



**U.S.\$275,000,000**

**8.625 per cent. Loan Participation Notes due 2008**

issued with limited recourse by

Eurasia Capital S.A.

for the sole purpose of financing a loan to

**Home Credit & Finance Bank Limited Liability Company**

**Issue Price: 100 per cent.**

Eurasia Capital S.A. (the “**Issuer**”) is issuing an aggregate principal amount of U.S.\$275,000,000 8.625 per cent. Loan Participation Notes due 2008 (the “**Notes**”) for the sole purpose of financing a loan (the “**Loan**”) to Home Credit & Finance Bank Limited Liability Company (“**HCFB**”) pursuant to a loan agreement dated 23 June 2005 (the “**Loan Agreement**”) between the Issuer and HCFB. Subject as provided in the Trust Deed (as defined herein), the Issuer (i) will charge, by way of first fixed charge, in favour of J.P. Morgan Corporate Trustee Services Limited (the “**Trustee**”) as trustee for the benefit of the holders of the Notes (the “**Noteholders**”), as security for its payment obligations in respect of the Notes and under the Trust Deed certain of its rights and interests under the Loan Agreement and the Lender Account (as defined in the Loan Agreement), and (ii) will assign certain of its administrative rights under the Loan Agreement to the Trustee, all as more fully described under “Description of the Transaction”.

The Notes are limited recourse obligations of the Issuer. In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of 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 all principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement excluding, however, any amounts paid in respect of Reserved Rights (as defined in the Trust Deed). The Issuer will have no other financial obligation under the Notes. **Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the credit and financial standing of HCFB in respect of the financial servicing of the Notes.**

Interest on the Notes will be payable at the rate of 8.625 per cent. per annum semi-annually in arrear on 30 June and 30 December in each year commencing on 30 December 2005 as described under “Terms and Conditions of the Notes-Interest”. The issue price of the Notes is 100 per cent. of their principal amount.

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 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 of the provisions in the Loan Agreement or have direct recourse to HCFB 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 “RISK FACTORS” BEGINNING ON PAGE 10.**

**The Notes have not been and will not be registered under the U.S. Securities Act of 1933 (the “Securities Act”) and, subject to certain exceptions, may not be offered and sold within the United States.**

Application has been made to the Financial Service Authority, in its capacity as competent authority (the “**UK Listing Authority**”) under the Financial Services and Markets Act 2000 (the “**FSMA**”), for the Notes to be admitted to the official list of the UK Listing Authority (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Notes to be admitted to trading on the London Stock Exchange’s market for listed securities. Admission to the Official List of the UK Listing Authority, together with admission to trading on the London Stock Exchange’s market for listed securities, constitutes official listing on a stock exchange. A copy of this document, including the appendices, which comprises listing particulars, has been delivered to the Registrar of Companies in England and Wales as required by Section 83 of the FSMA.

The Notes will be issued in registered form in denominations of U.S.\$100,000 or higher integral multiples of U.S.\$1,000, without interest coupons attached. The Notes will initially be represented by a global certificate (the “**Global Certificate**”), without interest coupons, registered in the name of a nominee, and deposited with a common depository for Euroclear Bank S.A./N.V. as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”), on or about 27 June 2005. The Global Certificate will only be exchangeable for definitive certificates (“**Definitive Certificates**”) in the limited circumstances described under “Summary of the Provisions relating to the Notes in Global Form”.

*Joint Lead Managers*

**ING Financial Markets**

**Merrill Lynch International**

*Co-Manager*

**PPF Banka**

The date of this Offering Circular is 23 June 2005.

This offering circular (the “**Offering Circular**”) (including the financial statements and the Appendix attached hereto) comprises listing particulars given in compliance with the listing rules made under Section 74 of the FSMA by the UK Listing Authority for the purpose of giving information with respect to HCFB, the Issuer, the Loan and the Notes. Each of HCFB and the Issuer accepts responsibility for the information contained in this document. To the best of the knowledge and belief of HCFB and the Issuer (which have taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

HCFB, having made all reasonable enquiries, confirms that (i) this offering circular contains all information with respect to HCFB and its subsidiaries, the Loan Agreement and the Notes that is material in the context of the issue and offering of the Notes; (ii) the statements contained in this Offering Circular relating to HCFB and its subsidiaries are in every material respect true and accurate and not misleading; (iii) the opinions, expectations and intentions expressed in this Offering Circular with regard to HCFB and its subsidiaries are honestly held, have been reached after considering all relevant circumstances, and are based on reasonable assumptions; (iv) there are no other facts in relation to HCFB and its subsidiaries, the Loan Agreement or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Offering Circular misleading in any material respect; and (v) all reasonable enquiries have been made by HCFB to ascertain such facts and to verify the accuracy of all such information and statements.

Information contained in this Offering Circular relating to the Russian banking sector and information on the competitors of HCFB (which may include estimates and approximations) was derived from publicly available information, including press releases and filings under various banking and securities laws. HCFB accepts responsibility for accurately reproducing such information and data. However, HCFB has relied on the accuracy of such information without carrying out an independent verification. In addition, HCFB has derived some of the information contained in this Offering Circular from official data published by Russian government agencies, such as the Central Bank of the Russian Federation (the “**CBR**”). HCFB confirms that it has copied this information correctly from its sources. However, HCFB does not accept responsibility for the accuracy of such information. See “Risk Factors—Risk Factors Relating to the Russian Federation—Lack of Reliable Official Data”.

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

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

**In connection with this issue, Merrill Lynch International (the “Stabilising Manager”) (or any person acting for it) may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Manager 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. Such stabilising will be in compliance with all applicable laws, regulations and rules.**

**NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE MANAGERS AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS DOCUMENT, AND NOTHING CONTAINED IN THIS DOCUMENT IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION, WHETHER AS TO THE PAST OR THE FUTURE. NONE OF THE MANAGERS ASSUMES ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS DOCUMENT. EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN THE NOTES MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF HCFB AND THE ISSUER 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.**

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## **FORWARD-LOOKING STATEMENTS**

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

HCFB is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Offering Circular whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to HCFB, or persons acting on HCFB’s behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Offering Circular. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward-looking statements.

## ENFORCEABILITY OF JUDGMENTS

HCFB is a corporation organised under the laws of the Russian Federation. None of the members of the Board of Directors and executive officers of HCFB is a resident of England. As a result, it may not be possible for the Trustee, acting on behalf of the Noteholders, to effect service of process within England upon HCFB, although, under the Loan Agreement HCFB has appointed an agent for service of process in England. Moreover, all or a substantial portion of the assets of HCFB and such persons are located outside England. As a result, it may not be possible for the Trustee, acting on behalf of the Noteholders, to enforce against HCFB or any such persons court judgments obtained in English courts.

Russian courts may not enforce any judgment obtained in a court established in a country other than Russia unless there is a treaty in effect between such country and Russia providing the reciprocal recognition and enforcement of court judgments. No such treaty exists between the Russian Federation and the United Kingdom. Even if there were such a treaty, Russian courts may nonetheless refuse to recognise and enforce a foreign court judgment on the grounds provided in such treaty and in Russian legislation in effect on the date of which such recognition and enforcement is sought. In September 2002, the new Arbitrazh Procedural Code of the Russian Federation came into force, providing for the procedures of recognition and enforcement of judgments and introducing an extensive list of grounds for refusal of such recognition and enforcement of judgments. However, Russian procedural legislation may further change and no assurance can be given that there could be no other ground for refusal in the future.

The Loan Agreement provides that if any dispute or difference arises from or in connection with the Loan Agreement the Lender may elect, by notice in writing to HCFB, to settle the claim by arbitration in accordance with the Rules of the LCIA (formerly known as the London Court of International Arbitration). The seat of any arbitration will be London, England. The United Kingdom and Russian Federation are parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “**New York Convention**”). Consequently, Russian courts should generally recognise and enforce in the Russian Federation an arbitral award from an arbitral tribunal in the United Kingdom, on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and other procedures and requirements established by Russian legislation). See “Risk Factors—Risk Relating to the Russian Federation—Foreign court judgments and arbitral awards”.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### Presentation of Financial Information

HCFB's financial information set forth herein, has, unless otherwise indicated, been derived from its unaudited consolidated interim balance sheet and consolidated interim statements of income and cash flows as of and for the three months ended 31 March 2005 and 2004 (the "**Interim Financial Statements**") and its audited consolidated balance sheet and consolidated statements of income, cash flows and changes in equity as of and for the years ended 31 December 2004 and 2003 (the "**Annual Financial Statements**") and together with the Interim Financial Statements, the "**Financial Statements**"), in each case prepared in accordance with International Financial Reporting Standards ("**IFRS**"). The Annual Financial Statements have been audited by HCFB's independent auditors, KPMG Limited ("**KPMG**"), located at 11, Gogolevsky Boulevard, Moscow, 121019, Russia, in accordance with International Standards on Auditing ("**ISA**"). KPMG have expressed an unqualified opinion on the Annual Financial Statements. The Interim Financial Statements have been reviewed (but not audited) by KPMG. In the opinion of HCFB, the Interim Financial Statements contain all necessary adjustments consisting of only normal recurring accruals which are necessary for a fair presentation of such financial data. The Financial Statements, including the audit opinion of KPMG, are set out on pages F-2 to F-45 of this Offering Circular.

Effective from 1 January 2003, international accounting and financial reporting bodies have determined that the Russian Federation no longer meets the criteria of IAS 29 for hyperinflation. Beginning in 2003, HCFB ceased applying IAS 29 and only recognises the cumulative impact of inflation indexing through 31 December 2002, on non-monetary elements of the financial statements. Monetary items and results of operations as of and for the three months ended 31 March 2005 and 2004 and the year ended 31 December 2004 and 2003 are reported at actual, nominal amounts.

Effective from 1 January 2005, international accounting and financial bodies have revised IAS 32. Such revision impacts the definition of "equity" for Russian limited liability companies. This is due to the fact that a participant of a Russian limited liability company may request the withdrawal of its share in the net assets of the company. Starting from 1 January 2005, the net assets of a Russian limited liability company are classified as "net assets attributable to participants". Accordingly, the net assets of HCFB in the Interim Financial Statements are reported under the definition "net assets attributable to participants". As the revision to the standard came into effect only from 1 January 2005, in previously issued financial statements of HCFB, including the Annual Financial Statements, the net assets of HCFB are reported under the definition "equity". The net assets of HCFB as of 31 December 2004 and 2003 included elsewhere in this Offering Circular were restated to reflect the changes in IAS 32 discussed above.

The Rouble has been selected as the measurement currency for the Financial Statements, as the majority of HCFB's transactions are denominated or measured in Roubles. Monetary assets and liabilities denominated in foreign currencies are translated into Roubles at the official rate of the CBR at the relevant balance sheet date.

Solely for the convenience of the reader, and except as otherwise stated, this Offering Circular contains translations of some Rouble amounts into U.S. Dollars at a conversion rate of RUB 28.1946 to U.S.\$1, which was the official exchange rate quoted by the CBR on 1 June 2005.

### Currency

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

- "**U.S. Dollar**" or "**U.S.\$**" means the lawful currency of the United States;
- "**RUB**", "**Russian Rouble**" or "**Rouble**" means the lawful currency of the Russian Federation;
- "**EUR**", "**Euro**" or "**€**" means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended; and
- "**CZK**" or "**Czech Koruna**" means the lawful currency of The Czech Republic.

### Rounding

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



## THE OFFERING

<b>The Offer:</b>	U.S.\$275,000,000 8.625 per cent. Loan Participation Notes due 2008 in reliance on Regulation S under the Securities Act.
<b>Issuer:</b>	Eurasia Capital S.A.
<b>Borrower:</b>	Home Credit & Finance Bank Limited Liability Company with its registered office at 317A Zelenograd, Moscow, 124482, Russian Federation.
<b>Trustee:</b>	J.P. Morgan Corporate Trustee Services Limited
<b>Principal Paying Agent, Paying Agent and Transfer Agent:</b>	JPMorgan Chase Bank, N.A.
<b>Paying Agent, Registrar and Transfer Agent:</b>	J.P.Morgan Bank Luxembourg S.A.  A register of the Notes shall be kept at the registered office of the Issuer. In case of inconsistency between the register of the Notes kept by the Registrar and the one kept by the Issuer at its registered office, the register kept by the Issuer at its registered office shall prevail.
<b>Issue Price:</b>	100 per cent. of the principal amount of the Notes.
<b>Use of Proceeds:</b>	The Issuer will use the proceeds of the issue of the Notes for the sole purpose of financing the Loan. The proceeds from the Loan will be used by HCFB to fund its portfolio of consumer loans and advances under credit cards and for general banking purposes. See "Use of Proceeds".
<b>Interest:</b>	On each Interest Payment Date (being 30 June and 30 December in each year commencing on 30 December 2005) the Issuer shall account to Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement, which interest is equivalent to 8.625 per cent. per annum.
<b>Limited Recourse:</b>	The Notes will constitute the obligation of the Issuer to apply an amount equal to the net proceeds from the issue of the Notes solely for the purpose of financing the Loan to HCFB pursuant to the terms of the Loan Agreement. The Issuer will only account to the Noteholders for all amounts equivalent to those (if any) received from HCFB under the Loan Agreement.
<b>Security:</b>	The Notes are secured by (i) a first fixed 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) certain of the Issuer's rights and interests as lender under the Loan Agreement, and (b) the Issuer's rights, title and interest in and all sums held on deposit in the Lender Account (as defined in the Loan Agreement) (in each case, other than the Reserved Rights), all as more fully described under "Terms



and Conditions of the Notes” and (ii) an assignment of certain other rights under the Loan Agreement, all as more fully described under “Description of the Transaction”.

**Form:**

The Notes will be issued in registered form in the denominations of U.S.\$100,000 or higher integral multiples of U.S.\$1,000, without interest coupons attached. The Notes will initially be represented by a Global Certificate, without interest coupons, registered in the name of a nominee, and deposited with a common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System and Clearstream Banking, société anonyme, on or about 27 June 2005. The Global Certificate will only be exchangeable for Definitive Certificates 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 HCFB elects to prepay the Loan for tax reasons or by reason of increased costs or in the event that it becomes unlawful for HCFB or the Issuer to allow all or part of the Loan or the Notes to remain outstanding or to maintain or give effect to any of its obligations under the Loan Agreement, all as more fully described in Clauses 5.2 and 5.3 of the Loan Agreement. See also Condition 5 (Redemption and Purchase). HCFB or any of its subsidiaries may also purchase Notes which, under the terms of the of the Loan Agreement and the Notes, may be held, sold in the open market, or, at the option of HCFB or any of its subsidiaries, surrendered to the Issuer for cancellation. Upon such a cancellation by the Issuer, the principal amount outstanding of 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 any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement.

**Negative Pledge and other Covenants:**

Clause 10.1 of the Loan Agreement contains a negative pledge in relation to the creation of Liens (other than Permitted Liens) by HCFB. The Loan Agreement also contains, in Clauses 10.2, 10.3 and 10.4, covenants limiting mergers and disposals by HCFB, transactions between HCFB and its Affiliates (other than transactions made on an arm’s length basis in the ordinary course of business), as well as a covenant by HCFB to comply with certain capital adequacy requirements contained in Clause 10.10 of the Loan Agreement.

**Events of Default/Relevant Event:**

At any time after an Event of Default (as defined in Clause 11 of the Loan Agreement) or a Relevant Event (as defined in the Trust Deed) shall have occurred and be continuing, the Trustee may institute such proceedings as it may think fit to

enforce the rights of the Noteholders and the provisions of the Trust Deed. In the case of a Relevant Event, this shall include enforcement of the security created under the Trust Deed by the Issuer. In the case of an Event of Default, this shall include the ability to declare all amounts payable under the Loan Agreement by HCFB to be due and payable or to procure that such a declaration is made.

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.

**Rating:**

The Notes are rated “Ba3” by Moody’s Investors Service, Inc. and “B-” by Standards & Poor’s Rating Service, a division of The McGraw-Hill Companies, Inc.

*A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.*

**Withholding Tax:**

All payments of principal and interest under the Loan and in respect of 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 (or in the event of an Issuer Relevant Event (as defined in the Trust Deed) the jurisdiction where the Trustee is domiciled for tax purposes). If any taxes, duties, assessments or governmental charges are payable in either or both of the above jurisdictions, the sum payable by HCFB will (subject to certain exceptions) be required to be increased to the extent necessary to ensure that the Issuer receives a net sum which it would have received had no such deduction or withholding been made or required to be made. The sole obligation of the Issuer in this respect will be to pay to the Noteholders sums equivalent to the sums received from HCFB to the Noteholders. See “Terms and Conditions of the Notes”.

**Listing:**

Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange’s market for listed securities.

**Selling Restrictions:**

The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Notes may be sold in other jurisdictions (including the United Kingdom, the Russian Federation, Germany, Hong Kong, Italy, Luxembourg, the Philippines, Singapore and Switzerland) only in compliance with applicable laws and regulations. See “Subscription and Sale”.

**Governing Law:**

The Notes, the Loan Agreement and the Trust Deed will be governed by 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.

**Risk Factors:**

**An investment in the Notes involves a high degree of risk. See “Risk Factors”.**

**Security Codes:**

ISIN:XS0221878720

Common code:022187872

## DESCRIPTION OF THE TRANSACTION

*The following summary contains basic information about the Notes and the Loan and should be read in conjunction with, and is qualified in its entirety by, the information set forth under “The Loan Agreement” and “Terms and Conditions of the Notes” appearing elsewhere in this Offering Circular.*

### Transaction Summary

The transaction will be structured such that the proceeds of the issue of the Notes will be lent by the Issuer to HCFB pursuant to the Loan Agreement.

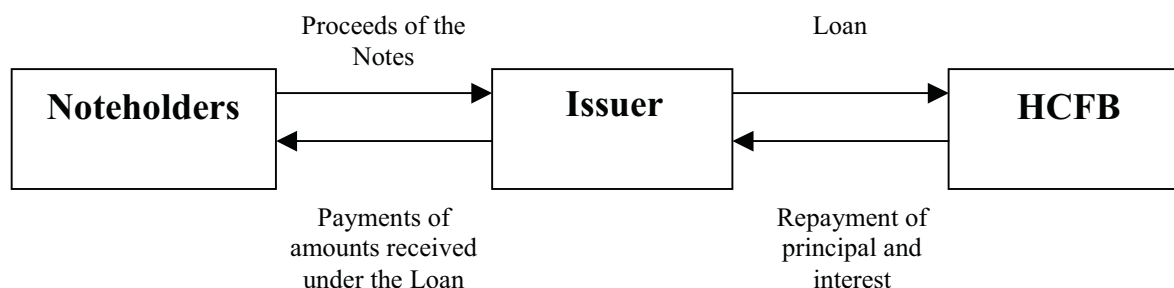
The Notes are limited recourse loan participation notes to be issued by the Issuer for the sole purpose of funding the Loan. The Notes will have the benefit of, and be constituted by, the Trust Deed. As provided in the Trust Deed, the Issuer will (i) charge by way of first fixed charge to the Trustee (a) all principal, interest and other amounts (if any) payable by HCFB to the Issuer under the Loan Agreement, (b) the right to receive all sums which may be or become payable by HCFB under any claim, award or judgment relating to the Loan 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 the Principal Paying Agent, account number 3222 0002 in the name of the Issuer and the debts represented thereby, including interest from time to time earned thereon (the “**Account**”), and (ii) assign certain other rights in respect of the Loan Agreement.

