,411	248	2,257
<b>Fees and commissions income .....</b>	<b>51,845</b>	<b>33,665</b>	<b>23,133</b>

Fees and commissions expense comprises:

	2002	2001	2000
		(U.S.\$'000)	
Settlements operations .....	2,256	1,316	901
Cash operations .....	322	251	594
Other .....	974	525	521
<b>Fees and commissions expense .....</b>	<b>3,552</b>	<b>2,092</b>	<b>2,016</b>

**Note 8 — Dividend income**

Included in dividend income for the year ended 31 December 2002 is U.S.\$7,602 thousand that relates to one-off dividend payment upon liquidation in April 2002 of a company, in which the Group had an equity participation.

**Note 9 — Salaries and administrative expenses**

Salaries and administrative expenses comprise:

	2002	2001	2000
		(U.S.\$'000)	
Salaries .....	67,200	57,051	45,518
Social security costs .....	10,062	9,049	4,987
Other .....	155	—	—
<b>Salaries and employment benefits .....</b>	<b>77,417</b>	<b>66,100</b>	<b>50,505</b>
Occupancy .....	14,424	10,103	6,861
Operating taxes .....	11,297	11,078	15,258
Rental expenses .....	7,659	7,415	5,290
Business development .....	4,517	963	2,702
Communications .....	3,767	3,397	3,375
Professional services .....	1,407	2,457	1,063
Other .....	1,804	365	400
<b>Administrative expenses .....</b>	<b>44,875</b>	<b>35,778</b>	<b>34,949</b>

The Group does not have pension arrangements separate from the State pension system of the Russian Federation. The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense, included in social security costs, is charged to the profit and loss account in the period the related compensation is earned by an employee.

**Note 10 — Profit tax**

Provision for profit taxes comprises:

	2002	2001	2000
		(U.S.\$'000)	
Current tax charge.....	30,381	19,530	9,896
Under provided in prior periods.....	—	—	776
Deferred taxation:			
— Origination and reversal of timing differences .....	11,955	15,399	45,940
— Effect of (reduction) increase in tax rate .....	—	(35,724)	3,868
<b>Profit tax expense/(benefit)</b> .....	<b>42,336</b>	<b>(795)</b>	<b>60,480</b>

Russian legal entities must individually report taxable income and remit profit taxes thereon to the appropriate authorities. Beginning 1 January 2002, the combined statutory profit tax rate for the Bank decreased to 24% from 43% (in the year 2000 the combined statutory profit tax rate for the Bank was 38%). More specifically, the tax rate for profits other than on state securities in 2002 was 7.5% for federal taxes and 16.5% for regional and city taxes. The tax rate for interest income on state securities was 15% for federal taxes.

Also, beginning 1 January 2002 profit tax for Russian banks is calculated based on accrued incomes and expenses. Prior to 2002, profit tax was assessed based on cash incomes and expenses. The majority of the Group's profit tax is paid by the Bank.

The effective profit tax rate differs from the statutory profit tax rates. A reconciliation of the profit tax provision based on statutory rates with the actual profit tax provision follows.

	2002	2001	2000
		(U.S.\$'000)	
<b>Profit (loss) before taxation</b> .....	158,427	80,012	91,108
Statutory tax rate .....	24%	43%	38%
<b>Theoretical profit tax charge at statutory rate</b> .....	38,022	34,405	34,621
Income taxed at different rates .....	(1,227)	(1,455)	(1,673)
Tax concession of subsidiary .....	(2,632)	—	—
Tax exempt income.....	(77,574)	(23,537)	(12,006)
Non-deductible expenditures .....	85,600	29,819	25,076
Profit of subsidiaries taxed at different rates .....	—	(3,835)	(1,775)
Effect of change in tax rates.....	—	(35,724)	3,868
Other permanent differences.....	147	(468)	12,369
<b>Profit tax provision</b> .....	<b>42,336</b>	<b>(795)</b>	<b>60,480</b>

As of 31 December 2002, 2001 and 2000 the Group's net deferred profit tax liability was U.S.\$72,030 thousand, U.S.\$57,276 thousand and U.S.\$74,455 thousand, respectively. Deferred tax liabilities are the amounts of profit taxes payable in future periods in respect of taxable temporary differences. The following represents an analysis of the deferred tax balance sheet position as of 31 December 2002, 2001 and 2000, respectively.

	2002	2001	2000
		(U.S.\$'000)	
<b>Tax effect of deductible temporary differences</b>			
Provision for losses .....	15,029	16,078	9,615
Effect of translation of the Group's share of AEB net assets into USD .....	449	3,248	6,394
Interest accrued .....	—	10,124	11,109
Other .....	1,639	1	—
<b>Deferred tax asset</b> .....	<u>17,117</u>	<u>29,451</u>	<u>27,118</u>
<b>Tax effect of taxable temporary differences</b>			
Interest capitalised and accrued .....	45,546	48,523	64,527
Adjustment of securities to fair value .....	15,836	12,041	4,766
Income from associate .....	11,475	11,086	15,138
Foreign currency translation effect .....	8,081	15,077	17,142
Provision for losses .....	7,150	—	—
Other .....	1,059	—	—
<b>Deferred tax liability</b> .....	<u>89,147</u>	<u>86,727</u>	<u>101,573</u>
<b>Net deferred tax liability</b> .....	<u><u>72,030</u></u>	<u><u>57,276</u></u>	<u><u>74,455</u></u>

Deferred tax asset arising from translation of the Group's share of net assets of AEB from the Hungarian Forint to the US Dollar is recorded directly to equity as part of Foreign exchange translation reserve.

A reconciliation of changes in the balance sheet deferred tax position during 2000 — 2002 follows:

	(U.S.\$'000)
<b>Deferred tax liability as of 31 December 1999</b> .....	32,927
Deferred tax charged to the Profit and loss account .....	49,808
Change in deferred tax recorded directly to equity .....	(4,750)
Reversal of deferred tax as a result of partial disposal of subsidiary .....	(3,530)
<b>Deferred tax liability as of 31 December 2000</b> .....	74,455
Deferred tax charged to the Profit and loss account .....	(20,325)
Change in deferred tax recorded directly to equity .....	3,146
<b>Deferred tax liability as of 31 December 2001</b> .....	57,276
Deferred tax charged to the Profit and loss account .....	11,955
Change in deferred tax recorded directly to equity .....	2,799
<b>Deferred tax liability as of 31 December 2002</b> .....	<u><u>72,030</u></u>

As of 31 December 2002 tax assets consist of current profit tax asset of U.S.\$11,034 thousand (2001, 2000 — nil). Current tax asset arises from over-payment of profit tax by the Bank due to the statutory advance tax payments system and is usually realised either by off-setting with the Bank's profit tax liabilities in subsequent periods, or by repayment from tax authorities.

The Russian Federation currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, profit tax, a number of turnover based taxes, social tax, and other taxes. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations (like the Ministry of Taxes and Levies and its various inspectorates); thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in the Russian Federation substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Group is in substantial compliance with the tax laws affecting its operations.