HCFB will be obliged to make payments under the Loan to the Issuer in accordance with the terms of the Loan Agreement to the Account or as otherwise instructed by the Trustee following a Relevant Event. 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 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 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 JPMorgan Chase Bank, N.A. acting as principal paying agent pursuant to an agency agreement dated 27 June 2005 between the Issuer, JPMorgan Chase Bank, N.A., as principal paying agent, paying agent and transfer agent, J.P. Morgan Bank Luxembourg S.A., as paying agent, registrar and transfer agent, the Trustee and HCFB who will each be required to acknowledge the same.

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 payment of principal and interest received by it pursuant to the Loan Agreement.

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

Set out below is a diagrammatic representation of the structure:



## **USE OF PROCEEDS**

The Issuer will use the net proceeds of the issue of the Notes, expected to amount to U.S.\$275,000,000 million, for the sole purpose of financing the Loan to HCFB. The proceeds from the Loan will be used by HCFB to fund its portfolio of consumer loans and advances under credit cards and for general banking purposes. Total commissions and expenses payable by HCFB in connection with the Notes and the Loan are expected to be approximately U.S.\$2,100,000. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for a detailed description of HCFB’s funding needs.

## **RISK FACTORS**

*Investment in the Notes involves a high degree of risk. Potential investors should carefully review this entire Offering Circular and in particular should consider all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. These risk factors, individually or together, could have a material adverse effect on HCFB's business, operations and financial condition and/or the rights under the Notes of the Noteholders.*

*Prospective investors should note that the risks described below are not the only risks HCFB faces. These are the risks HCFB considers material. There may be additional risks that HCFB currently considers immaterial or of which HCFB is currently unaware, and any of these risks could have similar effects to those set forth below.*

### **Risks Related to HCFB's Business and the Banking Sector**

#### **Relationship with Controlling Shareholder**

99.8 per cent. of HCFB's total share capital is controlled by Home Credit Finance, a.s., which is in turn controlled by Česká pojišť'ovna, a.s., each of which is part of the wider PPF Group.

Home Credit Finance a.s., Česká pojišť'ovna, a.s. and the PPF Group are, therefore, able to determine the outcome of all matters connected with HCFB. These entities will consider such matters within the context of their impact upon the wider PPF Group. Accordingly, although Home Credit Finance, a.s. has not done so in the past, it could cause HCFB to pursue acquisitions and other transactions or to make large dividend payments or other distributions or payments to shareholders that are designed to benefit the wider PPF Group rather than HCFB, even though such transactions may involve increased risk for HCFB and/or the Noteholders. Furthermore, the interests of shareholders and management of HCFB may, in some circumstances, conflict with the interests of the Noteholders, and could have a material adverse effect on the Noteholders' investment in the Notes.

To date, HCFB has been dependent upon the PPF Group for its funding requirements and, while seeking to access alternative funding sources such as the international capital markets, HCFB will continue to use the PPF Group as a source of funding in the future. HCFB is only one of the members of the PPF Group to which the PPF Group provides funding and, as such, HCFB's funding requirements compete with those of the other members of the PPF Group. There can be no guarantee that, in the event that HCFB requires future funding from the PPF Group (especially if it is unable to access alternative sources of funding) and in light of the competing demands on the funds of the PPF Group from within the PPF Group and the intention of PPF Group to continue to expand its operations into other jurisdictions, HCFB will receive all or part of such funding requirements from the PPF Group.

HCFB is also dependent upon the PPF Group for the provision of its Information Technology systems, credit scoring system and for its expertise in the consumer finance sector in Central and Eastern Europe, especially as to the formulation of its credit policies. If in the future the PPF Group ceases to provide such assistance or services to HCFB, this could have a material adverse effect on the business, financial condition, results of operations or prospects of HCFB.

#### **Dependence on Consumers' Consumption and Income Levels**

The sustainable development of the consumer finance market in the Russian Federation is highly dependent on economic growth, increases in consumers' average disposable income and levels of consumer spending. Any significant deterioration in the performance of the Russian economy or a reduction in levels of personal income, individual purchasing power and consumer confidence, either generally or specifically in respect of the banking sector, may have a material adverse effect on the business, financial condition, results of operations or prospects of HCFB.

#### **Competition**

The Russian market for financial and banking services is highly competitive. According to the CBR, as of 1 April 2005, 1,487 banks and non-banking credit organisations were operating in the Russian Federation.

HCFB is a consumer finance bank focusing on consumer lending. HCFB estimates that as of 31 March 2005, it had a 33.7 per cent. share of the point-of-sale loan market (depending on the region)

by volume of outstanding loans. As other banks launch consumer finance programmes and existing competitors' programmes develop further, HCFB's share in these markets may decline. HCFB currently faces competition in the field of the point-of-sale loan market primarily from Russian Standard Bank and OVK Group (which is controlled by Open Joint Stock Company Rosbank). In the credit card market, HCFB competes primarily with Russian Standard Bank, Alfa-Bank Express, Deltabank, Finansbank and Citibank.

The moderate size of HCFB's balance sheet compared to other Russian banks might impede its ability to compete successfully with larger rivals now or in the future, which may adversely affect HCFB's business, financial condition, results of operations or prospects.

### **Exposure to Large Consumer Retail Chains**

HCFB believes that it offers competitive consumer finance services to its clients and retail partners and continues to diversify its distribution network. HCFB has established long-term relationships with its partners in the retail sector. In particular, the retail chains Eldorado, Technosila, Euroset, Mir and M. Video, which are sellers of household appliances and consumer electronics products, have, in aggregate, historically generated up to approximately 63 per cent. of HCFB's point-of-sale consumer loans. Until recently these retail chains paid HCFB (and other consumer finance banks) commissions for helping to generate sales of such appliances and products. Increased competition in the market has led to lower commissions or no commissions being paid to HCFB, or even HCFB being required to pay commissions to the retail chains in certain circumstances which may become a market standard term for providing consumer finance services in the future. Furthermore, there can be no guarantee that HCFB's existing or future partners will not choose to transfer some or all of their business to other banks, or seek to provide consumer finance services directly, which may adversely affect HCFB's business, financial condition, results of operations or prospects.

### **Consumer Credit Exposure**

An accurate assessment of default risk on loans provided to consumers may be difficult for HCFB to make due to the lack of credit databases in the Russian Federation and the unpredictability of economic conditions in the Russian Federation and abroad. Even though HCFB undertakes scoring techniques and checks as to the creditworthiness of applicants purchasing consumer products, such checks may not always present a complete and accurate picture of each applicant's financial condition. HCFB's applicants do not typically have extensive or externally verified credit histories. Therefore, in spite of the credit risk evaluation procedures that HCFB has in place, it may be unable to correctly evaluate the current financial condition of each prospective applicant and to accurately determine the ability of its applicants to repay their loans.

While HCFB has detailed policies to deal with overdue loans, there can be no assurance that these policies will result in full or partial recovery of its overdue loans. As of 31 March 2005, overdue loans accounted for 18 per cent. of HCFB's aggregate consumer loan portfolio.

As of 31 March 2005, consumer loans accounted for about 82 per cent. of HCFB's assets and, therefore, the financial condition of HCFB is highly dependent upon its performance in the consumer lending market. There can be no assurance that HCFB's current level of loan repayment and recovery (which currently stands at approximately 93.5 per cent. of HCFB's overall loan portfolio) will be maintained in the future.

### **Increased Credit Risks due to Increasing Competition**

HCFB has historically required that customers make certain minimum downpayments on its consumer loans based on the creditworthiness of the applicant and the nature of the goods being financed. For example, mobile phones have historically been associated with a higher level of loan defaults, and minimum downpayments, which mitigated against this level of default, were until recently required up to the value of 50 per cent. of the cost of the mobile phone being financed. In order to compete with competitors in the market, HCFB has had to offer lower downpayments on mobile phones and even zero downpayments on certain additional consumer goods purchases. HCFB estimates that riskier products such as loans to fund mobile phone purchases and loans with zero per cent. downpayment, will increase significantly as a percentage of HCFB's consumer loan portfolio. These new competitive factors increase the overall credit risk to which HCFB is exposed. Furthermore, competitors may introduce other products which pose increased credit risk and the terms of which HCFB would have to match in order to remain



competitive. HCFB's scoring system is able to automatically adjust the risk weightings based on the type of the consumer loan requested, the region of origination of the loan application and certain other risk factors. HCFB's profitability may be adversely affected if HCFB is not in a position to correctly assess credit risks in the context of its lending activities. HCFB's possible increased exposure to credit risk could have a material adverse effect on its results of operations and prospects.

#### **Absence of Centralised Credit Information**

Russia does not currently have any central credit bureaus, and HCFB and its competitors do not share customer information. Therefore, HCFB is unable to independently confirm information provided by credit applicants regarding the total credit extended to the applicant. As a result, customers may be overextended by virtue of other credit obligations about which HCFB has no knowledge. HCFB is therefore exposed to credit risks which it may not be able to accurately assess and provide for.

#### **Increased Competition upon the Establishment of Credit Bureaus**

HCFB believes its internal database of customer information gives it a competitive advantage and has allowed HCFB to make better informed credit assessments. The introduction in Russia of credit bureaus starting from June 2005, however, may offer HCFB's competitors access to information which would enable them to make a better informed credit assessment than they currently do. Although credit bureaus will, to a large extent, possess information only on borrowers that received loans after 1 June 2005 (and, to a limited extent, on borrowers that received loans prior to 1 June 2005 and consented to the transfer of information on their credit history to a credit bureau), HCFB may, nevertheless, lose some of the current advantage that it has over its competitors on account of its existing credit scoring database.

#### **Instability of the Russian Banking System**

In April-July 2004 the Russian banking sector experienced its first significant turmoil since the financial crisis of August 1998. As a result of the circulation of various market rumours and, in some cases, certain regulatory and liquidity problems, several privately-owned Russian banks were forced to file for bankruptcy and lost their banking licences. A number of Russian banks were unable to attract funds on the interbank market when they experienced liquidity problems, precipitated by large withdrawals of deposits by both retail and corporate customers. HCFB remained largely unaffected by the turmoil. Although HCFB believes that this turmoil in the Russian banking market has not and will not have any material adverse effect on its business, HCFB may face losses as a result of the bankruptcy of other Russian banks or their inability to perform their obligations. In addition, HCFB may be expressly affected by defaults by corporate customers that suffer from the problems of other Russian banks or if similar turmoil in the banking market occurs in the future and affects the overall economic situation in Russia.

#### **Market Risks**

HCFB is exposed to market risks including interest rate and currency risks.

HCFB is exposed to risks resulting from mismatches between the interest rates on its interest-bearing liabilities and interest-earning assets. While HCFB monitors interest rates with respect to its assets and liabilities, and generally matches its interest rate positions, interest rate movements may adversely affect HCFB's financial position.

Although HCFB has no proprietary trading currency position, as its consumer loan portfolio is denominated in Roubles, it is exposed to currency risk as a substantial proportion of its funding is denominated in foreign currencies. Although HCFB has limits in place, which are aimed at reducing currency risk, currency exchange rates and the volatility of the Rouble may adversely affect HCFB.

If HCFB's risk management procedures and limits do not minimise the impact of interest rate and currency risks on HCFB, its business, financial condition, results of operations or prospects may be adversely affected.

#### **Liquidity Risks**

HCFB is also exposed to liquidity risk arising out of mismatches between the maturities of HCFB's assets and liabilities, which may result in HCFB being unable to meet its obligations in a timely manner.

HCFB's liquidity is managed through interbank lending, reduction of its NOSTRO accounts balances and borrowings from PPF Group and the Home Credit Group (which are provided on an arm's length basis).

Currently, HCFB relies to a significant degree on interbank lending and borrowings from the PPF Group and the Home Credit Group (which are provided on an arm's length basis). HCFB continues to diversify its funding sources by accessing the domestic capital markets with domestic bonds. HCFB's ability to continue to access the above markets and lenders to the extent sufficient to meet its funding needs, including the refinancing of outstanding debt falling due, could be adversely affected by a number of factors, including Russian and international economic conditions and the state of the Russian financial system.

Demand for HCFB's consumer finance products is also subject to fluctuations in sales of consumer durable goods, which may significantly affect its liquidity position.

HCFB believes that its level of access to interbank loans and the domestic capital market, its favourable credit standing and its liquidity risk management policy will allow it to meet its liquidity needs. Nevertheless, a decrease in HCFB's ability to access the domestic interbank loan and capital markets, or maturity mismatches between HCFB's assets and liabilities may, together or separately, have a material adverse effect on the business, financial condition, results of operations or prospects of HCFB.

### **Expansion of the Regional Distribution Network**

HCFB's plans to expand its regional distribution network may entail additional investment and increased operating costs. There is no assurance that HCFB will achieve positive returns on any investment that it makes in the development of its distribution network.

The growth of HCFB's business requires the continued development of HCFB's financial and information management control systems, the continued training of sales representatives and other personnel, the adequate supervision of, and the maintenance of, consistent client services. If HCFB fails to properly manage its growth, such failure could have a material adverse effect on its business, financial condition, results of operations or prospects.

### **Dependence on Key Management**

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

### **Licence Risks**

All banking and various related operations in the Russian Federation require licences from the CBR. HCFB has obtained such licences in connection with its banking operations and for banking operations involving foreign currencies. Although HCFB has been successful in obtaining CBR licences, there is no assurance that it will be able to obtain or (as applicable) maintain such licences in the future. In the event that HCFB loses a CBR licence, applying for a new CBR licence is a burdensome and time-consuming process. The CBR may, in its discretion, impose additional requirements or deny any request by HCFB for licences, which could adversely affect its business, financial condition, results of operations or prospects. Furthermore, in order to continue the maintenance of its customers' current accounts, HCFB applied and, in November 2004, was admitted to the Russian mandatory system of insurance of retail bank deposits. The loss of a CBR licence, a breach of the terms of a CBR licence by HCFB, its failure to obtain CBR licences in the future or the discontinuation of its membership of the Russian mandatory system of insurance of retail bank deposits could result in HCFB being unable to continue some or all of its banking activities and in penalties, such as fines being imposed by the CBR on HCFB. Any such failure could, in turn, affect HCFB's ability to fulfil payment obligations, either generally or under the Loan Agreement, and could have a material adverse effect on HCFB's business, financial condition, results of operations or prospects.

### **Exposure to Disruptions in Information Technology and Telecommunications Systems**

HCFB's financial performance and its ability to meet its strategic objectives will depend to a significant extent upon the functionality of its information technology ("IT") systems and its ability to increase their capacity. However, there can be no assurance that a disruption (even short-term) to the functionality of HCFB's IT systems, or delays in increasing the capacity of the IT systems, will not have a material adverse effect on the business, financial condition, results of operations or prospects of HCFB.

For credit scoring, HCFB utilises the automated scoring system developed and operated at the Home Credit Group level by Home Credit International, a.s. in Brno, the Czech Republic. In order to have access and use the scoring system, HCFB obtained a licence for the export of data from the Federal Agency for the Government Communications and Information of the Russian Federation (“**FAGCI**”). The loss of the FAGCI licence or the breach of its terms, failure by HCFB to obtain a FAGCI licence in the future or changes in Russian data protection laws could result in HCFB being unable to continue using this scoring system. This could, in turn, affect HCFB’s ability to extend consumer loans to customers, and could have a material adverse effect on HCFB’s business, financial condition, results of operations or prospects.

### **Interest Rates Volatility**

HCFB’s results of operations to a large extent depend on its net interest income. Net interest income (after provision or release of provision for loan impairment) was 36 per cent. of operating income for the three months ended 31 March 2005.

Positive economic trends, including a slowing rate of inflation and steady growth in real income and purchasing power of the Russian population as well as increasing opportunities for Russian companies to access international capital markets and growth of domestic capital markets have resulted in the decline in interest rates, market spreads and bank margins in Russia. Stabilisation of the Russian economy and low interest rates in international financial markets has historically resulted in low levels of interest rates in Russia.

There can be no assurance that HCFB’s strategies will protect it from the negative effect of a future decrease of interest rates. Interest rates are highly sensitive to a number of factors beyond HCFB’s control, including the CBR’s reserve policy and domestic and international economic and political conditions. A further decrease in market interest rates could reduce HCFB’s net interest income and adversely affect HCFB’s business, financial condition, results of operations or prospects.

### **Risks Related to the Russian Federation**

HCFB is a Russian bank and the majority of its assets are located in the Russian Federation. There are certain risks associated with an investment in the Russian Federation.

#### **Political Risks**

Political conditions in the Russian Federation were highly volatile in the 1990s, as evidenced by the frequent conflicts amongst executive, legislative and judicial authorities, which negatively impacted Russia’s business and investment climate. While Russia’s current President, Vladimir Putin, re-elected for a second presidential term in March 2004, has maintained the stability of the Russian federal government (the “**Government**”) and introduced policies generally oriented towards the continuation of economic reforms, there can be no assurances that there will be no material changes to Government policies or to economic or regulatory reforms. The State Duma (the lower chamber of the Russian parliament) elections in December 2003 resulted in an increase in the percentage of the aggregate vote received by the “United Russia” party and other members of the State Duma allied with the President. Furthermore, President Putin replaced the Prime Minister and changed the composition of the Government just prior to his re-election. HCFB’s business, financial condition, results of operations or prospects could be materially affected if political instability recurs or if reform policies are reversed or become ineffective.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict. Russian military and paramilitary forces have been engaged in the Chechen Republic in the recent past and continue to maintain a presence there. Groups associated with the Chechen opposition have committed various acts of terrorism in population centres within the Russian Federation, resulting in significant loss of life, injury and damage to property, the most recent such attack being the siege of a school in Beslan in which over 340 people were killed. The spread of violence, or its intensification, could have significant political consequences, including the imposition of a state of emergency in some parts of, or throughout the whole of, the Russian Federation. Notably, in reaction to the events in Beslan noted above, on 13 September 2004 President Putin announced a proposed reform of the sub-federal election system. Pursuant to the proposed reform, the heads of the executive authorities in the subjects of the Russian Federation (the “**Subjects**”) will be elected by the legislatures of the respective Subjects from a list of candidates nominated by the President of the Russian Federation (instead of, as is currently the case, by direct election by the electorate of the respective

Subject without the participation of federal authorities in the nomination process). The proposed amendments were approved by both chambers of the Russian parliament and entered into force in December 2004. These events could materially and adversely affect the investment environment and overall consumer confidence in the Russian Federation, which in turn could have a material adverse effect on HCFB's business, financial condition, results of operations or prospects.

Also, the arrest of Mikhail Khodorkovsky on charges of fraud and tax evasion in October 2003 and his conviction in May 2005 and, in connection with the arrest, the attachment of approximately 42% of the shares of Yukos Oil Company ("Yukos") alleged to be beneficially owned by him, as well as tax claims brought by the Government against Yukos and the sale in 2004 of Yukos' principal production subsidiary, Yuganskneftegas, have led some commentators to question the progress of market and political reforms in Russia and caused significant fluctuations in the market prices of Russian securities.

### **Expropriation and Nationalisation**

The Government has enacted legislation to protect property against expropriation and nationalisation. Furthermore, in the event that HCFB's property is expropriated or nationalised, legislation provides for fair compensation to be paid to HCFB. However, there can be no certainty that such protections will be enforced. This uncertainty is due to several factors, including the lack of state budgetary resources, the lack of an independent judicial system and sufficient mechanisms to enforce judgments and corruption among Russian state officials.

The concept of property rights is not well developed in the Russian Federation and there is not a great deal of experience in enforcing legislation enacted to protect private property against nationalisation and expropriation. As a result, HCFB may not be able to obtain proper redress in the courts, and may not receive adequate compensation if in the future the Russian Government decides to nationalise or expropriate some or all of HCFB's assets. The expropriation or nationalisation of any of HCFB's or its subsidiaries' assets without fair compensation may amount to an Event of Default under the Loan Agreement and may have a material adverse effect on HCFB's business, financial condition, results of operations or prospects.

### **Economic Risks**

Since the dissolution of the former Soviet Union in the early 1990s, Russia's society and economy have been undergoing a rapid transformation from a one party state with a centrally planned economy to a pluralist democracy with a market-oriented economy. This transformation has been marked by periods of significant instability and the Russian economy has experienced at various times:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high levels of state debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- high levels of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- widespread tax evasion;
- growth of a black and grey market economy;
- pervasive capital flight;
- high levels of corruption and the penetration of organised crime into the economy;
- significant increases in unemployment; and
- the impoverishment of a large portion of the Russian population.

The Russian economy has been subject to abrupt downturns. In particular, the Government's decision to temporarily stop supporting the Rouble in August 1998 caused the currency to collapse. At the same time, the state defaulted on much of its short-term domestic debt and imposed a 90-day moratorium on foreign debt and other payments by Russian companies. These actions resulted in an immediate and severe devaluation of the Rouble, a near collapse of the Russian banking system, a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and an inability of Russian issuers to raise funds in the international capital markets.

There can be no assurance that recent positive trends in the Russian economy, such as an increase in the gross domestic product, a relatively stable Rouble and a reduced rate of inflation, will continue or will not be abruptly reversed. Moreover, the strengthening of the Rouble in real terms relative to the U.S. Dollar and the consequences of a relaxation in monetary policy, or other factors, could have an adverse effect on Russia's economy and/or HCFB's business, financial condition, results of operations or prospects in the future.

Although economic conditions in the Russian Federation have been improving since 1999, there is a lack of consensus as to the scope, content and pace of economic and political reform. No assurance can be given that reform policies will continue to be implemented and, if implemented, will be successful, that the Russian Federation will remain receptive to foreign investment, or that the economy of the Russian Federation will continue to improve. Any failure or reversal of the current policies of economic reform and stabilisation could have a material adverse effect on HCFB's business, financial condition, results of operations or prospects.

### **Impact of Fluctuations in the Global or Russian Economies**

Russia's economy could be adversely affected by market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems outside the Russian Federation or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. Additionally, because the Russian Federation produces and exports large volumes of oil and gas, the Russian economy is particularly sensitive to the price of oil and gas on the world market, and a decline in the price of oil and gas could have a significant negative impact on the Russian economy. These developments could severely limit HCFB's access to capital and could adversely affect HCFB's business, financial condition, results of operations or prospects.

Recent terrorist activity in the Russian Federation and the recent armed conflicts in the Middle East have had a significant effect on international and domestic finance and commodity markets. Any future acts of terrorism or armed conflicts in the Russian Federation or internationally could have an adverse effect on the financial and commodities markets and the global economy. As the Russian Federation produces and exports large amounts of crude oil and gas, any acts of terrorism or armed conflicts causing disruptions of Russian oil and gas exports could negatively affect the Russian economy and, thus, adversely affect HCFB's business, financial condition, results of operations or prospects.

### **Exchange Rates and Currency Regulation**

There was significant instability in the Rouble exchange rate following the financial crisis of August 1998, although the Rouble has appreciated against the U.S. Dollar in real terms during 2001, 2002 and 2003.

The ability of the Government and the CBR to limit any further volatility of the Rouble will depend on many political and economic factors, including the Government's ability to control inflation and the availability of foreign currency. According to Government estimates, inflation in the Russian Federation was 19 per cent. in 2001, 15 per cent. in 2002, 12 per cent. in 2003 and 2004. The Government expects inflation to be approximately 8.5 per cent. in 2005. Although the rate of inflation has been declining, any return to high and sustained inflation could lead to market instability, new financial crises, reductions in consumer purchasing power and erosion of consumer confidence. Any one of these events could lead to decreased demand for HCFB's products and services.

The Rouble is generally not convertible outside of the Russian Federation. A market exists within the Russian Federation for the conversion of Roubles into other currencies, but it is limited in size and is subject to rules limiting such conversion. There can be no assurance that a relatively stable market will continue indefinitely and a lack of growth of this currency market may hamper the development of HCFB's business and the businesses of its clients.

A new Federal Law No. 173-FZ "On Currency Regulation and Currency Control" published on 17 December 2003 ("**New Currency Law**") introduces a new currency control regime which came into force on 18 June 2004. According to the New Currency Law only a limited number of restrictions can be imposed in respect of currency operations (such as, for instance, reserve requirements or requirements to effect relevant operations through special-purpose accounts). The New Currency Law provides for most current restrictions to be effective until 1 January 2007. The CBR has enacted a number of regulations to



implement the New Currency Law, mainly concerning technical issues of the new currency control regime. In addition, the CBR has introduced special account and reserve requirements with respect to certain operations of Russian corporates. However, to date no such restrictions have been introduced with respect to Russian banks. It is expected that the CBR and the Government will enact further regulations under the New Currency Law. Until all of the regulations for the effective implementation of the New Currency Law are published and implemented, it will not be possible to assess fully the effect of the currency control regime introduced by the New Currency Law and there may be uncertainties and disputes in the interpretation of the New Currency Law. Accordingly, there can be no assurance that the New Currency Law and the related regulations will not have a material adverse affect on HCFB's business, financial condition, results of operations or prospects.

### **Lack of Reliable Official Data**

Official statistics and other data published by the CBR, Russian federal, regional and local governments, and federal agencies may be substantially less complete or researched and, consequently, less reliable than those published by comparable bodies in other jurisdictions. Accordingly, HCFB cannot assure prospective investors that the official sources from which HCFB has drawn some of the information set out herein are reliable or complete. Russian state entities may produce official statistics on bases different from those used by comparable bodies in other jurisdictions. Any discussion of matters relating to the Russian Federation herein may, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

### **Physical Infrastructure**

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

### **Social Risks**

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

The political and economic changes in the Russian Federation since the early 1990s have resulted in reduced policing of society and increased lawlessness. The Russian and international press have reported high levels of organised criminal activity and corruption of officials in the Russian Federation and other countries of the former Soviet Union. Press reports have also described instances in which state officials have engaged in selective investigations and prosecutions to further commercial interests of select constituencies. Additionally, published reports indicate that a significant proportion of the Russian media regularly publishes biased articles in return for payment. HCFB's business, financial condition, results of operations or prospects could be materially adversely affected by illegal activities, corruption or by claims alleging involvement in illegal activities.

Social instability in the Russian Federation, coupled with difficult economic conditions, the failure of the state and main private enterprises to make full and timely payment of salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest and increased support for a renewal of centralised authority, increased nationalism, restrictions on foreign involvement in the economy, and increased violence. Any of these could restrict HCFB's operations and lead to a loss of revenue.

### **Legal and Regulatory Risks**

The Russian Federation is still developing an adequate legal framework required for the proper functioning of a market economy. Several fundamental Russian laws have only recently become effective. The recent nature of much of Russian legislation and the rapid evolution of the Russian legal system place

the enforceability and underlying constitutionality of laws in doubt and result in ambiguities, inconsistencies and anomalies in their application. The following aspects of Russia's legal system create uncertainty with respect to many of the legal and business decisions that HCFB's management make. Many of these risks do not exist in countries with more developed legal systems:

- since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the 1993 Federal Constitution, the Civil Code and by other federal laws, and by decrees, orders and regulations issued by the President, the Government and federal ministries which are, in turn, complemented by regional and local rules and regulations. There may be inconsistencies between such laws, presidential decrees, state resolutions and ministerial orders, and between local, regional and federal legislation and regulations;
- decrees, resolutions and regulations may be adopted by state authorities and agencies in the absence of a sufficiently clear constitutional or legislative basis and with a high degree of discretion. There is a risk that the state may arbitrarily nullify or terminate contracts, withdraw licences, conduct sudden and unexpected tax audits, initiate criminal prosecutions and civil actions and use common defects in accounting or share issues and registration as pretexts for court claims and other demands to liquidate companies or invalidate such issues and registrations and/or transactions;
- substantial gaps in the regulatory structure may be created by the delay or absence of regulations implementing certain legislation;
- there is a lack of judicial and administrative guidance on interpreting applicable rules and limited precedential value of judicial decisions;
- the Russian Federation has a judiciary with limited experience in interpreting and applying market-oriented legislation and which is vulnerable to economic and political influence; and
- the Russian Federation has weak enforcement procedures for court judgments and there is no guarantee that a foreign investor will obtain effective redress in a Russian court.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in the Russian Federation remains largely untested. The court system is understaffed and underfunded. Judges and courts in the Russian Federation are generally inexperienced in the area of business and corporate law. In addition, most court decisions are not readily available to the public. Enforcement of court judgments can in practice be very difficult in the Russian Federation. All of these factors make judicial decisions in the Russian Federation difficult to predict and effective redress uncertain. Additionally, court claims are often used to further political aims. HCFB may be subject to these claims and may not be able to receive a fair hearing. Additionally, court judgments are not always enforced or followed by law enforcement agencies.

### **Compliance with Applicable Laws, Decrees and Regulations**

The application of the laws of any particular country is not always clear or consistent. This is particularly true for Russia where the pace of legislative drafting has not always kept pace with the demands of the marketplace. Russian commercial practices and legal and regulatory frameworks differ significantly from practices in other jurisdictions. As a result, it is often difficult to hire qualified management and accounting staff that can ensure compliance with changing regulatory requirements.

Russian authorities have the right to, and do, conduct periodic inspections of HCFB's operations throughout the year. Any such future inspections may conclude that HCFB has violated laws, decrees or regulations, and HCFB may be unable to address such conclusions. Such findings could result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of HCFB's licences, any of which could increase costs or materially adversely affect HCFB's business, financial condition, results of operations or prospects.

### **Unlawful or Arbitrary State Actions**

State authorities have a high degree of discretion in Russia and at times exercise their discretion arbitrarily, without conducting a hearing or giving prior notice, and sometimes in a manner that is contrary to law. Moreover, the state also has the power in certain circumstances, by regulation or act, to interfere with the performance of, nullify or terminate contracts. Unlawful or arbitrary state actions have included withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal



and local government entities have also used common defects in matters surrounding documentation of financing activities as pretexts for court claims and other demands to invalidate such activities and/or to void transactions, often for political purposes. Unlawful or arbitrary state action, if directed at HCFB, could have a material adverse effect on its business, financial condition, results of operations or prospects.

### **Difficulty in Enforcing HCFB's Rights**

The current status of the Russian legal system makes it uncertain whether HCFB would be able to enforce its rights in disputes with any of its contractual counterparties. Furthermore, the dispersion of regulatory power among a number of state agencies in the Russian Federation has resulted in inconsistent or contradictory regulations and unpredictable enforcement. The Government has rapidly introduced laws and regulations and has changed its legal structure in an effort to make the Russian economy more market-oriented, resulting in considerable legal confusion. No assurance can be given that local laws and regulations will become stable in the future. HCFB's ability to operate in the Russian Federation could be adversely affected by difficulties in protecting and enforcing its rights and by future changes to local laws and regulations. Further, its ability to protect and enforce such rights is dependent on the Russian courts, which are underdeveloped, inefficient and, in places, corrupt. Judicial precedents generally have no binding effect on subsequent decisions. Enforcement of court orders can in practice be very difficult in the Russian Federation. Additionally, court orders are not always enforced or followed by law enforcement agencies.

### **Disclosure and Reporting Requirements**

The rights of HCFB's shareholders, HCFB's public reporting requirements as well as regulations to which HCFB is subject differ significantly from those applicable to comparable financial institutions in other jurisdictions.

HCFB's charter ("**Charter**"), foundation agreement and internal regulations, the regulations governing Russian banks and the laws governing companies incorporated in the Russian Federation collectively regulate HCFB's corporate affairs. See "Appendix—Overview of the Banking Sector and Banking Regulation in the Russian Federation". The rights of shareholders and the responsibilities of members of HCFB's Board of Directors and HCFB's Management Board under Russian law are different from, and may be subject to, certain requirements not generally applicable to corporations organised in other jurisdictions. See "Management".

The Federal Law No. 17-FZ dated 3 February 1996 (as amended) "On Banks and Banking Activities" (the "**Banking Law**") contains certain periodic disclosure requirements, including the requirement to publish annual statutory accounting reports in accordance with Russian Accounting Standards ("**RAS**"). As its systems and processes are tailored to the requirements of RAS, it may take HCFB longer than comparable companies in other jurisdictions to prepare its consolidated annual and interim financial reports and its consolidated periodic internal accounts in accordance with IFRS as promulgated by the International Accounting Standards Board.

In accordance with the Banking Law, HCFB is required to publish certain RAS accounting reports quarterly, including a balance sheet, income statement and information on its assets, capital reserves and allowances for non-performing loans, which do not contain all of the information contained in HCFB's consolidated financial statements, and is not prepared in accordance with IFRS.

In accordance with Russian legislation applicable to securities issuers, HCFB is required to file quarterly reports with the federal governmental authority responsible for supervision of the securities market of the Russian Federation. These reports include certain information about HCFB, its management, subsidiaries, affiliates and selected financial and business information (such as events of litigation, quarterly statutory accounting reports prepared in accordance with RAS, etc.). Despite recent initiatives to improve corporate transparency in the Russian Federation, there is less publicly available information about HCFB than there is for comparable companies in other jurisdictions.

Accounting and reporting requirements in Russia are not comparable to those in other (especially Western) jurisdictions. The Russian accounting legislation continues to develop and has been subject to change on a regular basis in recent years. As of 1 January 2005, all credit organisations in the Russian Federation must prepare RAS statutory accounting reports and their financial statements according to IFRS. The obligation of Russian banks to prepare and submit RAS statutory accounting reports is supposed to cease by 1 January 2006.

## **Russian Banking and Financial Regulation has been undergoing Significant Changes**

Like most of Russia's legislation on business activities, Russia's laws on banks and banking activity have only recently been adopted. In addition to the Federal Law of July 10, 2002 No. 86-FZ "On the Central Bank of the Russian Federation (Bank of Russia)", as amended (the "**CBR Law**") and the Banking Law, Russia has adopted and continues to develop new banking legislation.

In December 2003, President Putin signed into law the Law On Insurance of Deposits of Individuals in Credit Organisations in the Russian Federation (the "**Deposit Insurance Law**"), which mandates protection of bank deposits of individuals. The Deposit Insurance Law establishes a deposit insurance scheme in which all Russian banks must participate or lose their ability to accept retail deposits and open bank accounts for individuals. The enactment of the Deposit Insurance Law is expected to strengthen competition in the retail deposit market, as all Russian banks that choose to participate in the deposit insurance scheme will have the ability to offer protected deposits.

In addition, as of April 2004 the CBR requires banks to comply with certain regulatory requirements on a daily basis.

The recent changes in the Russian banking and financial regulation are aimed at bringing the regime more in line with that of more developed countries. However, due to the recent changes in the regulatory system, banks operate in a new and relatively unclear regulatory environment. It is difficult to forecast how the changes in the banking and financial regulation will affect the Russian banking system. No assurance can be given that the regulatory system will not change in a way that will impair HCFB's ability to provide its banking services or to compete effectively, thus adversely affecting HCFB's business, financial condition, results of operations and prospects.

## **Under Development of the Russian Taxation System**

Taxes payable by Russian companies are substantial and include value added tax, excise duties, profit taxes, payroll-related taxes, property taxes and other taxes.

Russian Federal and local tax laws and regulations are subject to frequent change, varying interpretation and inconsistent enforcement. In addition, the Russian Federal and local tax collection systems and historically large government budget deficits increase the likelihood that Russia will propose arbitrary or onerous taxes and penalties in the future, which could adversely affect HCFB's business. In some instances, even though unconstitutional, Russian tax authorities apply taxes retroactively. In addition, where tax laws are ambiguous, court practice may not rule in favour of taxpayers. In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. For example, some tax laws are unclear with respect to deductibility of certain expenses. This uncertainty could possibly expose HCFB 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 the Russian Federation on 1 January 1999. Despite the fact that Russian transfer pricing rules are not yet aggressively applied on a consistent basis by the Russian tax authorities, the scope of these rules is very broad. This legislation allows the tax authorities to make transfer pricing adjustment 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. "Controlled" transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties with significant price fluctuations (i.e. if the price of such transactions differs from the prices on similar transactions by more than 20 per cent. within a short period of time). Transfer pricing adjustments are also applicable to the trading of securities and derivatives. 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 were to impose significant additional tax liabilities as a result of transfer pricing adjustments, it could have a material adverse impact on HCFB's business, financial condition, results of operations or prospects.

It is likely that Russian tax legislation will become more sophisticated in the future, resulting in the introduction of additional revenue raising measures. Although it is unclear how these measures would operate, the introduction of these measures may affect HCFB's overall tax efficiency and may result in significant additional taxes becoming payable. HCFB cannot offer prospective investors any assurance that additional tax exposures will not arise while the Notes are outstanding. Additional tax exposures could have a material adverse effect on HCFB's business, financial condition, results of operations or prospects.

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

### **Limited Recourse to the Issuer**

The Issuer will only be obliged to make payments under the Notes to Noteholders in an amount equivalent to sums of principal, interest and additional amounts, if any, it actually receives by or for its account under the Loan Agreement, less any amounts in respect of the Reserved Rights. Consequently, if HCFB fails to meet its obligations fully under the Loan Agreement, the Noteholders could receive less than the full amount of principal, interest and/or additional amounts (if any) on the relevant due date.

### **No Direct Recourse to HCFB**

Except as otherwise disclosed in the “Terms and Conditions of the Notes” and in the Trust Deed, no proprietary or other direct interest in the Issuer’s rights under or 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 of the Loan Agreement or have direct recourse to HCFB, except through action by the Trustee under the Security Interests (as defined in “Terms and Conditions of the Notes”). Neither the Issuer nor the Trustee pursuant to the Assigned Rights (as defined in “Terms and Conditions of the Notes”) shall be required to enter into proceedings to enforce payment under the Loan Agreement, unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

Payment of principal and/or interest by HCFB under the Loan Agreement to, or to the order of, the Trustee or the Principal Paying Agent is expected to meet, and will discharge, the Issuer’s obligations in respect of the Notes. Consequently, Noteholders will have no further recourse against the Lender or HCFB after such payment is made.

### **Prepayment of the Loan**

Under the terms of the Loan Agreement, HCFB may, subject to certain conditions, prepay the Loan if it is required to increase its payments for tax reasons regardless of whether the increased payment obligations result from any change in the applicable tax laws or treaties or from the change in application of existing tax laws or treaties or from enforcement of the security provided for in connection with the Notes. HCFB may also prepay the Loan if it is required to indemnify the Issuer in respect of certain increased costs to the Issuer (as set out in the Loan Agreement). In the event that it becomes unlawful for the Lender to allow the Loan to remain outstanding under the Loan Agreement, to allow the Notes to remain outstanding, to maintain or give effect to any of its obligations under the Loan Agreement and/or to charge or receive or to be paid interest at the rate then applicable to the Loan, HCFB may be required by the Issuer to repay the Loan in full. In case of any such prepayment, all outstanding Notes would be redeemable at par with accrued interest and/ or additional amounts payable (if any).

### **Lack of Public Market for the Notes**

Prior to their issue, there was no existing market for the Notes. The Issuer has applied for the Notes to be admitted to the Official List of the UK Listing Authority and to be admitted to trading on the London Stock Exchange. However, an active trading market in the Notes may not develop or be maintained after listing. If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and the trading price of the Notes. In addition, stock markets in recent years and, in particular, in recent months, have experienced significant price fluctuations. These fluctuations were often unrelated to the operating performance of the companies whose securities were traded on such stock markets. Market fluctuations as well as adverse economic conditions have negatively affected the market price of many securities and may affect the market price of the Notes.