**Note 11 — Cash and due from the Central Bank of the Russian Federation**

Cash and due from the Central Bank of the Russian Federation comprise:

	2002	2001	2000
		(U.S.\$'000)	
Cash on hand .....	61,064	42,130	26,459
Current accounts .....	232,674	239,359	78,164
Obligatory reserve .....	218,866	171,382	160,819
<b>Cash and due from the Central Bank of the Russian Federation</b>	<b>512,604</b>	<b>452,871</b>	<b>265,442</b>

The Central Bank of the Russian Federation requires credit institutions to maintain non-interest earning cash deposit (obligatory reserve) with the Central Bank of the Russian Federation, the amount of which depends on the level of funds attracted by a credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

**Note 12 — Due from credit institutions**

Due from credit institutions comprise:

	2002	2001	2000
		(U.S.\$'000)	
Current accounts .....	622,690	503,270	341,506
Time deposits .....	474,388	809,802	560,529
	1,097,078	1,313,072	902,035
Less — Allowances for loan losses .....	(20,238)	(35,046)	(4,679)
<b>Due from credit institutions, net</b> .....	<b>1,076,840</b>	<b>1,278,026</b>	<b>897,356</b>

As of 31 December 2002, 34% of the gross amount of due from credit institutions relates to placements with Deutsche Bank AG (Germany) and Commerzbank AG (Germany). As of 31 December 2001, 48% related to placements with Deutsche Bank AG (Germany) and Dresdner Bank (Germany). As of 31 December 2000, 34% related to placements with AEB (Hungary).

Amounts due from AEB (Hungary) constituted 21% (U.S.\$225,240 thousand) of the gross amount due from credit institutions (2001 — 20% or U.S.\$260,509 thousand, 2000 — 32% or U.S.\$285,790 thousand). Included in this amount is a U.S.\$60,000 thousand non-convertible subordinated loan to AEB, which bears one-year LIBOR interest. The above loan has been established by the Group to AEB in December 1997 with maturity in December 2007.

Additionally, the Group has pledged U.S.\$78,198 thousand of placements with Deutsche Bank AG and AEB as collateral for syndicated loans received by OAO "Gazprom" (2001 — U.S.\$58,583 thousand, 2000 — U.S.\$127,719 thousand). Same amounts are blocked as collateral on escrow accounts of OAO "Gazprom" (see Note 19).

As of 31 December 2002 the Bank had U.S.\$239,203 thousand placed on time deposits with foreign banks that represent amounts transferred under letters of credit opened with the Bank (2001 — U.S.\$427,935 thousand, 2000 — U.S.\$205,644 thousand). These placements are covered by U.S.\$270,330 thousand of customer funds blocked on their time deposit accounts (2001 — U.S.\$454,756 thousand, 2000 — U.S.\$232,813 thousand) (see Note 19).



### Note 13 — Trading securities

Trading securities comprise:

	2002	2001	2000
	Carrying value	Carrying value	Carrying value
		(U.S.\$'000)	
Corporate shares.....	288,243	123,377	148,047
Promissory notes.....	268,993	48,140	28,620
Russian eurobonds .....	145,911	60,724	59,898
Corporate bonds.....	72,641	—	—
Vnesheconombank bonds.....	29,089	20,201	40,503
State bonds (OFZ) .....	2,542	2,880	6,766
Moscow government bonds .....	1,553	—	228
Moscow government eurobonds .....	1,102	—	—
	<u>810,074</u>	<u>255,322</u>	<u>284,062</u>

As of 31 December 2002 U.S.\$288,185 thousand of corporate shares represent OAO "Gazprom" ordinary shares (2001 — U.S.\$123,377 thousand, 2000 — U.S.\$147,821 thousand).

Promissory notes are mainly represented by short-term notes issued by members of OAO "Gazprom" Group (2002 — U.S.\$260,956 thousand). The rest of the portfolio is represented by marketable promissory notes of Russian "blue-chip" companies.

Russian eurobonds are securities issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. The Group's portfolio of Russian eurobonds consists of 8 tranches with maturity dates ranging from 2003 to 2030. The annual coupon rates on these bonds range from 5% to 12.75% and interest is paid semi-annually.

As of 31 December 2002 Corporate bonds consist of U.S.\$35,426 thousand of OAO "Gazprom" Ruble and foreign currency denominated bonds. The remaining balance comprises corporate bonds of Russian "blue-chip" telecommunication, energy and metallurgical enterprises.

Vnesheconombank (VEB) bonds are U.S. dollar denominated bearer securities, which carry the guarantee of the Ministry of Finance of the Russian Federation. The bonds are purchased at a discount to nominal value and carry an annual coupon of 3%. The portfolio consists of 4 tranches with maturity dates ranging from 2003 to 2011.

OFZ bonds are Ruble denominated government securities issued and guaranteed by the Ministry of Finance of the Russian Federation. OFZ bonds are issued at a discount to face value and have a medium to long-term maturity periods with a coupon rate of approximately 10-15% depending on the type of bond issue.

Trading securities are measured at fair value based on quoted bid prices. It should be noted that because of the relative illiquidity in the Russian securities markets, the reliability of market quotations used in valuing the Group's securities may not be reflective of their fair value in an exchange between a willing buyer and a willing seller due to the Group's volume of holdings.

**Note 14 — Loans to customers**

Loans to customers are made within the Russian Federation and abroad and comprise:

	2002	2001	2000
		(U.S.\$'000)	
Gas extraction, transportation and trading enterprises .....	1,337,629	1,309,360	1,133,201
Manufacturing .....	405,147	143,578	66,530
Trading enterprises .....	261,640	41,339	35,068
Oil enterprises .....	226,662	11,974	—
Real estate construction .....	108,717	101,465	78,063
Individuals .....	71,975	60,210	31,647
Precious metals mining .....	48,630	20,848	5,387
Other .....	87,719	126,304	77,847
	2,548,119	1,815,078	1,427,743
Less — Allowances for loan losses .....	(178,206)	(133,748)	(49,620)
<b>Loans to customers, net</b> .....	<b>2,369,913</b>	<b>1,681,330</b>	<b>1,378,123</b>

The Group has a significant concentration of loans extended to OAO "Gazprom" Group. As of 31 December 2002, loans to OAO "Gazprom" Group accounted for 69% (U.S.\$1,762,812 thousand) of the total loan portfolio (2001 — 66% or U.S.\$1,189,903 thousand, 2000 — 71% or U.S.\$1,019,300 thousand).

One loan to Europol Gaz SA, an OAO "Gazprom" Group company, represented 34% (U.S.\$860,430 thousand) (2001 — 49% or U.S.\$893,786 thousand, 2000 — 61% or U.S.\$870,232 thousand) of the gross loans to customers balance as of 31 December 2002. Europol Gaz SA is a joint-stock company incorporated in Poland and established for the purpose of constructing and further operating of gas pipelines from Belarus through Poland to Western Europe. Construction began in 1997 and the first pipeline was completed at the end of 1999, allowing gas deliveries to commence to Europe. Construction of the remaining pipeline is scheduled to be completed in 2005. Europol Gaz SA will retain ownership of the pipelines and repay the loan from transport fees it charges for gas shipment via the pipelines. First principal and interest repayments of the Group's loan exposure on Europol Gaz SA began in February 2002.