### **Taxation of the Notes**

Interest payments on the Loan to the Issuer and interest payments on the Notes from the Issuer may be subject to Russian and Luxembourg withholding tax, which would reduce the amounts received under the Notes.

In general, interest payments on borrowed funds made by a Russian legal entity to a nonresident are subject to Russian withholding tax at a rate of 20 per cent., unless such withholding is reduced or

eliminated pursuant to the terms of an applicable double taxation treaty. Based on professional advice it has received, HCFB believes that interest payments on the Loan made to the Issuer will not be subject to withholding tax under the terms of an applicable double tax treaty between the Russian Federation and the Grand Duchy of Luxembourg. However, there can be no assurance that the withholding tax exemption under the treaty will continue to be available in the future.

If payments under the Loan are subject to any withholding tax, HCFB will be obliged in certain circumstances to increase the amounts payable as may be necessary to ensure that the recipient receives a net amount equal to the amount it would have received in the absence of such withholding taxes. In addition, payments in respect of the Notes will, except in certain limited circumstances, be made without deduction or withholding for or on account of Luxembourg taxes except as required by law. Based on professional advice it has received, HCFB believes that payments in respect of the Notes will only be subject to deduction or withholding for or on account of Luxembourg Taxes as described in “Taxation—The Grand Duchy of Luxembourg”. In the event of such a deduction or withholding, the Issuer will only be required to increase payments to the extent that it receives corresponding amounts from HCFB under the Loan Agreement. While the Loan Agreement provides for HCFB to pay such corresponding amounts in these circumstances, there are some doubts as to whether the tax gross-up clause contained in the Loan Agreement is enforceable under Russian law.

Due to the limited recourse nature of the Notes, if HCFB fails to pay any such gross-up amounts, the amount payable by the Issuer under the Notes will be correspondingly reduced. Any failure by HCFB to increase such payments would constitute an Event of Default under the Loan Agreement. In certain circumstances (including following enforcement of the security upon a Relevant Event as defined in the Trust Deed), in the event that HCFB is obliged to increase the amounts payable, it may prepay the principal of the Loan together with accrued interest and/or additional amounts payable (if any), and all outstanding Notes would be redeemed by the Lender (to the extent that it has actually received the relevant funds from HCFB).

The Issuer has granted security over certain of its rights in the Loan Agreement to the Trustee in respect of its obligations under the Notes. The security under the Trust Deed will become enforceable upon the occurrence of a Relevant Event, as further described in “Terms and Conditions of the Notes”. In these circumstances, payments under the Loan Agreement (other than in respect of Reserved Rights) would be required to be made to, or to the order of, the Trustee. Under Russian tax law, payments of interest and other payments made by HCFB to the Trustee will in general be subject to Russian income tax withholding at a rate of 20 per cent. It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under any double tax treaty. In addition, while it may be possible for some Noteholders who are eligible for an exemption from Russian withholding tax under double taxation treaties to claim a refund of tax withheld, there would be considerable practical difficulties in obtaining any such refund. As indicated above, it is currently unclear whether the provisions obliging HCFB to gross-up payments will be enforceable in the Russian Federation. If, in the case of litigation in the Russian Federation, a Russian court does not rule in favour of the Issuer or the Trustee and Noteholders, there is a risk that tax gross-up for withholding tax will not take place and that payments made by HCFB under the Loan Agreement will be reduced by Russian income tax withheld by HCFB at a rate of 20 per cent.

If, during the life of the Notes (i) the Issuer ceases to be resident for tax purposes in the Grand Duchy of Luxembourg; and (ii) becomes resident for tax purposes in another jurisdiction; and (iii) such jurisdiction requires the Issuer to make deduction for or on account of any taxes (other than taxes of the Grand Duchy of Luxembourg) in respect of payments which the Issuer is obliged to make under or in respect of the Notes, HCFB will be under no obligation to increase payments to the Issuer under the Loan Agreement in respect of such withholding or deduction for or on account of any taxes (other than taxes of the Grand Duchy of Luxembourg). In such circumstances, the Noteholders will receive payments under the Notes net of such withholding or deduction and will have no right to require that their Notes be repaid.

#### **Disposals of the Notes in the Russian Federation**

If a non-resident Noteholder that is a legal person or organisation sells Notes and receives proceeds from a source within the Russian Federation, there is a risk that the part of the payment, if any, representing accrued interest may be subject to a 20 per cent. Russian withholding tax. Where proceeds from a disposition of the Notes are received from a source within the Russian Federation by an individual non-resident Noteholder, withholding tax would be charged at a rate of 30 per cent, on gross proceeds from such disposal of the Notes less any available cost deduction. The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes. See “Taxation”.

## **Russian Bankruptcy Law**

Russian bankruptcy laws are relatively new and are subject to varying interpretations. The most recent Law on Insolvency (Bankruptcy) came into force in late 2002. The relevant amendments to the Law on Insolvency (Bankruptcy) of Credit Organisations came into force in late 2004. As a result of limited court practice it is not possible to predict with certainty how claims of the Issuer and/or the Trustee under the Loan Agreement against HCFB would be resolved in case of HCFB's bankruptcy. Under the Law on Insolvency (Bankruptcy) and Law on Insolvency (Bankruptcy) of Credit Organisations, unsecured creditors' claims are generally subordinated to current liabilities (i.e. claims which arose after the initiation of bankruptcy proceedings and costs related to bankruptcy litigation) and the following claims ("**Priority Claims**"): (i) claims in tort; (ii) claims of retail depositors and individuals holding current accounts with the insolvent bank; (iii) claims of the Agency for Insurance of Retail Deposits in respect of bank deposits and bank accounts transferred to it pursuant to the Retail Deposits Insurance Law and (iv) claims of the CBR transferred to it pursuant to applicable legislation in the event that the CBR was required to repay amounts of deposits by individuals with banks that were declared insolvent and did not participate in the Russian mandatory deposits' insurance system; (v) claims under employment contracts and other social benefits and copyright claims.

In accordance with the Law on Insolvency (Bankruptcy) of Credit Organisations, claims of creditors secured by a pledge are satisfied from the proceeds from the sale of pledged assets in priority to other creditors' claims, except for Priority Claims. Any obligations of creditors secured by pledge remaining unsatisfied following the sale of the pledged assets would be ranked as claims of unsecured creditors.

Generally, under the Law on Insolvency (Bankruptcy), taxes and other payment obligations to the Government are satisfied *pari passu* with the claims of unsecured creditors. These provisions, however, contradict the Civil Code of the Russian Federation, and their application remains untested.

In the event of the insolvency of HCFB, Russian bankruptcy law could adversely affect the ability of the Issuer, the Trustee or the Noteholders to recover sums owed by HCFB under the Loan Agreement.

## **Luxembourg Insolvency**

The Issuer can be declared bankrupt upon petition by a creditor of the Issuer or the public prosecutor in Luxembourg or at the request of the Issuer in accordance with the relevant provisions of Luxembourg insolvency law. If granted, the Luxembourg courts will appoint a bankruptcy trustee ("*curateur*") who shall be obliged to take such action as he deems to be in the best interest of the Issuer and of all creditors of the Issuer. Certain preferred creditors of the Issuer (including the Luxembourg tax authorities) may have a privilege that ranks senior to the rights of the holders of the Notes in such circumstances. To mitigate the risk of potential preferred creditors, the Issuer will provide the Trustee with the benefit of covenants restricting the creation of further indebtedness and restricting its activities generally to those specified in the Trust Deed and described generally in this Offering Circular. Other insolvency proceedings under Luxembourg law include controlled management, and moratorium of payments ("*gestion contrôlée et sursis de paiement*") of the Issuer, composition proceedings ("*concordat*") and judicial liquidation proceedings ("*liquidation judiciaire*").



## EXCHANGE RATES

The following table sets forth, for the periods indicated, the high, low, average and period-end official rates set by the CBR in each case for the purchase of Roubles, all expressed per U.S. Dollar. These translations should not be construed as representations that Rouble amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the rate indicated as of any of the dates mentioned in this Offering Circular or at all.

	<u>High</u>	<u>Low</u> (Roubles per U.S. dollar)	<u>Average</u>	<u>Period-End</u>
2005 (up to and including 31 March 2005) . . . . .	28.1872	27.4611	27.8242	27.8256
2004 . . . . .	29.4545	27.7487	28.6016	27.7487
2003 . . . . .	31.8846	29.2450	30.5648	29.4545
2002 . . . . .	31.8600	30.1372	30.9986	31.7844
2001 . . . . .	30.3000	28.1600	29.2300	30.1400

Source: [www.cbr.com](http://www.cbr.com) (Central Bank of the Russian Federation)

## CAPITALISATION AND INDEBTEDNESS OF HCFB

The following table sets forth (i) HCFB's consolidated capitalisation and indebtedness as of 31 March 2005 and (ii) such capitalisation and indebtedness as adjusted to reflect HCFB's borrowing under the Loan Agreement. This information should be read in conjunction with "Use of Proceeds", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements included elsewhere in this Offering Circular.

	<b>As of 31 March 2005</b>	
	<b>(Actual)</b>	<b>(As adjusted)</b>
	<b>(in RUB thousands)</b>	
Debt securities issued .....	5,725,814	13,377,854
Other long-term liabilities .....	3,732,914	3,732,914
Other short-term liabilities .....	13,320,641	13,320,641
Net assets attributable to participants .....	3,001,902	3,001,902
<b>Total liabilities .....</b>	<b><u>25,781,271</u></b>	<b><u>33,433,311</u></b>

- (1) HCFB's RUB 1.5 billion domestic notes due 2007 are guaranteed by Financial Innovations LLC, a 100 per cent. owned subsidiary of HCFB. The first two semi-annual coupon payments due on the notes are set at the rate of 11.25 per cent.
- (2) In May 2005, HCFB issued RUB 3 billion notes due 2010. The first two semi-annual coupon payments due on the notes are set at the rate of 8.5 per cent. The notes are guaranteed by Financial Innovations LLC.
- (3) Save as set out in footnotes (1) and (2) above, all indebtedness of HCFB is unsecured and unguaranteed. HCFB does not have any contingent liabilities and has not issued any guarantees.
- (4) The charter capital of HCFB comprises participation interests with a nominal value of RUB 173 million. The nominal value of the participation interests is not broken down into individual shares.

Since 31 March 2005, there has been no material change in HCFB's consolidated capitalisation, indebtedness, contingent liabilities or guarantees, except as noted above.



## SELECTED CONSOLIDATED FINANCIAL INFORMATION OF HCFB

The following tables present selected consolidated financial information of HCFB which has been extracted without material adjustment from, and should be read in conjunction with the Financial Statements and the notes thereto included elsewhere in this Offering Circular, and as well as the sections entitled “Capitalisation” and “Management’s Discussion and Analysis of the Financial Condition and Results of Operations”.

### HCFB Income Statement Data

	Three months ended 31 March		Year ended 31 December	
	2005	2004	2004	2003
	(in RUB thousands)			
Net interest income .....	1,343,622	451,257	2,540,752	248,583
Net fee and commission income .....	337,205	165,166	1,074,866	160,686
Other operating (expense)/income .....	(33,496)	12,077	7,964	(65,616)
Operating expense .....	(1,336,052)	(508,914)	(3,031,008)	(661,213)
<b>Profit before tax .....</b>	<b>311,279</b>	<b>119,586</b>	<b>592,574</b>	<b>(317,560)</b>
Income tax (expense)/benefit .....	(77,580)	(12,928)	(185,476)	73,621
<b>Net profit/(loss) attributable to participants.....</b>	<b>233,699</b>	<b>106,658</b>	<b>407,098</b>	<b>(243,939)</b>

### HCFB Balance Sheet Data

	As of 31 March	As of 31 December	
	2005	2004	2003
	(in RUB thousands)		
<b>ASSETS</b>			
Cash .....	12,165	6,444	4,915
Due from the Central Bank of Russian Federation .....	580,061	3,403,010	1,313,041
Placements with banks and other financial institutions .....	3,347,582	3,520,103	1,336,095
Loans to customers.....	21,198,506	18,371,076	5,220,867
Financial assets at fair value through profit or loss .....	141,402	54,340	6,456
Property, equipment and intangible assets .....	363,680	326,802	153,271
Income tax receivable .....	33,192	8,945	—
Deferred tax asset.....	—	—	73,640
Other assets .....	104,683	137,933	65,092
<b>Total assets.....</b>	<b>25,781,271</b>	<b>25,828,653</b>	<b>8,173,377</b>
<b>LIABILITIES</b>			
Due to banks and other financial institutions .....	(14,515,997)	(19,130,262)	(6,737,022)
Debt securities issued.....	(5,725,814)	(1,533,658)	—
Current accounts and deposits from customers.....	(2,205,011)	(1,977,215)	(151,481)
Financial liabilities at fair value through profit or loss .....	(94,890)	(252,666)	(92,874)
Deferred tax liability .....	(97,542)	(29,127)	—
Other liabilities .....	(140,115)	(137,522)	(8,895)
<b>Net assets attributable to participants.....</b>	<b>3,001,902</b>	<b>2,768,203</b>	<b>1,183,105</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis of the consolidated financial condition and results of operations of HCFB covers the years ended 31 December 2004 and 31 December 2003 and the three month periods ended 31 March 2005 and 31 March 2004. Unless otherwise specified, the financial information presented in this discussion has been extracted or derived without material adjustments from HCFB's Financial Statements. This section should be read in conjunction with HCFB's Financial Statements and the notes thereto and the other financial information included elsewhere in the Offering Circular.*

*Certain information contained in the discussion and analysis set forth below and elsewhere in this Offering Circular includes "forward-looking statements". Such forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. See the section entitled "Forward-Looking Statements".*

### Overview

The principal business activity of HCFB is the provision of consumer finance products and services to retail customers in Russia. As of 26 May 2005, HCFB had the fourth largest retail loan portfolio in Russia (HCFB's estimate based on the analysis of Russian banks' financial statements published on the official CBR website). Consumer finance products and services represented the largest segment of HCFB's revenue for the year ended 31 December 2004 and three months ended 31 March 2005. HCFB started to issue loyalty cards and credit cards to its customers in May 2004 and November 2004, respectively. HCFB also offers limited corporate banking services to certain of its retail partners, although these represent a relatively insignificant portion of HCFB's overall business.

For the three months ended 31 March 2005, HCFB had operating income of RUB 1,647 million (operating income is calculated as the sum of net interest income, net fee and commission income and other operating income) and net income of RUB 234 million compared with operating income of RUB 629 million and a net income of RUB 107 million, respectively, for the three months ended 31 March 2004.

For the year ended 31 December 2004, HCFB recorded operating income of RUB 3,624 million and net profit of RUB 407 million, compared with operating income of RUB 344 million and net loss of RUB 244 million for the year ended 31 December 2003.

As of 31 March 2005, HCFB had total assets of RUB 25,781 million and total net customer loans of RUB 21,199 million, representing an increase from RUB 25,829 million and RUB 18,371 million, respectively, as of 31 December 2004 and RUB 8,173 million and RUB 5,221 million, respectively, as of 31 December 2003.

### Significant Factors Affecting Results of Operations

#### Risk management

Management of risks arising from financial assets is fundamental to HCFB's business and is an essential element of HCFB's operations. The major risks faced by HCFB are those related to credit exposures, liquidity and movements in interest rates and foreign exchange rates. These risks are managed in the following manner:

**Credit risk.** Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to HCFB. The major part of HCFB's exposure to credit risk arises as a result of HCFB's principal business, the provision of consumer financing to individuals. As HCFB's loan portfolio consists of a large number of loans with relatively low outstanding amounts, the loan portfolio does not comprise any individually significant items. HCFB has developed policies and procedures for the management of credit exposures, including credit scoring of customers, guidelines to limit portfolio concentration and the establishment of a Consumer Finance Risk Management Department, which actively monitors HCFB's credit risk.

**Interest rate risk.** Interest rate risk is measured by the extent that changes in market interest rates impact on margins and net interest income. To the extent that the term structure of interest bearing assets differs from that of interest bearing 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 HCFB's management. These limits restrict the potential effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities. The majority of HCFB's interest bearing assets and liabilities have fixed interest rates.

**Liquidity risk.** HCFB performs liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. HCFB is exposed to liquidity risk arising out of mismatches between the maturities of HCFB's assets and liabilities, which may result in HCFB being unable to meet its obligations in a timely manner.

**Foreign currency risk.** HCFB has assets and liabilities denominated in several foreign currencies. HCFB's consumer loan portfolio is denominated in Roubles, although liabilities have previously been denominated predominantly in foreign currencies. Foreign currency risk arises when the actual or forecast assets in a foreign currency are either greater or less than the liabilities in that currency. Foreign exchange rate risk mainly arises due to the funding of HCFB's operations with liabilities denominated in foreign currencies. Derivative financial instruments are used by HCFB to hedge the imbalances in the foreign currency structure of assets and liabilities.

**Taxation contingencies.** The taxation system in the Russian Federation is relatively new and is characterised by numerous taxes and frequently changing legislation which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. Furthermore, tax years remain open for review by the tax authorities for three years. These facts may create tax risks in the Russian Federation substantially more significant than in other countries. The management of HCFB believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations.

### **Key accounting policies**

HCFB's consolidated financial condition and results of operations presented in its consolidated financial statements and notes to its consolidated financial statements, selected statistical and other information appearing elsewhere in this Offering Circular are, to a large degree, dependent upon HCFB's accounting policies which in some cases involve a significant amount of management discretion. HCFB's significant accounting policies are described in Note 3 to the Annual Financial Statements on pages F-24 to F-30 of this Offering Circular and in Note 3 to the Interim Financial Statements on pages F-7 to F-8 of this Offering Circular. HCFB has identified the following accounting policies that it believes are the most important to an understanding of the consolidated results of operations and financial condition of HCFB.

### **Provisions for loan impairment**

A provision for loan impairment is established if there is objective evidence that HCFB will not be able to collect the amounts due according to its original contractual terms. The amount of the provision is the difference between the carrying value and estimated recoverable amount, calculated as the present value of the cash flows, including any amounts which may be recoverable from guarantees and collateral, discounted at the asset's original effective interest rate.

The provision for loan impairment also covers losses where there is objective evidence to indicate that probable loan losses are present in components of the loan portfolio at the consolidated balance sheet date. These probable losses have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers, and they reflect the current environment in which the borrowers operate.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the consolidated statement of income.

If the amount of the provision for loan impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for loan impairment in the consolidated statement of income.

### **Income and expense recognition**

Interest income and expense is recognised in the consolidated statement of income as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Fee and commission income is recognised when the corresponding service is provided. Loan servicing fees and other fees that are considered to be integral to the overall profitability of the loan together with the related direct costs, are deferred and recognised as an adjustment to the effective interest rate.

### **Income taxation**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the consolidated statement of income, except to the extent that it relates to items related directly to equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates applicable or expected to be applicable as at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### **Results of Operations for the three months ended 31 March 2005 and 31 March 2004 and for the years ended 31 December 2004 and 31 December 2003**

The following tables set out HCFB's consolidated net income and the principal components thereof for the three months ended 31 March 2005 and 31 March 2004 and the years ended 31 December 2004 and 31 December 2003.