**Note 15 — Investments in unconsolidated subsidiaries and associates**

Investments in unconsolidated subsidiaries and associates consist of the following investments:

	2002	2001	2000
		(U.S.\$'000)	
Unconsolidated subsidiaries .....	9,066	8,865	8,719
Associates .....	100,574	91,633	77,070
	109,640	100,498	85,789
Less — Allowances for impairment .....	(22,143)	(27,744)	(26,675)
<b>Investments in unconsolidated subsidiaries and associates, net</b> .....	<b>87,497</b>	<b>72,754</b>	<b>59,114</b>

As of 31 December 2002, 2001 and 2000 the Group has investments in the following unconsolidated subsidiaries:

Name	Principal activity	Country	2002		2001		2000	
			Group's holding, %	Cost of investment	Group's holding, %	Cost of investment	Group's holding, %	Cost of investment
				US\$'000		US\$'000		US\$'000
Sibirgazbank .....	Banking	Russia	60%	5,852	60%	5,852	60%	5,852
Raschetno-Depositarneya Kompanya .....	Clearing & Custody	Russia	56%	1,249	60%	1,274	64%	1,316
Sochigazprombank .....	Banking	Russia	85%	822	85%	822	85%	822
Volgobait .....	Information Technology	Russia	94%	613	94%	613	94%	613
Investitsionnaya Kompanya ..	Securities Trading	Russia	98%	162	98%	162	—	—
Commerz Investments .....	Securities Trading	Russia	100%	151	—	—	—	—
Exsor-2000 .....	Catering	Russia	100%	106	100%	106	100%	106
Gaztechleasing .....	Leasing	Russia	100%	92	100%	17	—	—
Tulagiprokhim .....	Chemical	Russia	50%	9	50%	9	—	—
Kompanya Risk-Management Consulting .....	Consulting	Russia	75%	6	75%	6	75%	6
Energoinvest-Finance .....	Real Estate	Russia	100%	4	100%	4	100%	4
Just M .....	Securities Trading	Russia	50%	0	—	—	—	—
				9,066		8,865		8,719

As of 31 December 2002, 2001 and 2000 the Group has investments in the following associates:

Name	Principal activity	Country	2002		2001		2000	
			Group's holding, %	Cost of investment	Group's holding, %	Cost of investment	Group's holding, %	Cost of investment
				US\$'000		US\$'000		US\$'000
AEB .....	Banking	Hungary	26%	65,728	26%	45,580	26%	35,204
Sovfintrade .....	Banking	Russia	26%	17,075	26%	17,075	26%	17,075
Intrustbank .....	Banking	Russia	—	—	22%	11,211	22%	7,592
Gazenergoprombank .....	Banking	Russia	23%	8,558	23%	8,558	37%	5,637
Belgazprombank .....	Banking	Belarus	34%	3,794	34%	3,794	34%	3,794
Severgazbank .....	Banking	Russia	21%	3,584	23%	3,589	40%	5,206
Evropeyskiy .....	Banking	Russia	34%	1,525	33%	1,525	34%	1,525
Sreduralbank .....	Banking	Russia	—	—	—	—	35%	740
Eta & Co. ....	Information Technology	Russia	25%	150	25%	150	30%	150
Spetsialisirovanny Registrator Draga .....	Custody	Russia	20%	80	20%	81	20%	81
Energogazleasing .....	Leasing	Russia	50%	44	50%	44	50%	44
Sofrasi .....	Representative office	France	30%	21	30%	21	30%	22
Ecomet-S .....	Chemical	Russia	27%	9	—	—	—	—
Sibirskaya Investitsionnaya Kompanya .....	Securities Trading	Russia	50%	5	50%	5	—	—
FinCom .....	Securities Trading	Russia	45%	1	—	—	—	—
Birzhevoy Complex .....	Securities Trading	Russia	40%	0	—	—	—	—
				100,574		91,633		77,070

During 2000 the Group sold a portion of its interest in Altalanos Ertekeforgalmi Bank ("AEB"), a Hungarian privately owned commercial bank and, as a result of the sale, lost its ability to control the operations of AEB. Thus the Group's 2000 financial statements consolidate the operations of AEB only up to the date at which the Group still controlled AEB. After this date investments in AEB in which the Group owns 25.52% of the common stock, was accounted for under the equity method. The Group's share of net assets of AEB as of 31 December 2002 was U.S.\$65,728 thousand (2001 — U.S.\$45,580 thousand, 2000 — U.S.\$35,204 thousand). The Group's share of income of AEB for 12 months 2002 net of tax and intercompany profits and losses was U.S.\$8,488 thousand (2001 — U.S.\$9,039 thousand, 2000 — U.S.\$7,134 thousand). This amount was disclosed in the consolidated profit and loss account of the Group as Income from associate. The foreign currency translation reserve in amount of U.S.\$1,421 thousand (2001 — U.S.\$10,282 thousand, 2000 — U.S.\$8,475 thousand) arising from the translation of Hungarian Forints into U.S. dollars has been shown net of deferred tax U.S.\$449 thousand (2001 — U.S.\$3,248 thousand, 2000 — U.S.\$6,394 thousand).

The investments in unconsolidated subsidiaries and in associates other than AEB are accounted for using the cost method. The investments have not been consolidated with the results of the Group nor accounted for under the equity method, as the effect would not materially alter the financial position of the Group as of 31 December 2002 or the results of its operations or cash flows of the Group for the period then ended.

The equity instruments disclosed above (other than AEB) are carried at cost, because they do not have a quoted market price in an active market and other methods of reasonably estimating fair value are unworkable due to the absence of comparable quoted companies and the lack of reliable information for discounted cash flow analysis. It is also currently impossible to calculate the range of estimates within which fair value of the equity investments is highly likely to lie.

The recognition of investment in CJSB "Sovfintrade" on the balance sheet in 2002, 2001 and 2000 in the amount of U.S.\$17,075 thousand relates to restatement of opening balances as of 31 December 1999 due to correction of a fundamental error (see Note 2).