	<b>Three months ended 31 March</b>		<b>Year ended 31 December</b>	
	<b>2005</b>	<b>2004</b>	<b>2004</b>	<b>2003</b>
	<b>(in RUB thousands)</b>			
Interest income .....	1,856,972	631,220	3,428,609	361,778
Interest expense .....	(513,350)	(179,963)	(887,857)	(113,195)
<b>Net interest income .....</b>	<b>1,343,622</b>	<b>451,257</b>	<b>2,540,752</b>	<b>248,583</b>
Fee and commission income .....	348,968	165,522	1,100,029	161,469
Fee and commission expense .....	(11,763)	(356)	(25,163)	(783)
<b>Net fee and commission income .....</b>	<b>337,205</b>	<b>165,166</b>	<b>1,074,866</b>	<b>160,686</b>
Net foreign exchange (loss)/gain .....	(51,679)	11,076	(26,618)	(68,718)
Contractual penalties from customers .....	16,237	128	24,083	413
Other income .....	1,946	873	10,499	2,689
Other operating (expense)/income .....	(33,496)	12,077	7,964	(65,616)
<b>Operating income .....</b>	<b>1,647,331</b>	<b>628,500</b>	<b>3,623,582</b>	<b>343,653</b>
Impairment losses .....	(753,793)	(211,574)	(1,023,136)	(156,500)
General administrative expenses .....	(582,259)	(297,340)	(2,007,872)	(504,713)
<b>Operating expenses .....</b>	<b>(1,336,052)</b>	<b>(508,914)</b>	<b>(3,031,008)</b>	<b>(661,213)</b>
<b>Profit before tax .....</b>	<b>311,279</b>	<b>119,586</b>	<b>592,574</b>	<b>(317,560)</b>
Income tax (expense)/benefit .....	(77,580)	(12,928)	(185,476)	73,621
<b>Net profit/(loss) attributable to participants .....</b>	<b>233,699</b>	<b>106,658</b>	<b>407,098</b>	<b>(243,939)</b>

### **Net Interest Income**

The amount of net interest income earned by HCFB is affected by a number of factors. It is primarily determined by the volume of interest-earning assets and interest-bearing liabilities, together with the

differential between rates earned on interests-earning assets and paid on interest-bearing liabilities. Interest-earning assets comprise predominantly of consumer loans and revolving credits, together with loans to corporate customers, banks and other credit institutions and securities. The predominance of interest income attributable to consumer loans and revolving credits reflects HCFB's focus on consumer finance business

### ***Interest Income***

Interest income primarily comprises of interest paid to HCFB by consumer and corporate customers which have borrowed funds from HCFB, and by credit institutions which have borrowed funds from HCFB in the interbank market.

The following table sets out the principal components of HCFB's consolidated interest income for the three months ended 31 March 2005 and 31 March 2004 and the years ended 31 December 2004 and 31 December 2003.

	<b>Three months ended 31 March</b>		<b>Year ended 31 December</b>	
	<b>2005</b>	<b>2004</b>	<b>2004</b>	<b>2003</b>
	<b>(in RUB thousands)</b>			
Loans to individuals.....	1,830,665	624,693	3,383,429	343,538
Placements with banks and other financial institutions .....	25,333	5,324	41,007	9,451
Loans to corporations .....	830	1,028	3,487	7,859
Securities .....	144	175	686	930
<b>Total interest income .....</b>	<b>1,856,972</b>	<b>631,220</b>	<b>3,428,609</b>	<b>361,778</b>

For the three months ended 31 March 2005, interest income increased by RUB 1,226 million on the results for the same period in the previous year, from RUB 631 million for the three months ended 31 March 2004 to RUB 1,857 million for the three months ended 31 March 2005. This increase was almost entirely due to the increased interest income attributable to consumer loans, which increased by RUB 1,206 million during the period, reflecting the significant increase in the size of the consumer loan portfolio. This was partly offset by the decrease in the weighted average effective interest rate on loans advanced during that period. This increase in the consumer loan portfolio is attributed to further penetration of the market, regional expansion and the introduction of new consumer lending products. As of 31 March 2005, HCFB's gross consumer loan portfolio totalled RUB 22,195 million representing a significant increase in the gross loan portfolio over the corresponding figure for the same period in 2004. HCFB also continued to benefit from relatively high interest rates on its point-of-sale consumer loans. This reflects the relative immaturity of the consumer credit market, and limited competition. In the future, increased competition between existing and new point-of-sale loan providers may result in further, more significant reductions in interest rates charged by HCFB on its point-of-sale loans. Interest income includes loan-servicing fees that are considered to be an integral part of the overall profitability of the loan. Although the amount of revolving credit balances compared to overall loans to individuals was relatively low as of 31 March 2005, in the second half of 2005 and in 2006 the management of HCFB anticipates a substantial increase in the share of revolving credit balances in the overall portfolio.

For the three months ended 31 March 2005, interest income earned on interbank placements increased by RUB 20 million on the previous year's results, from RUB 5 million for the three months ended 31 March 2004, to RUB 25 million for the three months ended 31 March 2005. This increase was primarily due to an increase in the average amount of short-term liquid funds that could be placed on the interbank market. As of 31 March 2005, HCFB's interbank and CBR placements were RUB 3,928 million representing an increase over the corresponding figure for the same period in 2004. This increase was partly offset by a decrease in average rates on interbank placements. This decrease was due to a substantial growth of HCFB's hedging position, which led to an increase of non-interest earning marginal accounts balances. Income generated by corporate loans and securities declined from RUB 1.2 million as for the three months ended 31 March 2004 to RUB 1 million for the three months ended 31 March 2005.

### ***Interest Expense***

Interest expense principally comprises amounts incurred by HCFB as interest on funding received from financial institutions and customers.



The following table sets out the principal components of HCFB's consolidated interest expense for the three months ended 31 March 2005 and 31 March 2004 and the years ended 31 December 2004 and 31 December 2003.

	<b>Three months ended 31 March</b>		<b>Year ended 31 December</b>	
	<b>2005</b>	<b>2004</b>	<b>2004</b>	<b>2003</b>
	<b>(in RUB thousands)</b>			
Due to banks and other financial institutions . . . . .	406,551	179,615	851,463	109,964
Debt securities . . . . .	106,054	—	33,658	—
Current accounts and deposits from customers. . . . .	745	348	2,736	3,231
<b>Total interest expense . . . . .</b>	<b>513,350</b>	<b>179,963</b>	<b>887,857</b>	<b>113,195</b>

For the three months ended 31 March 2005, interest expense increased by RUB 333 million on the results for the same period in the previous year, from RUB 180 million for the three months ended 31 March 2004, to RUB 513 million for the three months ended 31 March 2005. This increase resulted from an overall growth in borrowings attracted by HCFB from banks and other financial institutions to fund its growing portfolio of consumer loans.

The increase in interest expense can be largely attributed to growth in average borrowings from banks and other financial institutions, although it was largely offset by a decrease in average interest rates. As of 31 March 2005, HCFB's average interest rates on Rouble denominated borrowings and U.S. Dollar denominated borrowings were 10.6 per cent. and 8.7 per cent., respectively. The average interest rates decreased as a result of the strengthening of HCFB's financials, rating assignments and successful financing policy, supported by favorable market conditions.

## Interest Margin

HCFB's overall net interest margin (net interest income as a percentage of average total assets) grew from 19.8 per cent. for the three months ended 31 March 2004 to 20.8 per cent. for the three months ended 31 March 2005. Despite the fact that rates on consumer lending decreased more than rates on interest bearing liabilities, net interest margin increased due to an increase in the loans to customers' share of overall assets, from 66 per cent. as of 31 March 2004 to 82 per cent. as of 31 March 2005, and the better management of the liquidity cushion, which earns substantially lower returns than consumer loans.

The following table sets out the average effective interest rates (for the portfolio of outstanding instruments) by major currencies for major financial instruments outstanding as of 31 March 2005, 31 March 2004, 31 December 2004 and 31 December 2003. The analysis has been prepared using effective interest rates for the portfolios of assets outstanding at the respective period-end. The effective interest rate on a loan is calculated as the yield to maturity using the contractual cash flows of the loan, which includes annuity interest payments and loan servicing fees.

	<b>31 March 2005</b>			<b>31 December 2004</b>			<b>31 December 2003</b>		
	<b>RUB</b>	<b>U.S.\$</b>	<b>Other</b>	<b>RUB</b>	<b>U.S.\$</b>	<b>Other</b>	<b>RUB</b>	<b>U.S.\$</b>	<b>Other</b>
	<b>(per cent.)</b>								
<b>Assets</b>									
Due from CBR . . . . .	—	—	—	0.5	—	—	0.4	—	—
Placements with banks and other financial institutions									
— nostro accounts . . . . .	0.5	—	—	0.4	—	0.1	—	—	—
— loans and term deposits . . . . .	1.1	0.3	—	1.7	2.2	—	0.7	2.3	—
Loans to customers									
—loans to individuals . . . . .	38.1	—	—	37.4	20	—	45.4	20	—
—loans to corporations . . . . .	13.8	13	—	13.3	14	—	17.5	14.3	—
<b>Liabilities</b>									
Due to banks and other financial institutions . . . . .	10.6	8.7	6.7	8.6	8.3	6.2	12.4	8.5	9.6
Customer accounts									
—current accounts . . . . .	—	0.4	0.5	—	0.3	—	—	—	—
—deposit . . . . .	5.3	4.4	5	5.6	5	5.8	12.5	6.3	7.3
Debt securities issued . . . . .	12.7	10.1	—	11.3	—	—	—	—	—

## Fee and Commission Income

Fee and commission income primarily comprises commissions generated by HCFB's consumer finance business. The most significant amount reflects fees and commissions received from HCFB's retail partners. The remainder of the fee and commission income results from fees charged for issuing account statements, cash transactions including ATM transactions fees and other items.

The following table sets out the principal components of HCFB's fee and commission income for the three months ended 31 March 2005 and 31 March 2004 and the years ended 31 December 2004 and 31 December 2003.

	<b>Three months ended 31 March</b>		<b>Year ended 31 December</b>	
	<b>2005</b>	<b>2004</b>	<b>2004</b>	<b>2003</b>
	<b>(in RUB thousands)</b>			
Fees and commissions from retail partners .....	330,861	139,197	952,316	147,750
Customer transfers/payments processing .....	14,417	24,960	141,804	11,754
Cash operations .....	3,578	1,307	5,786	1,567
Other .....	112	58	123	398
<b>Total fee and commission income .....</b>	<b>348,968</b>	<b>165,522</b>	<b>1,100,029</b>	<b>161,469</b>

Fee and commission income increased by RUB 183 million to RUB 349 million for the three months ended 31 March 2005 from RUB 166 million for the three months ended 31 March 2004. The major component of this income was commissions earned from HCFB's retail partners based on the volume of sales of loans made in the period. These commissions increased by RUB 192 million to RUB 331 million for the three months ended 31 March 2005 from RUB 139 million for the three months ended 31 March 2004. This increase is consistent with a significant increase in volume of loans extended during the period and was partly offset by a decrease in HCFB's average commission rate. Loans granted for the three months ended 31 March 2005 totalled RUB 11,151 million, compared to RUB 3,612 million for the three months ended 31 March 2004. The average commission on credit sales during the three months ended 31 March 2005 was 2.92 per cent. representing a decrease in the average commission on credit sales from the corresponding figure for the same period in 2004. The decrease of the average commission can be mainly attributed to increased competition in federal chains and introduction of new products.

The decrease in customer payments processing income from RUB 25 million for the three months ended 31 March 2004 to RUB 14 million for the three months ended 31 March 2005 was primarily driven by introduction of new terms for consumer finance customers, where commission for issuing account statements was cancelled and the servicing fee was included as a part of the interest charged. Fees charged for issuing account statements to a consumer finance customer are only charged for loans that were extended prior to 17 May 2004. Fee income from issuance of account statements is expected to decline further in the future.

## Fee and Commission Expense

The following table sets out the principal components of HCFB's fee and commission expenses for the three months ended 31 March 2005 and 31 March 2004 and the years ended 31 December 2004 and 31 December 2003.

	<b>Three months ended 31 March</b>		<b>Year ended 31 December</b>	
	<b>2005</b>	<b>2004</b>	<b>2004</b>	<b>2003</b>
	<b>(in RUB thousands)</b>			
Payments processing and account maintenance .....	7,688	330	22,889	767
Fees to retailers .....	3,987	—	—	—
Other .....	88	26	2,274	16
<b>Total fee and commission expenses.....</b>	<b>11,763</b>	<b>356</b>	<b>25,163</b>	<b>783</b>

For the three months ended 31 March 2005, fee and commission expenses increased by RUB 11.4 million to RUB 11.8 million, compared to RUB 0.4 million for the three months ended 31 March 2004. This increase was largely due to the growth in fees and commissions paid for cash collection processing and credit cards processing fees, which arose from HCFB's revolving credit business.



### **Net Foreign Exchange (Loss)/Gain**

For the three months ended 31 March 2005, HCFB incurred a net foreign exchange loss of RUB 51.7 million, compared with RUB 11 million net foreign exchange gain for the three months ended 31 March 2004. As HCFB's main assets are denominated in Roubles and as its funding is denominated primarily in U.S. Dollars and Czech Koruna, HCFB runs open short U.S. Dollar and Czech Koruna positions. HCFB is managing the foreign exchange risk of those short positions by entering into forwards, futures and swap contracts on U.S. Dollar and Czech Koruna currencies. The net foreign exchange result for the period consists of gains and losses from foreign exchange translation, realised foreign currency gains and losses, and gains and losses on foreign currency derivatives. As a matter of HCFB's policy, HCFB has no proprietary foreign currency trading positions.

### **Other Income**

Other income for the three months ended 31 March 2005 increased by RUB 17 million to RUB 18 million, as compared to RUB 1 million for the three months ended 31 March 2004. This increase was primarily driven by the increase in penalties received for late repayment of customer loans. This increase was a reflection of substantial growth in loans extended to consumers during 2004, and the lack of experience of Russian consumers with loan products. The major portion of penalties comprised of penalties paid after two missed payments: a four per cent. charge per month on the amount of overdue payment and, after three missed payments, a six per cent. charge per month on the amount of overdue payment.

### **Charge for Loan Impairment**

The charge for loan impairment was RUB 754 million for the three months ended 31 March 2005 and RUB 212 million for the three months ended 31 March 2004. The higher charge in 2005 resulted from a significant increase in the size of HCFB's consumer loan portfolio and the reassessment of default rates, as discussed below.

In 2004, the management of HCFB reassessed the expected default rates based on current experience with the portfolio, the increasing overall risk profile of the portfolio due to a launch of new products and the expansion into the regions. As a result, the charge for loan impairment loss has risen. The average provisioning rate for the gross portfolio (excluding accruals) increased from 5.3 per cent. as of 31 March 2004 to 7.9 per cent. as of 31 March 2005. In addition to the factors above, the increase was attributable to the fact that HCFB did not write off any loans during the three months ended 31 March 2005, thereby generating a larger percentage during the period. If loans are overdue for more than 60 days, HCFB stops accruing interest as it considers such loans to be non-performing. The amount of such overdue loans as of 31 March 2005 was RUB 1,924 million representing an increase in the amount of such overdue loans as of 31 March 2004. HCFB classifies loans that are overdue for more than 360 days as "loss loans" and creates a 100 per cent. provision for impairment. The amount of such overdue loans as of 31 March 2005 was RUB 294 million representing an increase on the amount of such overdue loans as of 31 March 2004.

### **General Administrative Expenses**

General administrative expenses are primarily comprised of employee compensation and related taxes, communication and information services, advertising and marketing, taxes other than income tax, rental expenses, office supplies, professional services, depreciation of fixed assets, amortisation of intangible assets and other expenses.

The following table sets out the principal components of HCFB's consolidated operating expenses for the three months ended 31 March 2005 and 31 March 2004 and the years ended 31 December 2004 and 31 December 2003.

	Three months ended 31 March		Year ended 31 December	
	2005	2004	2004	2003
	(in RUB thousands)			
Employee compensation .....	169,976	106,040	590,296	164,776
Payroll related taxes .....	37,143	29,715	129,154	37,446
Communication and information services .....	149,165	45,791	363,827	65,853
Advertising and marketing .....	36,165	24,376	315,050	71,642
Taxes other than income tax .....	51,602	16,686	179,331	42,428
Occupancy .....	27,752	14,241	95,441	29,637
Office supplies .....	28,024	11,892	82,486	23,353
Professional services .....	16,194	16,716	73,916	20,957
Depreciation and amortisation .....	20,902	8,521	55,006	12,516
Travel expenses .....	9,124	6,396	37,789	10,222
Repairs and maintenance .....	4,155	1,976	4,773	5,461
Security .....	3,239	482	5,305	1,534
Other .....	28,818	14,508	75,498	18,888
<b>Total .....</b>	<b>582,259</b>	<b>297,340</b>	<b>2,007,872</b>	<b>504,713</b>

#### *Employee compensation and payroll related taxes*

Employee compensation includes wages, staff bonuses and social security contributions. For the three months ended 31 March 2005, staff costs increased by RUB 64 million to RUB 170 million as compared to RUB 106 million for the three months ended 31 March 2004. This increase was primarily due to an increase in the number of employees as a result of growth in HCFB's operations and regional expansion, and a general increase in the salary levels. HCFB employed 2,940 persons as of 31 March 2005, compared to 1,940 employees as of 31 March 2004.

Payroll related taxes as percentage of total employee compensation were 21.9 per cent. for the three months ended 31 March 2005 and 28.0 per cent. for the three months ended 31 March 2004. This change was due to a decrease in average staff salaries caused by an increase in the proportion of lower paid staff.

#### *Communication and information services*

Communications and information services expenses increased to RUB 149 million for the three months ended 31 March 2005 from RUB 46 million for the three months ended 31 March 2004, which represented an increase of RUB 103 million. This increase reflected increased costs associated with the continued expansion of HCFB's presence in retail outlets and the increased number of employees. Communication and information services expenses also included the costs of electronic underwriting which is outsourced to Home Credit International, a.s. in the Czech Republic and the costs of which depend on the volume of applications processed. HCFB currently pays a fixed charge of EUR 0.53 per application. The volume of applications processed during the three months ended 31 March 2005 was 1,084,342, compared to 393,482 applications during the three months ended 31 March 2004.

#### *Advertising and marketing*

Advertising and marketing expenses increased by RUB 12 million from RUB 24 million for the three months ended 31 March 2004, to RUB 36 million for the three months ended 31 March 2005. This increase was primarily attributable to overall business growth which in turn required more marketing activities such as advertising campaigns, merchandising and promotions. Marketing expenses should increase substantially until the end of 2005, as HCFB intends to launch a television campaign in order to increase brand awareness. The management of HCFB believes that these marketing expenses will result in an increased volume of consumer loans extended, and will be fully recovered by the increased interest income that will be generated in 2005 and 2006.

#### *Taxes other than income tax*

Taxes other than income tax increased from RUB 17 million for the three months ended 31 March 2004 to RUB 52 million for the three months ended 31 March 2005. Taxes other than income tax consist

mainly of value added tax (“VAT”). While these taxes also include property tax and tax on advertising, collectively, these taxes are an insignificant portion of taxes. The major reason for the increase in value added tax was an increase in overall VAT taxable expenses.

#### *Rental expenses*

Rental expenses increased by RUB 14 million, from RUB 14 million for the three months ended 31 March 2004 to RUB 28 million for the three months ended 31 March 2005. This increase was primarily attributed to HCFB’s regional expansion, as a result of which the number of regional representative offices has increased from 16 as of 31 March 2004 to 41 as of 31 March 2005.

#### **Income Tax Expenses**

HCFB’s income tax expenses (current and deferred) amounted to RUB 78 million for the three months ended 31 March 2005, compared to RUB 13 million for the three months ended 31 March 2004. The statutory rate of the Russian federal and regional taxation and the City of Moscow taxation applicable to HCFB in both periods was 24 per cent. HCFB’s effective tax rate was 24.9 per cent. and 10.8 per cent. for the three months ended 31 March 2005 and 31 March 2004, respectively. The effective tax rate for the three months ended 31 March 2005 was above the statutory rate due to increased volume of non-deductible expenses. The effective tax rate for the three months ended 31 March 2004 was below the statutory rate due to the effects of tax loss carry forward in 2003.

#### **Analysis of Consolidated Balance Sheet as of 31 March 2005, 31 March 2004, 31 December 2004 and 31 December 2003.**

	Periods ended		
	31 March 2005	31 December 2004	31 December 2003
	(in RUB thousands)		
<b>ASSETS</b>			
Cash.....	12,165	6,444	4,915
Due from Central Bank of Russian Federation.....	580,061	3,403,010	1,313,041
Placements with banks and other financial institutions .....	3,347,582	3,520,103	1,336,095
Loans to customers.....	21,198,506	18,371,076	5,220,867
Financial assets at fair through profit and loss.....	141,402	54,340	6,456
Property, equipment and intangible assets .....	363,680	326,802	153,271
Income tax receivable.....	33,192	8,945	—
Deferred tax asset.....	—	—	73,640
Other assets .....	104,683	137,933	65,092
<b>Total assets.....</b>	<b>25,781,271</b>	<b>25,828,653</b>	<b>8,173,377</b>
<b>LIABILITIES</b>			
Due to banks and other financial institutions .....	(14,515,997)	(19,130,262)	(6,737,022)
Debt securities issued.....	(5,725,814)	(1,533,658)	—
Current accounts and deposits from customers.....	(2,205,011)	(1,977,215)	(151,481)
Financial liabilities at fair value through profit or loss ..	(94,890)	(252,666)	(92,874)
Deferred tax liability .....	(97,542)	(29,127)	—
Other liabilities .....	(140,115)	(137,522)	(8,895)
<b>Net assets attributable to participants.....</b>	<b>3,001,902</b>	<b>2,768,203</b>	<b>1,183,105</b>

#### **Total Assets**

As of 31 March 2005, HCFB had total assets of RUB 25,781 million representing a RUB 47 million decrease in total assets as compared to total assets of RUB 25,829 million as of 31 December 2004. The decrease in total assets was mainly driven by HCFB’s application of its excess liquidity to fund the growth of its loan portfolio during the traditional Russian holiday season. Below is the analysis of changes in the major assets categories during the period from 31 December 2004 to 31 March 2005.

#### *Due from the CBR*

As of 31 March 2005, HCFB had balances due from the CBR of RUB 580 million representing a decrease of RUB 2,823 million from the corresponding figure as of 31 December 2004. HCFB used the amount of the decrease primarily to fund the increase in loans to customers.

#### *Placements with banks and other financial institutions*

As of 31 March 2005, HCFB's placements with banks and other financial institutions totalled RUB 3,348 million representing a decrease of RUB 173 million from the corresponding figure as of 31 December 2004.

#### *Loans to customers*

As of 31 March 2005, loans to customers (net of provisions for loan impairment) amounted to RUB 21,199 million representing an increase of RUB 2,827 million over the corresponding figure as of 31 December 2004. This increase is attributable to growth in demand for consumer finance services during the traditional holiday season in Russia and was primarily funded by withdrawals of HCFB's deposits with the CBR.

#### *Property, equipment and intangible assets*

As of 31 March 2005, HCFB's property, equipment and intangible assets totalled RUB 364 million representing an increase of RUB 37 million over the corresponding figure as of 31 December 2004.

### **Total Liabilities and Net Assets Attributable to Participants**

As of 31 March 2005, HCFB's total liabilities (excluding net assets attributable to participants) were RUB 22,779 million representing a decrease of RUB 281 million from the corresponding figure as of 31 December 2004. Below is the analysis of changes in the major liability categories during the period from 31 December 2004 to 31 March 2005.

#### *Due to banks and other financial institutions*

Amounts of deposits and balances from banks and other financial institutions were RUB 14,516 million as of 31 March 2005 representing a decrease of RUB 4,614 million from the corresponding figure as of 31 December 2004. This decrease was due to HCFB's efforts to diversify its funding base through the reduction of short-term funds provided by banks and other financial institutions to HCFB in HCFB's overall funding base and their replacement by funds raised on international and domestic debt capital markets.

#### *Debt securities issued*

Debt securities issued were RUB 5,726 million as of 31 March 2005 representing an increase of RUB 4,192 million over the corresponding figure as of 31 December 2004. This increase is primarily due to the successful placement of HCFB's debut U.S.\$ 150 million in principal amount of bonds in the international capital markets.

#### *Current account and deposits from customers*

As of 31 March 2005, current accounts and deposits grew by RUB 228 million to RUB 2,205 million as compared to RUB 1,977 million as of 31 December 2004. This increase is primarily due to the increase in both amounts of funds transferred by individuals prior to the scheduled instalment payment date and amounts transferred by individuals in excess of the amount of the instalment due.

#### *Net Assets Attributable to Participants*

As of 31 March 2005, net assets of HCFB that were attributable to participants totaled RUB 3,002 million, representing an increase of RUB 234 million over the corresponding figure as of 31 December 2004. This increase was driven by an increase in retained earnings.

### **Off-Balance Sheet Commitments**

HCFB's off-balance sheet commitments primarily comprise derivative contracts.

As of 31 March 2005, the following contracts were outstanding based on which HCFB was obliged to purchase U.S. Dollars at a fixed RUB/U.S.\$ exchange rate:

As of 31 March 2005			
	<u>Maturity</u>	<u>Notional amount</u> (in U.S.\$ thousands)	<u>Fair value</u> (in RUB thousands)
Foreign currency forward contracts	April 2005	91,000	(34,312)
Foreign currency forward contracts	May 2005	60,000	10,502
Foreign currency forward contracts	June 2005	24,500	7,669
Foreign currency forward contracts	September 2005	47,000	24,974
Foreign currency forward contracts	October 2005	40,000	(37,138)
Foreign currency futures contracts	April 2005	51,500	2,576
Foreign currency futures contracts	May 2005	34,500	4,505
Foreign currency futures contracts	June 2005	8,985	(291)
Foreign currency futures contracts	July 2005	5,000	1,400
Foreign currency futures contracts	August 2005	10,000	(300)
Foreign currency swap contracts	April 2005	20,000	6,688
Foreign currency swap contracts	May 2005	4,000	1,622
Foreign currency swap contracts	June 2005	8,000	2,458
		<b><u>404,485</u></b>	<b><u>(9,647)</u></b>

As of 31 December 2004, the following contracts were outstanding based on which HCFB was obliged to purchase U.S. Dollars at a fixed RUB/U.S.\$ exchange rate:

As of 31 December 2004			
	<u>Maturity</u>	<u>Notional amount</u> (in U.S.\$ thousands)	<u>Fair value</u> (in RUB thousands)
Foreign currency forward contracts	March 2005	95,900	(43,941)
Foreign currency forward contracts	January 2005	88,000	(70,196)
Foreign currency forward contracts	February 2005	63,600	(11,109)
Foreign currency forward contracts	October 2005	40,000	(12,906)
Foreign currency forward contracts	April 2005	18,000	(27,417)
Foreign currency futures contracts	February 2005	10,000	871
Foreign currency futures contracts	January 2005	9,500	58
Foreign currency futures contracts	March 2005	9,013	(15,218)
Foreign currency swap contracts	January 2005	7,000	(134)
		<b><u>341,013</u></b>	<b><u>(179,992)</u></b>

As of 31 December 2004, the following contracts were outstanding based on which HCFB was obliged to purchase Czech Korunas at a fixed CZK/U.S.\$ exchange rate:

As of 31 December 2004			
	<u>Maturity</u>	<u>Notional amount</u> (in CZK thousands)	<u>Fair value</u> (in RUB thousands)
Foreign currency swap contracts	January 2005	1,613,892	(24,573)
Foreign currency swap contracts	February 2005	1,502,868	(45,454)
		<b><u>3,116,760</u></b>	<b><u>(70,027)</u></b>

As of 31 December 2004, the following contracts were outstanding based on which HCFB was obliged to purchase U.S. Dollars at a fixed CZK/USD exchange rate:

As of 31 December 2004			
	<u>Maturity</u>	<u>Notional amount</u> (in U.S.\$ thousands)	<u>Fair value</u> (in RUB thousands)
Foreign currency swap contracts	January 2005	67,000	45,449
		<b>67,000</b>	<b>45,449</b>

As of 31 December 2003, the following contracts were outstanding based on which HCFB was obliged to purchase U.S. Dollars at a fixed RUB/U.S.\$ exchange rate:

As of 31 December 2003			
	<u>Maturity</u>	<u>Notional amount</u> (in U.S.\$ thousands)	<u>Fair value</u> (in RUB thousands)
Foreign currency swap contracts	February 2004	30,000	(11,821)
Foreign currency swap contracts	January 2004	15,000	(177)
Foreign currency forward contracts	March 2004	79,900	(3,460)
Foreign currency forward contracts	February 2004	22,000	(4,075)
		<b>146,900</b>	<b>(19,533)</b>

As of 31 December 2003, the following contracts were outstanding based on which HCFB was obliged to purchase Czech Korunas at a fixed CZK/U.S.\$ exchange rate:

As of 31 December 2003			
	<u>Maturity</u>	<u>Notional amount</u> (in CZK thousands)	<u>Fair value</u> (in RUB thousands)
Foreign currency swap contracts	January 2004	2,000,000	(42,181)
Foreign currency swap contracts	February 2004	1,400,000	(14,293)
Foreign currency swap contracts	March 2004	600,000	(16,866)
		<b>4,000,000</b>	<b>(73,340)</b>

### Capital Adequacy

HCFB's capital adequacy ratio (the "CAR") is calculated under the methodology set by the Basle Committee on Banking Regulations and Supervisory Practices using the definition of capital adopted by the CBR. Tier I capital of HCFB is represented by net assets attributable to participants. Tier II capital of HCFB is represented by subordinated loans, up to a limit of 50 per cent. of Tier I capital.

The following table sets out the principal components of HCFB's CAR.

	<u>31 March 2005</u>	<u>31 December 2004</u>	<u>31 December 2003</u>
Risk-weighted assets . . . . .	22,454,825	19,904,614	5,867,870
Tier I capital . . . . .	3,001,902	2,768,203	1,183,105
Tier II capital . . . . .	1,500,951	1,384,102	—
<b>Total capital. . . . .</b>	<b>4,502,853</b>	<b>4,152,305</b>	<b>1,183,105</b>
Tier I ratio . . . . .	13.4%	13.9%	20.2%
Capital adequacy ratio . . . . .	20.1%	20.9%	20.2%

As of 31 March 2005, HCFB's Tier I capital amounted to RUB 3,002 million, representing an increase of RUB 234 million over the corresponding figure as of 31 December 2004. This increase was driven by an increase in retained earnings attributable to the growth of profit for three months ended 31 March 2005.



Despite significant growth in risk-weighted assets, which increased by RUB 2,550 million from RUB 19,905 as of 31 December 2004 to RUB 22,455 million as of 31 March 2005, HCFB maintained a CAR significantly above minimum capital requirements set by the Basle Committee on Banking Regulations and Supervisory Practices.

The CBR requires banks with charter capital in excess of the Rouble equivalent of EUR 10 million to maintain a CAR of 10 per cent. computed based on RAS. As at 31 March 2005, HCFB's capital adequacy ratio calculated on this basis was 16.0 per cent.

HCFB believes that since 31 March 2005 its loan portfolio, total CAR and Tier I CAR have remained almost unchanged, and HCFB's funding base has not shown any substantial change.

In connection with the Rouble Subordinated Loan (as defined in "Business - Funding"), Home Credit B.V. provided HCFB with an irrevocable commitment to subscribe for an increase in HCFB's charter capital in accordance with the terms of the Rouble Subordinated Loan, in an amount equal to or in excess of the principal amount of the Rouble Subordinated Loan. The increase in charter capital and its recognition for capital adequacy purposes is subject to the approval of the CBR, which is expected to be received by the end of June 2005. See "Business - Funding - Capital Support from Home Credit Group". Once received, HCFB expects that both its total CAR and its Tier I CAR will exceed 15 per cent.

### **Subsequent events**

In May 2005, HCFB issued its second domestic RUB 3 billion notes due 2010. The first two semi-annual coupons were set at 8.5 per cent.

## BUSINESS

### OVERVIEW

HCFB is a consumer finance bank organised as a limited liability company and incorporated under the laws of the Russian Federation with its registered office located at 317A Zelenograd, Moscow, 124482, Russian Federation. HCFB's principal office is located at 4 Baumanskaya Street, Moscow, 105005, Russian Federation.

As of 31 March 2005, Home Credit Finance, a.s. ("**HCF**"), a joint stock company incorporated in the Czech Republic, was the principal shareholder of HCFB, holding 99.8 per cent. of HCFB's charter capital. The remaining 0.2 per cent. of HCFB's charter capital was held by Mr. Ladislav Chvátal, the Chairman of HCF's Supervisory Board.

HCFB's business focuses on point-of-sale consumer lending (including issuing loyalty cards) primarily for the purpose of funding purchases of household goods and appliances. In November 2004, HCFB started issuing credit cards. See "Banking Services and Other Activities" below.

HCFB is one of the leading banks specialising in consumer finance in the Russian Federation and has a strong position in point-of-sale consumer lending. According to *Moody's-Interfax*, a leading Russian business information and analytical agency, in 2004 HCFB was the 3rd, 5th and 34th largest bank in Russia in terms of assets' growth, equity growth and volume of assets, respectively (based on Russian Accounting Standards ("**RAS**")).

HCFB is a principal member of MasterCard International, a member of the Russian Europay Member's Association and a member of the Association of Russian Banks and Association of Regional Banks. In November 2004, HCFB was admitted to the Russian mandatory system of insurance of retail bank deposits.

HCFB has prepared its financial statements in accordance with IFRS since 2002. For the three months ended 31 March 2005, HCFB generated net operating income before tax of RUB 311 million and had a net income of RUB 234 million. Of HCFB's net operating income before tax for the three months ended 31 March 2005, net interest income after provisions for loan impairment was RUB 592 million and net fee and commission income was RUB 337 million. For the year ended 31 December 2004, HCFB's net operating income before tax totalled RUB 593 million and the net income amounted to RUB 407 million. Of HCFB's net operating income before tax for the year ended 31 December 2004, net interest income after provisions for loan impairment amounted to RUB 1,520 million and net fee and commission income was RUB 1,075 million.

As of 31 March 2005, HCFB had total assets of RUB 25,781 million and net assets attributable to participants of RUB 3,002 million. As of 31 December 2004, HCFB's total assets were RUB 25,829 million and net assets attributable to participants amounted to RUB 2,768 million.

HCFB has a "Ba3" long-term and a "NP" short-term foreign currency rating and a financial strength rating of "D-" with a stable outlook from Moody's Investor's Service, Inc. and a "B-" long term and a "C" short-term counterparty credit rating with a stable outlook from Standard & Poor's Rating Service, a division of The McGraw-Hill Companies, Inc.

### HOME CREDIT GROUP

HCFB is part of a larger group of companies (the "**Home Credit Group**"). The Home Credit Group operates in the consumer finance markets of the Czech Republic, Slovakia and the Russian Federation. The holding company of the Home Credit Group is currently HCF, with its principal address at: Moravské náměstí 249/8, Brno, the Czech Republic. In addition to acting as a holding company of the Home Credit Group, HCF's principal business is the provision of consumer finance services in the Czech Republic.

The Home Credit Group is a part of the PPF Group, one of the largest financial groups in the Czech Republic with total assets of over U.S.\$ 6.8 billion at the end of 2003. PPF Group exercises control over the Home Credit Group through Česká pojišť'ovna, a.s. ("**Česká pojišť'ovna**"), the largest insurance company in the Czech Republic, with a market share of approximately 37 per cent. of the Czech insurance market in terms of premium income in 2003. As of 31 December 2003, Česká pojišť'ovna had total assets of approximately U.S.\$ 6.5 billion and shareholders' equity of approximately U.S.\$ 500 million. Česká pojišť'ovna has a credit rating of "Baa3" with a stable outlook from Moody's Investor's Service, Inc. and "BBB" with a stable outlook from Standard & Poor's Rating Service.

## HISTORY

HCFB was incorporated in June 1990, and was initially known as Innovation Bank Technopolis (“IBT”). IBT was established for servicing small- and medium-sized enterprises and the development of innovation projects in the microelectronics industry. IBT was registered with the CBR on 19 June 1990 and received banking licence No. 316.

In February 2002, the Home Credit Group acquired a 98 per cent. share in the charter capital of IBT. In September 2002, the Home Credit Group acquired an additional 1.8 per cent. in the charter capital of HCFB. The acquisition of IBT and, by extension, its banking licence, allowed the Home Credit Group access to the Russian consumer finance market where it launched a consumer finance programme in July 2002. In March 2003, IBT was renamed “Home Credit & Finance Bank”.

In July 2002, HCFB started to develop its network of representative offices throughout the Russian Federation. As of 31 March 2005, HCFB had a principal office in Moscow, 41 representative offices in major Russian cities and over 10,972 active points-of-sale throughout the Russian Federation.

## HOME CREDIT GROUP RESTRUCTURING

In May 2004, following an assessment of the size and revenue contribution of the non-Czech members of the Home Credit Group, the management of Česká pojišť’ovna and HCF decided to transfer the shareholdings in the non-Czech members of the Home Credit Group (including HCFB) to another group company. It is the current intention of the management of Česká pojišť’ovna and of the Home Credit Group to transfer all of the shareholdings in these non-Czech members to Home Credit B.V., a limited liability company incorporated in The Netherlands and for Home Credit B.V. to assume the function of the holding company of the Home Credit Group. HCF will also become a subsidiary of Home Credit B.V. Following the restructuring, Česká pojišť’ovna will hold approximately 100 per cent. of the shares of Home Credit B.V.

The transfer of Home Credit Slovakia a.s. (“HCS”), the Home Credit Group’s subsidiary operating in the consumer finance market of Slovakia, into the ownership of Home Credit B.V. has already been completed. HCFB has obtained the approvals from the Russian anti-monopoly authorities and the CBR for the transfer of HCFB into the ownership of Home Credit B.V. and has applied to the CBR for the registration of amendments to its constitutive documents reflecting the change of ownership. It is expected that the restructuring of the Home Credit Group, including the registration of the transfer of HCFB into the ownership of Home Credit B.V., will be completed by the end of June 2005. The management of the Home Credit Group believes that this restructuring will enhance the financial transparency of the Home Credit Group by providing a clear segregation of cash flows related to the funding of each of the members of the Home Credit Group, thereby enhancing the ability of the Home Credit Group to raise funding in the international capital markets.

## STRATEGY

HCFB’s ultimate strategic objective is to maintain its position as one of the leading consumer finance banks in Russia offering a comprehensive and competitive range of consumer finance products and to be the consumer finance bank of choice for retail chains and individuals throughout the Russian Federation.

HCFB’s strategy is based on the following key objectives:

**Expanding the Range of Products.** HCFB has recently expanded its range of products and services by issuing revolving credit cards that may be used for purchases of goods (both in Russia and other countries) and for withdrawals of cash through automated teller machines (“ATMs”). Credit cards are issued in cooperation with MasterCard International under the Cirrus/Maestro brand, and are being offered to HCFB’s existing clients with a positive credit history. HCFB is currently evaluating the possibility of offering personal cash loans.