#### **Note 16 — Property, equipment and intangibles**

The movements of property, equipment and intangibles during 2000 — 2002 were as follows:

	Land and buildings	Office equipment and leasehold improvements	Software  (U.S.\$'000)	Assets under construction	Total
<b>Cost of acquisition</b>					
<b>31 December 1999</b> .....	16,838	25,310	2,739	6,369	51,256
Additions .....	1,750	11,451	949	317	14,467
Disposals .....	—	(13,089)	(6)	(2,145)	(15,240)
<b>31 December 2000</b> .....	18,588	23,672	3,682	4,541	50,483
Additions .....	722	11,174	1,209	3,202	16,307
Disposals .....	(1,145)	(182)	(30)	(6,780)	(8,137)
<b>31 December 2001</b> .....	18,165	34,664	4,861	963	58,653
Additions .....	2,377	11,745	549	7,731	22,402
Equipment booked under leasing agreements .....	—	7,898	—	—	7,898
Disposals .....	(138)	(4,307)	(166)	(4,048)	(8,659)
<b>31 December 2002</b> .....	20,404	50,000	5,244	4,646	80,294
<b>Accumulated depreciation and amortization</b>					
<b>31 December 1999</b> .....	242	8,410	1,016	—	9,668
Charge for the year .....	145	1,973	234	—	2,352
Disposals .....	—	(5,014)	(6)	—	(5,020)
<b>31 December 2000</b> .....	387	5,369	1,244	—	7,000
Charge for the year .....	368	6,396	1,304	—	8,068
Disposals .....	(4)	(182)	(30)	—	(216)
<b>31 December 2001</b> .....	751	11,583	2,518	—	14,852
Charge for the year .....	307	8,222	555	—	9,084
Equipment booked under leasing agreements .....	—	7,898	—	—	7,898
Disposals .....	(4)	(730)	(26)	—	(760)
<b>31 December 2002</b> .....	1,054	26,973	3,047	—	31,074
<b>Net book value</b>					
31 December 2000 .....	18,201	18,303	2,438	4,541	43,483
31 December 2001 .....	17,414	23,081	2,343	963	43,801
<b>31 December 2002</b> .....	19,350	23,027	2,197	4,646	49,220

As of 31 December 2002 U.S.\$7,898 thousand of additions to office equipment and leasehold improvements and accumulated depreciation, respectively, relate to fully depreciated office equipment which was received by the Group after the expiration of leasing agreements and is still in use.

**Note 17 — Other assets**

Other assets comprise:

	Note	2002	2001	2000
			(U.S.\$'000)	
Tax assets.....	10	11,034	—	—
Available-for-sale securities.....		5,178	2,795	1,641
Accrued income and deferred expenses.....		3,963	5,277	2,220
Derivative financial assets .....	24	2,371	9,236	4,707
Trade debtors and prepayments .....		2,147	1,192	3,956
Receivable arising from foreign exchange .....		2,083	—	—
Bullion in vault .....		784	481	—
Materials and supplies .....		—	3,043	1,406
Other.....		5,934	5,809	2,202
		33,494	27,833	16,132
Less — Allowance for impairment.....		(2,293)	(966)	(6,249)
<b>Other assets, net.....</b>		<b>31,201</b>	<b>26,867</b>	<b>9,883</b>

**Note 18 — Amounts owed to credit institutions**

Amounts owed to credit institutions comprise:

	2002	2001	2000
		(U.S.\$'000)	
Current accounts.....	148,271	98,307	164,062
Time deposits .....	207,155	143,588	267,624
<b>Amounts owed to credit institutions.....</b>	<b>355,426</b>	<b>241,895</b>	<b>431,686</b>

**Note 19 — Amounts owed to customers**

Amounts owed to customers comprise:

	2002	2001	2000
		(U.S.\$'000)	
Current accounts.....	1,421,287	1,060,112	531,793
Time deposits .....	1,168,834	1,025,991	768,129
<b>Amounts owed to customers .....</b>	<b>2,590,121</b>	<b>2,086,103</b>	<b>1,299,922</b>

Current accounts and time deposits of OAO "Gazprom" Group composed 49% (U.S.\$1,259,708 thousand) of the Group's total amounts owed to customers (2001 — 67% or U.S.\$1,387,770 thousand, 2000 — 73% or U.S.\$950,150 thousand).

The following represents amounts, which were blocked by the Group as collateral against the Bank's placements with Deutsche Bank AG and AEB related to syndicated loans received by OAO "Gazprom" ("escrow accounts"); and as coverage under letters of credit opened with the Bank as of 31 December 2002, 2001 and 2000.

	2002	2001	2000
		(U.S.\$'000)	
Escrow accounts .....	78,390	59,814	127,719
Coverage under letters of credit .....	270,330	454,756	232,813
<b>Blocked customer accounts .....</b>	<b>348,720</b>	<b>514,570</b>	<b>360,532</b>

As of 31 December 2002 the Group had U.S.\$308,052 thousand of subordinated deposits, which mature between 2005 and 2016 (2001 — U.S.\$265,607 thousand, 2000 — U.S.\$90,058 thousand).

**Note 20 — Certificated debts and eurobonds issued**

Certificated debt and Eurobonds issued comprise:

	2002	2001	2000
		(U.S.\$'000)	
Promissory notes issued .....	698,241	493,623	442,322
Certificates of deposit issued .....	32,536	20,305	16,313
Eurobonds issued .....	339,523	173,375	—
	<u>1,070,300</u>	<u>687,303</u>	<u>458,635</u>

Eurobonds issued represent internationally traded Euro Medium Term Notes issued by the Group on 21 December 2001 and 4 October 2002 with the face value of euro 200,000 thousand and euro 150,000 thousand, respectively. The issues mature in December 2003 and October 2005, respectively.

**Note 21 — Other liabilities**

Other liabilities comprise:

	Note	2002	2001	2000
			(U.S.\$'000)	
Operating taxes payable .....		2,916	2,081	1,555
Advances received .....		1,259	—	—
Accrued expenses .....		1,237	—	—
Payable to suppliers.....		1,141	1,695	—
Receivable arising from derivative financial instruments.....	24	299	9,215	14,485
Other.....		2,142	2,177	1,489
<b>Other liabilities</b> .....		<u>8,994</u>	<u>15,168</u>	<u>17,529</u>

**Note 22 — Share capital**

The share capital of the Bank has been contributed by shareholders mainly in foreign currency. Shareholders are entitled to dividends and capital distributions in Rubles. The historical value adjustment of the share capital contributions as of 31 December 2002, 2001 and 2000 was as follows:

	2002	2001	2000
		(U.S.\$'000)	
Share capital in Rubles at period end rate .....	419,446	442,331	473,432
Translation adjustment to reflect historical value of capital contributed .....	487,611	464,726	433,625
	<u>907,057</u>	<u>907,057</u>	<u>907,057</u>

The authorised, issued and outstanding share capital comprised of 13,331,851 ordinary shares as of 31 December 2002, 2001 and 2000. All shares have par value of 1,000 Rubles. The holders of ordinary shares are entitled to receive dividends as annually declared and are entitled to one vote per share at annual and other general meetings of the Bank's shareholders.

As of 31 December 2002 the Group held 289,590 of its own shares (2001 — 264,750, 2000 — nil).

The opening balance of share capital as of 31 December 1999 has been increased by U.S.\$34,156 thousand as a result of restatement due to correction of a fundamental error (see Note 2).

**Note 23 — Accumulated Deficit**

Dividends payable by the Group are restricted to the maximum distributable reserves, which are determined by the amount of reserves as disclosed in the accounts of the Bank prepared in accordance with statutory legislation. As of 31 December 2002, the statutory accounts of the Bank disclosed distributable reserves of U.S.\$104,042 thousand and non-distributable reserves of U.S.\$51,563 thousand (2001 — distributable reserves of U.S.\$87,177 thousand and non-distributable reserves of U.S.\$52,892 thousand). The major part of statutory

non-distributable reserves are General reserves, which represent amounts set aside, as required by the regulations of the Russian Federation, in respect of general banking risks, including future losses and other unforeseen risks or contingencies.

As of 25 April 2003 the Group's Board of Management proposed a dividend payout of U.S.\$24,219 thousand subject to further approval or amendment of the Board of Directors and of shareholders.

#### Note 24 — Derivative financial instruments

The Group enters into deals with derivative financial instruments for trading purposes.

As of 31 December 2002 the Group's derivative financial assets amounted to U.S.\$2,371 thousand (2001 — U.S.\$9,236 thousand, 2000 — U.S.\$4,707 thousand). Derivative financial liabilities amounted to U.S.\$299 thousand (2001 — U.S.\$9,215 thousand, 2000 — U.S.\$14,485 thousand).

The Group's position and fair value of derivatives outstanding as of 31 December 2002 are as follows:

	Notional principal equivalent	Fair value  (U.S.\$'000)	Receivables/ (payables) under derivative contracts
<b>Securities forward contracts</b>			
Assets foreign .....	5,220	5,223	3
	5,220	5,223	3
Assets domestic .....	20,030	22,275	2,245
Liabilities domestic .....	(4,698)	(4,997)	(299)
	15,332	17,278	1,946
<b>Foreign exchange contracts</b>			
Foreign options held .....	20,500	20,623	123
	20,500	20,623	123

The fair value of the Group's position on derivatives was calculated as follows:

- **Bullion contracts** — based on the RUR/gram of gold bullion exchange rate of the Central Bank of the Russian Federation effective as of 31 December 2002 translated into U.S. dollars at closing rate.
- **Securities contracts** — based on closing bid rates for corporate shares and debt securities quoted on MICEX and RTS as of the period-end.

The fair value of these transactions is believed to reflect the credit and other types of economic risk for the Group.

The resulting effect of fair value adjustment of derivatives on the Group's reserves as of 31 December 2002, 2001 and 2000 was U.S.\$2,072 thousand, U.S.\$21 thousand and U.S.\$14,485 thousand, respectively.

The maturities of all derivative financial instruments as of 31 December 2002 are less than one month. Subsequently the deals were settled in the normal course of business.

The Bank entered into US Dollar/Rouble index foreign exchange deals prior to 17 August 1998 which had matured but remain unsettled as of 31 December 2000. These deals were with Russian resident counterparties.

Due to the significant devaluation of the Rouble during late 1998, there has been widespread non-settlement of index forward deals, especially between Russian bank counterparties. A large number of market participants are financially unable to settle their obligations under these deals and in addition, there is uncertainty on a number of grounds as to the enforceability of these deals. Further, there are various issues relating to the documentation underlying such deals which may present problems in their enforceability.

The Bank has been involved in litigation with three counterparties in respect of amounts payable by the Bank under forward deals. In all of these cases the Bank has received a final judgment in its favour and has excluded amounts payable under these deals from the financial statements.

In the financial statements as of 31 December 2000, the Group has recorded receivables and payables under these deals at amounts which management estimates will be achieved through negotiation, as it believes Russian



courts will continue to follow their past practice of holding these contracts legally unenforceable. If the Bank recorded these amounts at market rates prevailing at the date of maturity, the mark to market gain on derivative financial instruments, included within other assets, and the market to market loss on derivative financial instruments, included within other liabilities, would increase by U.S.\$84,306 thousand and U.S.\$106,386 thousand, respectively, excluding any penalties that may be applied to these balances. Additionally, as all forward foreign exchange contracts receivable are with counterparties who are believed to be in financial difficulty, the provision for losses included within other assets would also increase by U.S.\$84,306 thousand, thereby increasing liabilities and decreasing Shareholders' Funds by the amounts detailed above.

During 2001, the Group wrote receivables and payables under these deals as it believes the Russian courts will continue to follow their past practice of holding these contracts legally unenforceable and these deals will never be settled.

Additionally, in the first quarter of 2002, the 3 year enforceability period for all of the Bank's unsettled index foreign exchange deals expired.

## **Note 25 — Cash and cash equivalents**

Cash and cash equivalents as of 31 December 2002, 2001 and 2000 as shown in the consolidated cash flow statement comprised:

	2002	2001	2000
		(U.S.\$'000)	
Cash on hand .....	61,064	42,130	26,459
Current account with the Central Bank of the Russian Federation.....	232,674	239,359	78,164
Due from credit institutions:			
— Current accounts .....	618,997	503,270	341,506
— Time deposits with a maturity of three months or less when originated.....	98,731	240,520	278,112
<b>Cash and cash equivalents .....</b>	<b>1,011,466</b>	<b>1,025,279</b>	<b>724,421</b>

## **Note 26 — Risk management policies**

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The Group considers risk management and risk controls to be vitally important aspects of its business operations and management activities, establishing and integrating these functions into corporate organization in the form of continuous process. The Group has set internal standards of risk transparency as the basis for controlling, limiting and managing risks. The Group has recently established a Risk Management Department, which will directly report to the Board of Management and is responsible for developing methods used to measure risks and for independently measuring and monitoring risks on an ongoing basis.

In addition to that, the Group has an Internal Audit Department, one of the activities of which is aimed specifically at preventing losses for the Group and its customers. Management believes that all the regulatory requirements of the Central Bank of the Russian Federation regarding an internal audit function are fully satisfied.

The main risks inherent to the Group's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Group's risk management policies in relation to those risks follows.

### **Credit risk**

The Group is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group 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. Such risks are monitored on a revolving basis and subject to a quarterly or more frequent review. Limits on the level of credit risk by borrowers are approved on a monthly basis by the Credit Committee.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering balance and off-balance sheet exposures which are set by the Credit Committee which is called once a week. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal 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 credit risk exposure on derivatives is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments.

Credit-related commitments ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, are analyzed as part of the credit risk exposure on a customer and are assigned the same credit rating as loans to this customer. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are frequently fully or partially covered by the funds deposited by customers and therefore bear no credit risk.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

The Group's credit policy is approved and periodically reviewed by the Board of Management.

The geographical concentration of banking assets and liabilities as of 31 December 2002, 2001 and 2000 follows.