**Developing its Distribution Network.** HCFB intends to expand its presence throughout the Russian Federation by opening additional regional representative offices which would facilitate the development of its distribution network in their respective regions. HCFB also plans to increase the number of federal and regional retail chains and individual retail outlets offering HCFB’s point-of-sale loans and make its products available in small and medium sized Russian cities. In 2005, HCFB plans to open 16 additional representative offices throughout Russia.

**Improving Loan Repayment System.** HCFB will continue to improve its loan repayment system by building on its partnership with Russian Federal Post (“RFP”). HCFB is currently running a pilot project in Nizhny Novgorod assessing the possibility of establishing its own cash collection network in certain major Russian cities.

**Enhancing HCFB's Brand Awareness.** HCFB plans to enhance customer awareness of the HCFB brand through concentrated advertising campaigns, including, among other things, television and print advertising with federal coverage, as well as local radio advertising and the organisation of various promotions and direct marketing events. HCFB intends to achieve a position in the market where its brand is consistently associated with the provision of high quality consumer finance products.

**Improving Operational Efficiency.** HCFB intends to improve its internal operational efficiency by further strengthening its internal management systems and controls. HCFB also intends to continue centralising certain back office functions and to use the integrated risk management system of the Home Credit Group to ensure controlled growth of its business.

**Diversifying Funding Base.** HCFB plans to diversify its funding base through the domestic and international finance markets. In particular, HCFB intends to tap debt international capital markets, to continue accessing domestic capital markets, to attract syndicated facilities and evaluate the possibility of securitising HCFB's consumer loans portfolio and credit card receivables. HCFB believes that its transparent information disclosure system and positive credit history will contribute to the image of a reliable partner on the international finance markets.

## MARKET POSITION, COMPETITION AND COMPETITIVE STRENGTHS

According to the CBR, as of 1 April 2005, 1,487 banks and non-banking credit organisations were operating in the Russian Federation, with most of the large Russian banks' operations being based in Moscow.

While most Russian banks do not provide point-of-sale consumer finance services, most recently HCFB has faced increasing competition from a number of Russian banks and Russian subsidiaries of major international financial institutions. HCFB's principal competitors in the point-of-sale loan market are Russian Standard Bank and the OVK Group (which is the retail and consumer finance subsidiary of Rosbank). In the credit card market, HCFB will compete primarily with Russian Standard Bank, Alfa-Bank Express, Delatbank, Finansbank and Citibank.

HCFB estimates that, as of 31 March 2005, the Russian point-of-sale consumer loan market amounted to approximately RUB 66 billion in consumer loans outstanding compared to RUB 27.5 billion as of 31 March 2004. According to HCFB's estimates, its market share has grown from 25.3 per cent. of the Russian point-of-sale consumer loan market as of 31 March 2004 to 33.7 per cent, as of 31 March 2005, making it the second largest point-of-sale loan provider in Russia.

Despite increasing competition, HCFB believes that it has a number of competitive advantages over its competitors, including:

- **Extensive Experience of the Home Credit Group in the Consumer Finance Sector in Central and Eastern Europe.** As a member of the Home Credit Group, HCFB benefits from its access to the resources and substantial experience of the Home Credit Group in the consumer finance sector in Central and Eastern Europe. The Home Credit Group has operated in the consumer finance sector in the Czech Republic since 1997, in Slovakia since 1999 and in the Russian Federation since 2002. As a result, the Home Credit Group has accumulated substantial experience in the consumer finance sector, including the development of credit scoring technologies and the management of non-performing loans. The Home Credit Group's centralised database contains payment and credit records with respect to its members' past and current borrowers in the Czech Republic, Slovakia and the Russian Federation. HCFB leverages the Home Credit Group's expertise in order to analyse the trends in performance of its consumer loan portfolio and promptly respond to changes in the credit risk profile of its consumer loan portfolio.
- **Robust Credit Approval Procedure and Large Customer Database.** HCFB offers its customers the advantages of its centralised automated scoring system which contains credit-related information on over 4.2 million people. This system which is based on credit scoring technologies utilised by the Home Credit Group in the Czech Republic and Slovakia, is tailored to the specific features of the Russian consumer finance market. HCFB's automated scoring system is designed to process large volumes of applications daily, and allows the assessment and initial approval of loan applications within an average time of 2.5 minutes of their being input into the system. While the automated scoring system utilised by HCFB facilitates the initial approval of the loan application, the scoring system also advises of the additional verification steps that must be undertaken by the relevant loan officer depending on the applicant's score prior to the final

manual approval of the loan application. HCFB's management believes that HCFB's combined (automated and manual) process of approval of loan applications ensures a more detailed assessment of the applicant and reduces credit risks.

- *Established Debt Collection and Fraud Prevention.* HCFB developed an in-house collection system allowing for greater efficiency in the recovery of overdue loans and fraud prevention. HCFB estimates that its total loan repayment rate (including overdue loans that were recovered through collection proceedings) is approximately 93.5 per cent. HCFB believes that its ability to efficiently reduce fraud and recover overdue loans is the key to maintaining the quality of its loan portfolio and sustainability of profit growth.
- *Operational Flexibility.* The use of sophisticated information technology systems and qualified personnel allows HCFB to reduce operational costs and rapidly adjust to seasonal changes in the Russian consumer finance market environment. Based on historical and statistical data on the volume of consumer finance activities in Russia, HCFB has designed its business processes in a manner allowing it to adjust the capacity of its IT systems and number of personnel in its points-of-sale and back-office to address the requirements of the consumer finance market. HCFB's management believes that this flexibility allows it to utilise and allocate business resources in an efficient manner, respond to consumer needs, develop new consumer finance products, reduce operational costs and ensure a more expedited loan approval process that that of HCFB's competitors.
- *Experienced Senior Management.* HCFB's senior management have over 10 years of experience in the banking sector, covering both Russian and international operations including with SBS Agro, Menatep and Raiffeisen Zentralbank Group.
- *Support from the Home Credit Group.* As a member of the Home Credit Group, HCFB is able to leverage off of the Group's product-structuring, funding and IT resources to expand and strengthen its business. In particular, the expansion of HCFB's business is regularly financed by capital contributions and bank deposits from members of the Home Credit Group and the PPF Group, which are, in particular, committed to ensuring that HCFB remains at all times in compliance with CBR capital adequacy ratios. See "Funding" below. HCFB also regularly utilises new technologies developed at the Home Credit Group level to ensure IT support for its present and future operations. In particular, the processing of credit-related data, credit check and scoring is outsourced to Home Credit International, a.s. ("**HCI**"), a member of the Home Credit Group responsible for the development and maintenance of IT systems supporting the daily operations of members of the Home Credit Group.

## **BANKING SERVICES AND OTHER ACTIVITIES**

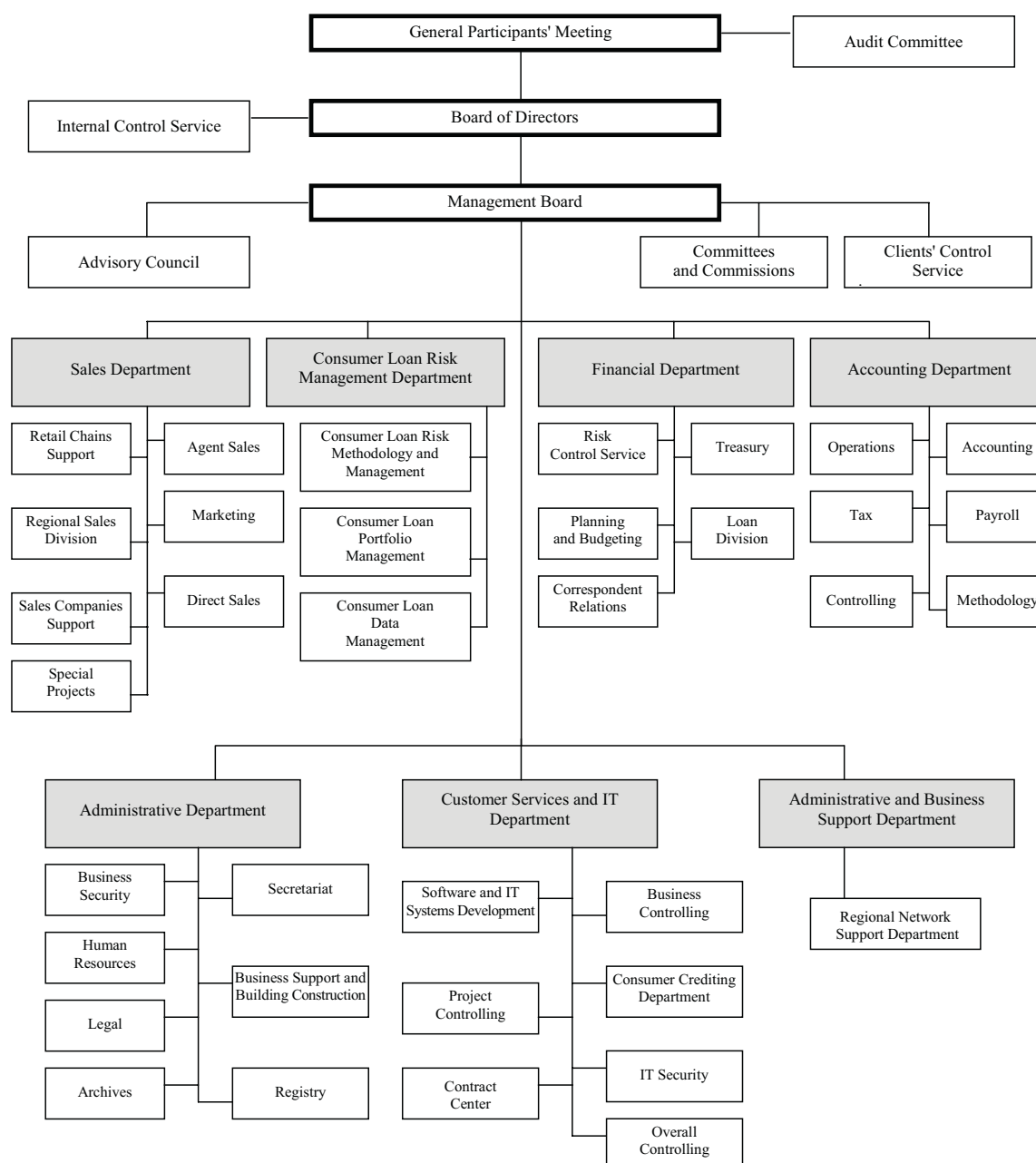
### ***Overview***

Since the date of its acquisition by the Home Credit Group, HCFB has been focusing on the provision of point-of-sale consumer finance services. In November 2004, HCFB started offering credit cards to its existing customers. Other lending services are offered on a case-by-case basis only to HCFB's retail partners as a means of developing HCFB's relationship with such retail partners and do not substantially contribute to HCFB's profit.

HCFB has a banking licence and, in November 2004, was admitted to the Russian mandatory system of insurance of retail bank deposits established by the Federal Law 117-FZ of 23 December 2003. HCFB applied for admission into the retail deposit insurance system to support its activities in the consumer finance sector (as during the life of the loan HCFB maintains the borrower's current account) and credit card sector, although it has no immediate plans to accept general retail deposits.

## HCFB's Organisational Structure

The following chart sets out HCFB's management and internal business division:



## Consumer Finance Services

HCFB's consumer finance services are currently comprised of point-of-sale consumer lending, including issuing loyalty cards. In November 2004, HCFB launched its credit cards services programme.

### Consumer Lending

HCFB provides loans for the purchase of household goods, including household appliances, consumer electronics, computer hardware, mobile phones, furniture and gardening equipment.

HCFB consumer loans are offered to citizens of the Russian Federation aged over 18 years and resident in regions where HCFB has an established presence. For a detailed description of the lending and credit procedures, see "Consumer Lending Policy, Loan Repayment and Loan Collection" below.

HCFB's consumer loans have a tenor of between four and 24 months, are denominated in Roubles and are generally limited to a maximum of RUB 200,000 (approximately U.S.\$ 7,100). Consumer loans



provided by HCFB have a fixed interest rate, normally require a downpayment of 20 per cent. of the purchase price of the goods and must be repaid in monthly instalments (combining both principal and accrued interest). In May 2005, HCFB started offering “*standard+*” consumer loans, offering the benefit of a flexible repayment schedule which is determined by the client. In addition to interest, HCFB charges a monthly fee for the opening and maintenance of the borrower’s current account. HCFB’s consumer loans may be prepaid without any early repayment charge.

HCFB currently runs a number of promotions, including: (a) “10-10-10” promotion which contemplates a 10 per cent. downpayment and repayment of the loan over 10 months in 10 equal instalments, respectively; (b) “10-12-12” promotion which contemplates a 10 per cent. downpayment and repayment of the loan over 12 months in 12 equal instalments, (c) a loan with a tenor from four to 24 months which does not require a downpayment; (d) a loan which requires a 10 per cent. downpayment and the first instalment beginning two months after the date of purchase; (e) an “All for 10 Roubles” promotion which contemplates a downpayment of 10 Roubles and is repayable in 10 to 24 months; (f) “10-100-mobile phone” promotion which extends to loans not exceeding RUB 100,000 financing purchases of mobile phones, contemplates a 10 per cent. downpayment, is repayable in four, eight or 12 months and does not require a third party suretyship; (g) a loan promotion with federal retail partners, which contemplates no downpayment (the downpayment being offset by the retailer’s discount) and repayment of the loan in six to 12 months; (h) “15 per cent. mobile phone” promotion conducted with retail chain partner, Euroset, granted for purchasing mobile phones, which requires a 15 per cent. downpayment and repayment of the loan in four, 10 or 12 months; (i) “10 per cent. mobile phone” promotion conducted with local small-sized mobile phone retail chains granted for purchasing mobile phones not exceeding RUB 50,000, which requires a 10 per cent. downpayment and repayment of the loan in six, eight, 10 or 12 months and does not require a third party suretyship; and (j) “Excellent Credit” promotion, in the context of a co-operation programme between HCFB and Intel, with loans granted for the purchasing of computers, lap-tops, and componentry, requiring a 10 per cent. downpayment and repayment of the loan in 12, 16, 20 or 24 months.

Generally, HCFB’s consumer loans do not require the pledge of the purchased goods as security under the loan. However, loans exceeding RUB 100,000 that are sold through point-of-sales operated by employees of retail partner must be secured by a third party suretyship. As of 31 March 2005, the aggregate outstanding principal amount of HCFB’s consumer loan portfolio (excluding accrued interest and other deferrals) had increased to RUB 22,195 million from RUB 6,955 million as of 31 March 2004.

The following table sets out a breakdown of HCFB’s consumer loan portfolio by outstanding principal amount (excluding accrued interest and other deferrals) (gross of provisions for impairments) as of 31 March 2005:

<b>Principal Amount (in RUB thousands)</b>	<b>Number of Loans</b>	<b>Aggregate Outstanding Principal Amount (in RUB thousands)</b>	<b>Percentage of Consumer Loan Portfolio</b>
Less than 3 .....	760,044	775,766	3.50
3-5 .....	507,514	2,006,107	9.04
5-10 .....	800,210	5,827,106	26.25
10-15 .....	415,308	5,055,205	22.78
15-20 .....	190,821	3,287,726	14.81
20-25 .....	99,062	2,204,322	9.93
25-30 .....	54,513	1,489,107	6.71
30-40 .....	32,831	1,110,430	5.00
40-50 .....	7,419	326,229	1.47
50-100 .....	1,820	112,546	0.50
100-200 .....	3	394	0.01
<b>Total .....</b>	<b>2,869,545</b>	<b>22,194,938</b>	<b>100.00</b>

As of 31 March 2005, the aggregate outstanding principal amount of HCFB’s consumer loans (excluding accrued interest and other deferrals) amounted to RUB 22.2 billion. As of 31 March 2005, the average size and tenor of a loan was approximately RUB 12,600 and 10 to 11 months, respectively.

The following table sets out a breakdown of HCFB’s consumer loan portfolio (excluding accrued interest and other deferrals) (gross of provision for impairments) by months remaining to maturity as well as overdue loans as of 31 March 2005:

<b>Months to Maturity</b>	<b>Aggregate Outstanding Principal Amount</b>	<b>Percentage of Aggregate Outstanding Principal Amount</b>
	<b>(in RUB thousands)</b>	
Less than 3 .....	8,935,401	40.27%
4-6.....	7,009,913	31.58%
7-9.....	3,609,815	16.26%
10-12.....	515,452	2.32%
13-24.....	200,614	0.90%
overdue over 60 days.....	1,923,743	8.67%
<b>Total .....</b>	<b>22,194,938</b>	<b>100.00%</b>

The following table sets out the distribution of HCFB's consumer loan portfolio by outstanding principal amount as of 31 March 2005 in the Russian regions covered by HCFB:

<b>Region of the Russian Federation</b>	<b>Percentage by Outstanding Aggregate Principal Amount of Loans</b>
Moscow .....	11.95%
Saint-Peterburg.....	6.30%
Krasnodar Region .....	5.37%
Republic of Tatarstan .....	5.25%
Republic of Bashkortostan .....	5.18%
Ekaterinburg Region.....	4.96%
Moscow Region .....	4.36%
Perm Region.....	4.31%
Tumen Region .....	4.29%
Volgograd Region .....	4.12%
Other .....	43.91%
<b>Total .....</b>	<b>100.00%</b>

The following table sets out the breakdown of HCFB's consumer loan portfolio by type of goods as of 31 March 2005:

<b>Type of Goods</b>	<b>Percentage of Total Consumer Loan Portfolio</b>
Household appliances .....	33.02%
Audio and video equipment.....	29.72%
Personal computers .....	17.23%
Mobile phones .....	9.95%
Furniture .....	2.02%
Photographic equipment.....	1.53%
Other .....	6.53%
<b>Total .....</b>	<b>100.00%</b>

Since the launch of its consumer finance programme in July 2002, HCFB has extended over 3.5 million consumer loans with an aggregate principal amount of more than RUB 44.1 billion. As of 31 March 2005, HCFB had more than 2,869,540 outstanding consumer loans with an aggregate principal amount of approximately RUB 22.2 billion.

### ***Loyalty Cards***

In May 2004, HCFB launched its loyalty card programme. HCFB's customers who have successfully repaid a consumer loan and have a positive credit history are issued with HCFB's loyalty cards, offering the benefit of a streamlined loan application approval and processing procedure. HCFB's loyalty card allows HCFB's customers to obtain further consumer loans for purchases in the outlets of HCFB's retail

partners (with the aggregate value not exceeding the applicable credit limit) and does not require the prior approval of HCFB's Consumer Crediting Department.

HCFB issues three types of loyalty cards with a credit limit of RUB 15,000, RUB 30,000 and RUB 45,000, respectively. The cards can be used in any of HCFB's retail partners. Each purchase made on a card is deemed to be an individual loan and has an individual repayment schedule. As of 31 March 2005, HCFB had over 487,000 loyalty cards in issuance. HCFB intends to have 900,000 loyalty cards in issuance by the end of 2005. Of the cards in issue, approximately 55 per cent. have a limit of RUB 30,000, 35 per cent. have a limit of RUB 30,000 and 9 per cent. have a limit of RUB 45,000. Since May 2004, the aggregate value of loans extended by HCFB under the loyalty card programme totalled RUB 1.2 billion.

Upon the first missed payment by a customer under any outstanding loan, the credit limit under its loyalty card is suspended and the customer may not apply for a new loan. If the payment remains overdue for more than 60 days, the loyalty card is cancelled.