	2002			Total
	Russia	OECD	Other non-OECD	
	(U.S.\$'000)			
<b>Assets</b>				
Cash and due from CBR .....	512,604	—	—	512,604
Credit institutions, net .....	151,756	910,640	14,444	1,076,840
Trading securities .....	810,074	—	—	810,074
Derivatives .....	2,245	126	—	2,371
Loans to customers, net .....	1,278,450	1,003,487	87,976	2,369,913
	<u>2,755,129</u>	<u>1,914,253</u>	<u>102,420</u>	<u>4,771,802</u>
<b>Liabilities</b>				
Credit institutions .....	245,591	107,026	2,809	355,426
Derivatives .....	299	—	—	299
Customers .....	2,557,694	—	32,427	2,590,121
Certificated debts and Eurobonds .....	730,777	339,523	—	1,070,300
	<u>3,534,361</u>	<u>446,549</u>	<u>35,236</u>	<u>4,016,146</u>
<b>Net position</b> .....	<u>779,232</u>	<u>1,467,704</u>	<u>67,184</u>	<u>755,656</u>
	2001			Total
	Russia	OECD	Other non-OECD	
	(U.S.\$'000)			
<b>Assets</b>				
Cash and due from CBR .....	452,871	—	—	452,871
Credit institutions, net .....	36,242	1,206,659	35,125	1,278,026
Trading securities .....	255,322	—	—	255,322
Derivatives .....	9,236	—	—	9,236
Loans to customers, net .....	623,740	933,206	124,384	1,681,330
	<u>1,377,411</u>	<u>2,139,865</u>	<u>159,509</u>	<u>3,676,785</u>
<b>Liabilities</b>				
Credit institutions .....	149,151	90,796	1,948	241,895
Derivatives .....	9,215	—	—	9,215
Customers .....	2,063,466	9,779	12,858	2,086,103
Certificated debts and Eurobonds .....	500,979	186,324	—	687,303
	<u>2,722,811</u>	<u>286,899</u>	<u>14,806</u>	<u>3,024,516</u>
<b>Net position</b> .....	<u>1,345,400</u>	<u>1,852,966</u>	<u>144,703</u>	<u>652,269</u>

	2000			
	Russia	OECD	Other non-OECD	Total
	(U.S.\$'000)			
<b>Assets</b>				
Cash and due from CBR .....	256,390	9,052	—	265,442
Credit institutions, net .....	18,936	843,774	34,646	897,356
Trading securities .....	284,062	—	—	284,062
Loans to customers, net .....	392,308	903,836	81,979	1,378,123
	<u>951,696</u>	<u>1,756,662</u>	<u>116,625</u>	<u>2,824,983</u>
<b>Liabilities</b>				
Credit institutions .....	282,082	148,835	769	431,686
Customers .....	1,298,113	615	1,194	1,299,922
Certificated debts and Eurobonds .....	442,703	—	15,932	458,635
	<u>2,022,898</u>	<u>149,450</u>	<u>17,895</u>	<u>2,190,243</u>
<b>Net position</b> .....	<u>(1,071,202)</u>	<u>1,607,212</u>	<u>98,730</u>	<u>634,740</u>

### Liquidity risk

The Group is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs, guarantees and from margin and other derivatives settled by cash. The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

The Asset and Liability Management Committee sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The contractual maturities of monetary assets and liabilities as of 31 December 2002, 2001 and 2000 follow.

	2002						
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
	(U.S.\$'000)						
<b>Assets</b>							
Cash and due from CBR....	392,014	12,161	8,018	59,886	17,291	23,234	512,604
Credit institutions, net .....	615,622	356,404	1,859	32,340	6,316	61,359	1,076,840
Trading securities .....	810,074	—	—	—	—	—	810,074
Derivatives .....	—	2,371	—	—	—	—	2,371
Loans to customers, net ...	25,906	269,208	356,024	521,759	528,167	660,496	2,369,913
	<u>1,843,616</u>	<u>640,114</u>	<u>365,901</u>	<u>613,985</u>	<u>551,774</u>	<u>745,089</u>	<u>4,771,802</u>
<b>Liabilities</b>							
Credit institutions.....	148,271	126,744	8,972	8,144	8,284	55,011	355,426
Derivatives .....	—	299	—	—	—	—	299
Customers.....	1,421,287	25,749	41,811	708,444	38,223	354,607	2,590,121
Certificated debts and Eurobonds.....	97,930	88,660	82,920	369,210	424,756	6,824	1,070,300
	<u>1,667,488</u>	<u>241,452</u>	<u>133,703</u>	<u>1,085,798</u>	<u>471,263</u>	<u>416,442</u>	<u>4,016,146</u>
<b>Net position</b> .....	<u>176,128</u>	<u>398,692</u>	<u>232,198</u>	<u>(471,813)</u>	<u>80,511</u>	<u>328,647</u>	<u>755,656</u>
<b>Accumulated gap</b> .....	<u>176,128</u>	<u>574,820</u>	<u>807,018</u>	<u>335,205</u>	<u>415,716</u>	<u>744,363</u>	<u>755,656</u>

	2001							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Overdue	Total
	(U.S.\$'000)							
<b>Assets</b>								
Cash and due from CBR....	281,489	77,647	10,941	32,579	33,836	16,379	—	452,871
Credit institutions, net .....	503,270	219,285	21,235	260,408	235,292	38,536	—	1,278,026
Trading securities .....	255,322	—	—	—	—	—	—	255,322
Derivatives .....	—	9,236	—	—	—	—	—	9,236
Loans to customers, net ...	—	145,842	146,812	208,160	121,697	1,049,904	8,915	1,681,330
	<u>1,040,081</u>	<u>452,010</u>	<u>178,988</u>	<u>501,147</u>	<u>390,825</u>	<u>1,104,819</u>	<u>8,915</u>	<u>3,676,785</u>
<b>Liabilities</b>								
Credit institutions.....	98,307	1,977	2,000	127,160	12,451	—	—	241,895
Derivatives .....	—	9,215	—	—	—	—	—	9,215
Customers.....	1,060,112	2,020	77,380	383,640	293,375	269,576	—	2,086,103
Certificated debts and Eurobonds.....	—	171,938	102,062	151,762	261,413	128	—	687,303
	<u>1,158,419</u>	<u>185,150</u>	<u>181,442</u>	<u>662,562</u>	<u>567,239</u>	<u>269,704</u>	<u>—</u>	<u>3,024,516</u>
<b>Net position</b> .....	<u>(118,338)</u>	<u>266,860</u>	<u>(2,454)</u>	<u>(161,415)</u>	<u>(176,414)</u>	<u>835,115</u>	<u>8,915</u>	<u>652,269</u>
<b>Accumulated gap</b> .....	(118,338)	148,522	146,068	15,347	191,761	643,354	652,269	

	2000							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Overdue	Total
	(U.S.\$'000)							
<b>Assets</b>								
Cash and due from CBR....	26,459	190,344	17,910	13,608	7,907	9,214	—	265,442
Credit institutions, net .....	341,506	86,914	191,198	30,700	246,491	547	—	897,356
Trading securities .....	284,062						—	284,062
Loans to customers, net ...		23,051	88,243	179,905	256,309	813,059	17,556	1,378,123
	652,027	300,309	297,351	224,213	510,707	822,820	17,556	2,824,983
<b>Liabilities</b>								
Credit institutions.....	164,589	104,050	151,865	5,670	5,512	—	—	431,686
Customers.....	537,371	38,020	82,357	321,541	218,869	101,764	—	1,299,922
Certificated debts and Eurobonds.....	—	128,161	122,162	82,843	125,285	184	—	458,635
	701,960	270,231	356,384	410,054	349,666	101,948	—	2,190,243
<b>Net position</b> .....	(49,933)	30,078	(59,033)	185,841	161,041	720,872	17,556	634,740
<b>Accumulated gap</b> .....	(49,933)	(19,855)	(78,888)	(264,729)	(103,688)	617,184	634,740	

### Interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

Interest rate risk is managed by increasing or decreasing positions within limits, specified by the Group's management. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest-sensitive assets and liabilities.

The Group's interest rate policy is reviewed and approved by the Asset and Liability Management Committee. The Group's average effective interest rates as of 31 December 2002, 2001 and 2000 for monetary financial instruments follow.

	2002		
	Rubles	US Dollars	Other foreign currencies
<b>Interest earning assets</b>			
Credit institutions:			
— current accounts .....	0.7%	0.9%	0.9%
— term deposits .....	9.2%	2.6%	2.0%
Trading securities:			
— State bonds .....	14.5%	7.0%	9.1%
— Eurobonds .....	14.2%	10.1%	10.0%
— Promissory notes.....	15.3%	6.6%	—
Loans to customers:			
— individuals.....	21.0%	11.4%	2.3%
— enterprises .....	21.4%	13.0%	11.5%
<b>Interest bearing liabilities</b>			
Credit institutions:			
— current accounts .....	0.8%	1.4%	0.1%
— term deposits .....	12.5%	4.1%	7.5%
Customers:			
— current accounts .....	0.8%	0.4%	0.5%
— term deposits .....	7.7%	3.6%	2.6%
Certificated debts.....	2.9%	2.2%	3.2%
Eurobonds.....	—	—	9.8%

	2001		
	Rubles	US Dollars	Other foreign currencies
<b>Interest earning assets</b>			
Credit institutions:			
— current accounts .....	0.8%	1.0%	1.0%
— term deposits .....	21.2%	2.3%	3.9%
Trading securities:			
— State bonds .....	16.0%	12.1%	—
— Eurobonds .....	—	10.1%	7.1%
— Promissory notes.....	25.1%	—	—
Loans to customers:			
— individuals.....	12.6%	10.7%	15%
— enterprises .....	16.6%	6.3%	7.9%
<b>Interest bearing liabilities</b>			
Credit institutions:			
— current accounts .....	1.5%	1.0%	1.0%
— term deposits .....	7.0%	10.9%	6.4%
Customers:			
— current accounts .....	0.2%	0.1%	—
— term deposits .....	12.6%	3.8%	0.7%
Certificated debts.....	11.7%	6.6%	6.5%
Eurobonds.....	—	—	10.7%

	2000		
	Rubles	US Dollars	Other foreign currencies
<b>Interest earning assets</b>			
Credit institutions:			
— current accounts .....	0.8%	1.0%	0.9%
— term deposits .....	23.6%	5.0%	4.9%
Trading securities:			
— State bonds .....	23.2%	26.5%	—
— Eurobonds .....	—	15.9%	—
— Promissory notes.....	20.0%	—	—
Loans to customers:			
— individuals.....	4.7%	11.5%	11.4%
— enterprises .....	16.0%	10.1%	11.0%
<b>Interest bearing liabilities</b>			
Credit institutions:			
— current accounts .....	0.6%	1.0%	1.0%
— term deposits .....	17.7%	12.2%	12.0%
Customers:			
— current accounts .....	0.0%	0.4%	0.5%
— term deposits .....	11.6%	3.7%	3.5%
Certificated debts.....	13.0%	7.6%	7.6%
Eurobonds.....	—	—	—

### Foreign exchange rate risk

The Group has assets and liabilities denominated in several foreign currencies. The Group's financial position and cash flows are exposed to the effects of fluctuations in the prevailing foreign currency exchange rates.

The Group's Asset and Liability Management Committee sets limits on the level of exposure by currency. These limits also comply with the minimum requirements of the Central Bank of the Russian Federation.

The Group's exposure to foreign currency exchange rate risk follows.

	2002			
	Rubles	US Dollars	Other	Total
	(U.S.\$'000)			
<b>Assets</b>				
Cash and due from CBR .....	494,050	13,393	5,161	512,604
Credit institutions, net.....	114,964	537,797	424,079	1,076,840
Trading securities.....	511,841	263,115	35,118	810,074
Loans to customers, net.....	625,782	1,492,702	251,429	2,369,913
Unconsolidated subsidiaries and associates.....	21,748	65,728	21	87,497
Property, equipment and intangibles.....	49,220	—	—	49,220
Other assets, net.....	28,696	2,505	—	31,201
	1,846,301	2,375,240	715,808	4,937,349
<b>Liabilities</b>				
Credit institutions .....	188,907	88,341	78,178	355,426
Customers .....	854,985	1,304,692	430,444	2,590,121
Certificated debts and Eurobonds .....	583,007	138,059	349,234	1,070,300
All other liabilities .....	88,119	299	—	88,418
	1,715,018	1,531,391	857,856	4,104,265
<b>Net balance sheet position.....</b>	131,283	843,849	(142,048)	833,084

	2001			
	Rubles	US Dollars	Other	Total
	(U.S.\$'000)			
<b>Assets</b>				
Cash and due from CBR .....	436,479	11,832	4,560	452,871
Credit institutions, net .....	24,281	803,720	450,025	1,278,026
Trading securities .....	174,397	68,673	12,252	255,322
Loans to customers, net .....	362,403	1,239,609	79,318	1,681,330
Unconsolidated subsidiaries and associates .....	23,359	45,580	3,815	72,754
Property, equipment and intangibles .....	43,801	—	—	43,801
Other assets, net .....	21,179	5,688	—	26,867
	<u>1,085,899</u>	<u>2,175,102</u>	<u>549,970</u>	<u>3,810,971</u>
<b>Liabilities</b>				
Credit institutions .....	19,129	125,386	97,380	241,895
Customers .....	800,597	819,243	466,263	2,086,103
Certificated debts and Eurobonds .....	399,382	108,726	179,195	687,303
All other liabilities .....	81,698	—	—	81,698
	<u>1,300,806</u>	<u>1,053,355</u>	<u>742,838</u>	<u>3,096,999</u>
<b>Net balance sheet position</b> .....	<u>(214,907)</u>	<u>1,121,747</u>	<u>(192,868)</u>	<u>713,972</u>

	2000			
	Rubles	US Dollars	Other	Total
	(U.S.\$'000)			
<b>Assets</b>				
Cash and due from CBR .....	256,390	9,052	—	265,442
Credit institutions, net .....	15,393	598,002	283,961	897,356
Trading securities .....	183,661	100,401	—	284,062
Loans to customers, net .....	173,687	1,143,767	60,669	1,378,123
Unconsolidated subsidiaries and associates .....	23,888	35,204	22	59,114
Property, equipment and intangibles .....	43,483	—	—	43,483
Other assets, net .....	9,883	—	—	9,883
	<u>706,385</u>	<u>1,886,426</u>	<u>344,652</u>	<u>2,937,463</u>
<b>Liabilities</b>				
Credit institutions .....	34,918	291,312	105,456	431,686
Customers .....	378,060	629,880	291,982	1,299,922
Certificated debts and Eurobonds .....	350,112	93,253	15,270	458,635
All other liabilities .....	99,911	—	—	99,911
	<u>863,001</u>	<u>1,014,445</u>	<u>412,708</u>	<u>2,290,154</u>
<b>Net balance sheet position</b> .....	<u>(156,616)</u>	<u>871,981</u>	<u>(68,056)</u>	<u>647,309</u>

#### Note 27 — Related parties

Related parties, as defined by IAS 24, are those counter parties that represent:

- (a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);
- (b) associates — enterprises in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group, and anyone expected to influence, or be influenced by, that person in their dealings with the Group;



(d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group and close members of the families of such individuals; and

(e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding with related parties:

	2002		2001		2000	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
	(U.S.\$'000)					
Due from credit institutions, gross ....	419,863	1,097,078	271,981	1,313,072	380,278	902,035
Trading securities .....	584,567	810,074	170,162	255,322	170,891	284,062
Loans to customers, gross.....	1,765,714	2,548,119	1,189,903	1,815,078	1,044,300	1,427,743
Amounts owed to credit institutions .	81,095	355,426	113,977	241,895	140,249	431,686
Amounts owed to customers .....	1,501,795	2,590,121	1,387,770	2,086,103	950,150	1,299,922
Certificated debt .....	199,472	730,777	247,647	513,928	172,327	458,635
Undrawn loan commitments.....	217,284	436,263	204,500	292,716	202,584	227,996
Letters of credit .....	131,083	274,233	368,205	368,355	309,423	318,922
Guarantees given .....	41,265	88,333	75,213	94,366	30,711	72,407
<b>Income and expenses</b>						
Interest income .....	97,426	261,778	110,268	234,764	—	226,483
Dealing profits (losses), net .....	(6,231)	58,622	(3,670)	83,669	—	16,339
Fees and commissions income .....	21,995	51,845	16,939	33,665	—	21,117
Interest expense .....	31,366	153,187	83,860	142,168	—	143,884

#### Note 28 — Financial commitments and contingencies

##### (a) Credit related financial commitments

The credit related financial commitments as of 31 December 2002, 2001 and 2000 comprise:

	2002	2001	2000
	(U.S.\$'000)		
Undrawn loan commitments .....	436,263	292,716	227,996
Letters of credit .....	274,233	368,355	318,922
Guarantees given .....	88,333	94,366	72,407
	<u>798,829</u>	<u>755,437</u>	<u>619,325</u>

The Group's management evaluated the likelihood of possible losses arising from credit related commitments and concluded that a provision of U.S.\$7,396 thousand was necessary as of 31 December 2002 (2001 — U.S.\$9,254 thousand, 2000 — U.S.\$7,927 thousand).

(b) *Operating lease obligations*

In the normal course of business, the Group enters into operating lease agreements for office equipment and branch facilities. Future minimum payments under non-cancellable operating leases are as follows:

	2002	2001	2000
	(U.S.\$'000)		
Not later than 1 year.....	916	4,910	1,416
Later than 1 year and not later than 5 years .....	10,890	7,361	3,725
Later than 5 years .....	3,589	6,415	4,778
	15,395	18,686	9,919

(c) *Capital commitments*

In the normal course of business, the Group enters into contracts for construction and repair works of the Banks' buildings, with suppliers of consulting and systems services and other. As of 31 December 2002, 2001 and 2000, there were no material future contracted liabilities with respect to these contracts.

(d) *Legal*

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

(e) *Insurance*

The Group has not currently obtained insurance coverage related to property owned or liabilities arising from errors or omissions except for insurance coverage for the Group's vehicles. Liability insurance is generally not available in the Russian Federation at present.

(f) *Operating environment*

Over the past two years the Russian Federation has begun the transformation to a developed economy, with all the relevant implications for politics, corporate behaviour and financial markets. A GDP growth of 4.3% in 2002 was accompanied by continuous strengthening of Russia's finances, evidenced by high fiscal surplus, surging corporate profits, boosting of currency reserves and appreciation of the Ruble in real terms, stability of the FOREX market and further monetarisation of the economy. The major benefits of these developments are easing in external debt payments and suppression of inflation, growth of domestic fixed-capital investment and start of restructuring in the industrial sector, revival of Russia's banking sector and a boost of the corporate bond market.

Nevertheless, operations in the Russian Federation still involve risks that are not typically associated with those in developed economies. Such risks persist in the current environment with results that include, but are not limited to, a currency that is not freely convertible outside of the country, various currency controls, low liquidity levels for debt and equity markets, dependence of the economy on raw materials export and lack of progress in structural reforms (land, pension system, natural monopolies).

**Note 29 — Capital Adequacy**

The Central Bank of the Russian Federation requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on RAL. As of 31 December 2002, 2001 and 2000, the Bank's capital adequacy ratio calculated on this basis exceeded the statutory minimum.

The Group's international risk based capital adequacy ratio as of 31 December 2002, 2001 and 2000 was 28.4%, 28.6% and 28.0%, respectively, which exceeds the minimum ratio of 8% recommended by the Basel Accord.

The ratio is calculated in accordance with the rules set forth by the Basel Accord, using the following risk weightings:

Weighting	Description of items
0%	Cash, amounts with the Central Bank of Russia and claims on the Government of the Russian Federation denominated in Rubles and funded in Rubles
20%	Due from OECD credit institutions
20%	Due from non-OECD credit institutions maturing within one year
100%	Loans to customers
100%	All other assets
	Off-balance sheet items
0%	Undrawn loan commitments maturing within one year
20%	Guarantees issued in favour of OECD credit institutions
50%	Undrawn loan commitments maturing in over one year and all standby letters of credit issued
100%	All other guarantees issued
1% – 5%	Foreign exchange contracts
0% – 0.5%	Interest rate contracts

Capital is calculated as the total of restricted and unrestricted components of equity, plus the Group's general allowances for loans losses, to the extent that these general reserves for loan losses do not exceed 1.25% of risk weighted assets.

### Note 30 — Partial disposal of subsidiary

During 2000 the Group relinquished control of AEB by selling a portion of its controlling interest in AEB. The fair value of the assets and liabilities disposed at the disposal date in U.S.\$ thousand were as follows:

	2000 (U.S.\$'000)
<b>Assets</b>	
Cash and cash equivalents .....	106,661
Due from Central Bank of Hungary.....	35,936
Placements with banks and other financial institutions, net .....	292,176
Securities held for trading .....	53,082
Loans to customers, net.....	371,999
Property, equipment and intangibles, net .....	10,706
Available-for-sale securities .....	24,032
Other assets, net.....	14,407
<b>Total assets.....</b>	<b>883,886</b>
<b>Liabilities</b>	
Deposits and balances from banks and other financial institutions.....	345,647
Current accounts and deposits from customers .....	350,118
Subordinated loan .....	60,000
Deferred tax liability .....	3,530
Other liabilities .....	32,516
<b>Total liabilities.....</b>	<b>755,765</b>
Cash proceeds from sale of investment.....	15,200
Less: cash of AEB disposed.....	(106,661)
<b>Proceeds from the partial sale of subsidiary, net of cash disposed .....</b>	<b>(91,461)</b>

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