### ***Credit Cards***

HCFB became a principal member of MasterCard International in February 2004. In November 2004, HCFB entered the Russian credit card market by issuing cards under the Maestro brand.

Maestro cards are issued only to HCFB's customers who have successfully repaid a consumer loan in full and meet certain criteria determined by HCFB. Unlike HCFB's loyalty cards, which may only be used for obtaining loans at HCFB's retail partner outlets, HCFB's credit cards may be used for purchasing goods and services at retailers accepting the Maestro branded cards as well as for cash withdrawals at ATMs bearing the Maestro logo in the Russian Federation and abroad.

HCFB's cards have a credit limit of up to RUB 30,000 and require a minimum monthly payment of 6 per cent. of the credit limit established with respect to the relevant credit card, if any amounts under the credit card remain outstanding. A monthly penalty fee of 1.4 per cent. of the relevant credit limit is charged, if the monthly payment is overdue for 45 days. For payments outstanding for more than 45 days, the monthly penalty fee is increased to 2.8 per cent. of the relevant credit limit. Operations on the credit card are blocked immediately following the credit card holder's failure to make the minimum monthly payment.

HCFB's credit cards are distributed by direct mail and may be activated at one of HCFB's points-of-sale staffed with HCFB's employees located in HCFB's retail partners' outlets. As of 31 March 2005, HCFB had issued over 100,000 credit cards and, by the end of 2005, HCFB expects to issue over 1,300,000 credit cards to customers with a successful loan repayment history. A proportion of issued credit cards are not generally activated by customers.

In the period from 1 December 2004 to 31 March 2005, the aggregate principal amount of loans extended under HCFB's credit cards totalled RUB 130 million.

### **Distribution of Consumer Finance Products**

As of 31 March 2005, HCFB had one head-office in Moscow, 41 representative offices in the Russian regions and 10,972 active points-of-sale throughout the Russian Federation compared to one head-office in Moscow, eight representative offices and 3,637 points-of-sale as of 31 March 2004.

HCFB's regional network development policy provides that HCFB's representative offices are opened in economically developed Russian regions that have a potential demand for consumer finance products and where HCFB's retail partners have established a presence. HCFB's representative offices are responsible for the marketing analysis of the consumer finance market in their respective regions, development of HCFB's distribution network in their respective regions (including negotiations of the terms of the distribution agreements with regional retail partners and their ongoing support), assistance in collection and processing of loan documentation, development and implementation of the loan repayment and collection system in their respective regions and the marketing of HCFB's consumer finance products. HCFB's representative offices do not render any banking services directly to HCFB's customers but rather coordinate the activities of points-of-sale located in their respective regions.

In 2005, HCFB intends to continue to implement its strategy of establishing operations in the economically developed regions of the Russian Federation where HCFB's retail partners have developed a network of outlets. In particular, by the end of 2005, HCFB plans to have 14,800 active points-of-sale throughout the Russian Federation. The expansion of HCFB's distribution network will be funded through HCFB's general sources of funding, including using the proceeds of the Loan. See "Funding" below.

## **Consumer Loans**

HCFB's consumer loans are sold through points-of-sale located in retail outlets. HCFB's points-of-sale are opened on the basis of distribution agreements between HCFB and relevant retailers. HCFB's distribution agreements have standardised terms, are for an indefinite period of time and, depending on the type of consumer finance products sold through the retail partner, require the payment of a commission fee either by HCFB or the retailer. HCFB pays a commission fee to certain retailers through which HCFB sells standard consumer finance products. HCFB receives a commission fee from retail chains in which HCFB runs promotions of its consumer finance products. See "Business—Banking Services and Other Activities—Consumer Finance Services". The commission fees payable to HCFB by the retailer and to the retailer by HCFB are set depending on a number of factors, including the retailer's market share, number of sales outlets, track record, previous relationship with HCFB and with other consumer finance banks, the volume of consumer finance generated by sales and the retailer's financial condition. All distribution agreements with retailers are non-exclusive.

HCFB's retail partners generally fall within one of three groups: (a) "federal" retailers having a presence in several Russian regions (such as Eldorado, Technosila, Euroset, Mir and M.Video); (b) "regional" retailers whose outlets are located within one Russian region (such as Sibvez and Domo); and (c) "local" retailers, being retailers operating two or more outlets in one city and major single-outlet retailers.

The following table sets out the number of HCFB's active points-of-sale operating in each of its retail partner groups as of 31 March 2005:

<b>Retail Partner Group</b>	<b>Number of Retailers in the Retail Partner Group</b>	<b>Number of points-of-sale</b>
Federal. ....	5	593
Regional. ....	683	4,512
Local. ....	4,347	5,867
<b>Total</b> .....	<b>5,035</b>	<b>10,972</b>

HCFB's points-of-sale are equipped with computer systems to allow secure access through the Internet to the centralised automated loan application processing and scoring system developed and operated at the Home Credit Group level. Depending on the volume of sales and terms of the distribution agreement with the relevant retailer, HCFB's points-of-sale are staffed either with HCFB's loan officers or trained employees of HCFB's retail partners (with each point-of-sale staffed by between one to six employees). As of 31 March 2005, out of 10,972 active points-of-sale, more than 470 were staffed with HCFB's personnel. HCFB estimates that approximately 45 per cent. of HCFB's consumer finance products are sold through points-of-sale staffed with HCFB's personnel.

All of HCFB's loan officers and retail partners' employees offering consumer finance products participate in training programmes supervised by HCFB's Human Resources section of the Administrative Department. HCFB's and retail partners' sales staff also undergo a mandatory security check. Each of HCFB's points-of-sale staffed with HCFB's personnel are subject to weekly internal audits to ensure compliance with HCFB's lending policy and customer service standards. Points-of-sale staffed with retailer's employees are subject to regular visits by HCFB's sales managers. See "Employees" below.

## **Credit Cards**

Unlike consumer loans, HCFB's credit cards are offered to existing clients of HCFB meeting certain criteria determined by HCFB. HCFB sends a qualifying client the credit card by post. A credit card must be activated by HCFB before it may be used. Activation is performed at one of HCFB's points-of-sale staffed with HCFB's employees located in HCFB's retail partners' outlets.

## **Consumer Lending Policy, Loan Repayment and Loan Collection**

### **Lending Policy**

The principal body responsible for assessing consumer loan applications and the allocation of credit limits is HCFB's Consumer Crediting Department in the Customer Services and IT Department.

Consumer loan applications with respect to standard products are considered on the basis of a loan application consisting of 20 different fields of information and photocopies of the applicant's passport and another identification document (typically, a driver's licence, insurance or tax certificates). If the loan is applied for at a point-of-sale that is not staffed with HCFB's personnel, applicants for loans exceeding RUB 30,000 must also supply a monthly income statement certified by the applicant's employer or social security office. Information specified in the application is entered into the automated scoring system by HCFB's loan officers or authorised employees of its retail partners' outlets via a secure Internet connection or is submitted to the Consumer Crediting Department by fax for its manual input into the automated scoring system by an operator in the Consumer Crediting Department. HCFB estimates that approximately 80 per cent. of applications are entered into the scoring system via Internet connection and 20 per cent. by an operator in the Consumer Crediting Department.

For credit scoring, HCFB utilises the automated scoring system developed and operated at the Home Credit Group level by HCI in Brno, the Czech Republic. The processing of each application is subject to a market standard fee payable by HCFB to HCI. The scoring system was initially based on loan scoring systems developed, tested and utilised by members of the Home Credit Group in the Czech Republic and Slovakia. Following the expansion of HCFB's consumer finance business, in 2003 the scoring system was modified and tailored to the Russian consumer finance environment and was further upgraded in June, November and December 2004. In its assessment of a loan application, the automated scoring system considers the age, sex, marital status, education level, employment details, monthly income, property ownership and the credit history of the applicant and the specific features of the applicant's region of domicile. HCFB obtained a licence for the export of data from the Federal Agency for the Government Communications and Information of the Russian Federation and utilises the scoring system on the basis of a licence agreement with HCI.

Information supplied by the applicant is verified through HCFB's client database (containing information on over 4.2 million individuals), publicly available databases (such as telephone directories), databases maintained by the CBR that it shares with Russian commercial banks and references from people identified on the basis of the information in the application (such as the applicant's employer and members of its household, etc.). Information on applicants requesting a loan exceeding RUB 50,000 (approximately U.S.\$ 1,770) must be also verified by the Business Security section of the Administrative Department of HCFB.

Credit limits are generally assigned by the scoring system and are manually approved by an officer in the Authorisation Service of the Consumer Crediting Department depending on the amount of the loan.

HCFB's scoring system uses certain proprietary weightings to assess the applicant's probability of default under the requested product. The applicant must achieve a score above a certain cut-off level that reflects the maximum risk HCFB may accept for the type of credit product requested. This cut-off level varies depending on the type of customer, purchased product, tenor and amount of the loan. The weightings are continuously adjusted in accordance with the actual performance of HCFB's consumer loan portfolio.

The scoring system assigns the borrower to one of the four risk groups on the basis of the scoring results. Depending of the risk group assigned, the scoring system also suggests that certain additional matters be verified before vetting the loan application.

Depending on the requested amount of the loan, applications are approved by (a) a loan officer of the Authorisation Service where the amount of the loan does not exceed RUB 50,000; (b) a senior loan officer of the Authorisation Service where the amount of the loan does not exceed RUB 100,000; (c) the Head of the Authorisation Service where the amount of the loan does not exceed RUB 200,000 and (d) the Chairman of the Management Board of HCFB where the amount of the requested loan exceeds RUB 200,000.

Applications for loans not exceeding RUB 50,000 are generally approved within several minutes. Applications for loans exceeding RUB 50,000 are approved within 24 hours. The Consumer Crediting Department processes and approves on average approximately 10,000 applications a day and has the capacity to handle up to 25,000 applications daily. During periods where the volumes of consumer finance activities traditionally increase (such as New Year and other Russian holidays) the automated scoring system and the number of employees in the Consumer Crediting Department may be adjusted to handle up to 40,000 applications a day.



HCFB evaluates its consumer loan portfolio on a regular basis by monitoring the structure of the loan portfolio by maturity, the overall performance of the loan portfolio, the performance of the loan portfolio per type of loan, per region of distribution, per retail chain and the collection recovery rate.

### *Loan Repayment*

While HCFB processes loan servicing and billing data internally, the mailing process is outsourced to a number of independent firms specialising in mailing services. Consumer loans are repaid in monthly instalments (combining both principal and interest) starting from the date of the loan's activation in HCFB's IT systems. Based on the data received from HCFB, the mailing firms mail HCFB's borrowers monthly statements and fully completed individual payment orders (specifying, among other things, the amount of the instalment and last payment date) making the repayment process easier.

HCFB's loans may be repaid through a variety of channels:

*Russian Federal Post.* HCFB has an agreement with the RFP that allows HCFB's borrowers to repay consumer loans through RFP's offices equipped to handle electronic wire transfers. Loan repayments through RFP offices are subject to a one per cent. commission fee payable by the borrower.

*Russian Banks.* HCFB has entered into agreements with a number of Russian banks which allow HCFB's customers to repay their consumer loans through their networks of regional branches in Russia. In addition, borrowers may repay consumer loans at any bank offering payment and account services, such as Sberbank which has the largest network of branches in Russia.

*HCFB's Network.* Consumer loans may also be repaid at a cash desk located in HCFB's principal office in Moscow. HCFB is currently assessing the possibility of establishing its own cash collection network and started a pilot project in Nizhny Novgorod. In 2005 HCFB intends to analyse the results of that project and may or may not decide to establish its own cash collection network in certain major Russian cities.

HCFB recommends that its customers repay their consumer loans through the RFP and Sberbank networks. HCFB also recommends its clients to repay the loan using the banking salary payment arrangements of their employer whereby the client's monthly payment due under the HCFB loan is automatically deducted from its salary and transferred to HCFB.

HCFB estimates that, as of 31 March 2005, more than 80 per cent. of loan repayments were made through the RFP.

### *Loan Collection*

HCFB utilises a multi-stage collection system allowing for greater efficiency in the recovery of overdue loans. HCFB does not use external collection or enforcement services. The collection and enforcement of overdue loans falls within the responsibility of HCFB's Collection Service of the Consumer Crediting Department that is staffed with former law enforcement officers.

HCFB's loan collection system follows certain steps and procedures, as described below.

*First Stage.* If a payment is more than 10 days overdue, the borrower is sent a written notification of the missed payment.

*Second Stage.* Once a payment is 30 days overdue, the loan is classified as delinquent. Telephone calls are made notifying the relevant borrower of the missed payment.

*Third Stage.* If the payment is more than 60 days overdue, a final statement (requiring the full payment of all principal, accrued interest and other amounts within 30 days) is sent by registered mail to the relevant borrower. In addition, HCFB charges the borrower an 8 per cent. penalty fee (calculated by reference to the total amount of the final statement for late payment).

*Fourth Stage.* If the final statement remains unpaid for 14 days after issue, telephone calls are made to the relevant borrowers regarding the consequences of non-repayment (i.e., court enforcement and injunction against the borrower's property, as well as the inclusion of the borrower in HCFB's "black-lists").

*Fifth Stage.* Loans which remain due but unpaid for 91 days are transferred to the administration of HCFB's Collection Service. Officers of HCFB's Collection Service contact the relevant borrower in person to attempt loan collection and assess the chances of an injunction over the borrower's assets.



*Sixth Stage.* Loans which remain overdue for 121 days are submitted for court enforcement and injunction against the borrower's property.

HCFB estimates that its total loan repayment rate (including overdue loans recovered through collection proceedings) is approximately 93.5 per cent. Loans that are not recovered through court enforcement proceedings are written-off on the basis of a decision of the Board of Directors of HCFB.

### **Call Centre**

HCFB's call centre is located in Moscow, operates 24 hours a day, seven days a week (which allows it to cover the opening times of HCFB's retail partners' outlets in all the regions where HCFB operates) and is serviced by 100 operators. Operators at HCFB's call centre advise customers on the types of consumer finance products offered by HCFB, the approval process, repayment channels and locations, as well as handle queries from HCFB's retail partners. In addition, HCFB's call centre is responsible for the receipt and processing of information on the change of the clients' contact and other details. HCFB's call centre handles approximately 11,500 telephone calls daily originating from Moscow and the regions where HCFB has an established presence.

### **Other Activities**

Credit products other than consumer finance related products are offered on a case-by-case basis to HCFB's retail partners only and require the approval of HCFB's Management Board. In particular, HCFB extends corporate loans to strengthen relationships with its retail partners and to allow retail partners to develop their business and generate further business for HCFB. Most of the loans are granted to strong regional partners rather than Moscow based federal retailers. The amount of the majority of loans granted by HCFB to retail partners is between U.S.\$ 200,000 and U.S.\$ 500,000. These loans are generally short term (up to six months) and are vetted by the Credit Committee before being approved by the Management Board.

As of 31 March 2005, the amount of outstanding non-consumer finance related credit products (net of provisions for impairment) granted by HCFB amounted to RUB 30 million, representing 0.1 per cent. of HCFB's total assets.

In April 2005, HCFB started distributing in its points-of-sale, together with its consumer finance products, life and disability insurance policies of the Czech Insurance Company, the Russian subsidiary of Česká pojišťovna. The distribution agreement with the Czech Insurance Company provides for a commission fee payable to HCFB.

## **FUNDING AND CAPITALISATION**

HCFB's principal sources of funds are equity capital contributions and deposits from the Home Credit Group and PPF Group, interbank loans and structured finance products and debt instruments. HCFB's funding strategy is developed by HCI at the Home Credit Group level and PPF, a.s., a specialised company operating on the PPF Group level responsible for the overall management of operations of members of the Home Credit Group on the international and domestic finance markets.

During the three months ended 31 March 2005, the ratio of interest expense as a percentage of average interest bearing liabilities was 9.1 per cent. As of 31 March 2005, the aggregate amount of HCFB's liabilities totalled RUB 23 billion, comprising 36.4 per cent. in Roubles, 59.8 per cent. in U.S. Dollars and 3.8 per cent. in other currencies.

The following table sets out HCFB's sources of funding as of 31 March 2005 and 2004 and as of 31 December 2004 and 2003:

	As of 31 March		As of 31 December		As of 31 December	
	2005	%	2004	%	2003	%
	(in RUB thousands)		(in RUB thousands)		(in RUB thousands)	
Due to banks and other financial institutions . .	14,515,997	64	19,130,262	82	6,737,022	96
<b>Total</b> . . . . .	<b>14,515,997</b>	<b>64</b>	<b>19,130,262</b>	<b>82</b>	<b>6,737,022</b>	<b>96</b>
Debt securities issued . . . . .	5,725,814	25	1,533,658	7	—	—
<b>Total</b> . . . . .	<b>5,725,814</b>	<b>25</b>	<b>1,533,658</b>	<b>7</b>	<b>—</b>	<b>—</b>
Current accounts and other demand deposits . .	2,150,752	10	1,869,948	8	126,334	2
Term deposits . . . . .	54,259	—	107,267	1	25,147	—
<b>Total</b> . . . . .	<b>2,205,011</b>	<b>10</b>	<b>1,977,215</b>	<b>9</b>	<b>151,481</b>	<b>2</b>
Other liabilities . . . . .	332,547	1	419,315	2	101,769	2
<b>Total</b> . . . . .	<b>22,779,369</b>	<b>100</b>	<b>23,060,450</b>	<b>100</b>	<b>6,990,272</b>	<b>100</b>

### ***Capital Support from Home Credit Group***

Since the acquisition of HCFB in February 2002, the Home Credit Group has contributed more than RUB 2.2 billion to the charter capital of HCFB.

In addition, in December 2004, Home Credit B.V. granted HCFB (i) a U.S.\$ 35 million subordinated loan (the “**U.S. Dollar Subordinated Loan**”) due February 2014 at a fixed interest rate of 8.9 per cent. for the first five years of the term of the loan and re-priced semi-annually at an interest rate of six months LIBOR plus 5.5 per cent. for the remainder of the term of the loan and (ii) a RUB 3 billion subordinated loan (the “**Rouble Subordinated Loan**”) at an interest rate of 9 per cent. for a term of nine years. The terms of each the U.S. Dollar Subordinated Loan and the Rouble Subordinated Loan provide for a possibility of its early repayment upon contribution of an amount equal to the principal amount of the U.S. Dollar Subordinated Loan or the Rouble Subordinated Loan, as the case may be, by Home Credit B.V. to the charter capital of HCFB. On 1 December 2004, Home Credit B.V. provided HCFB with an irrevocable commitment to subscribe for an increase of HCFB's charter capital in the amount equal to or in excess of the principal amount of the Rouble Subordinated Loan. The contribution by Home Credit B.V. of an amount equal to the principal amount of the Rouble Subordinated Loan to the charter capital of HCFB remains subject to the approval of the CBR and is expected to be received by the end of June 2005.

### ***Deposits and Funding from Home Credit Group and PPF Group***

HCFB's activities are regularly financed by Czech Koruna, Russian Rouble and U.S. Dollar denominated deposits from the Home Credit Group and the PPF Group. As of 31 March 2005, the aggregate amount of deposits from members of the Home Credit Group and PPF Group totalled approximately RUB 6 billion. All deposits from members of the Home Credit Group and PPF Group are placed with HCFB on an arm's length basis.

In December 2004, PPF banka a.s. granted HCFB a CZK 650 million loan due in December 2005 at an interest rate of six month PRIBOR plus 4 per cent. The loan was repaid early in June 2005.

### ***Structured Finance Products***

HCFB raises funds from other PPF Group companies using structured finance products offered by recognised international commercial banks, including ING Bank N.V. and Citigroup Global Markets Holding Inc.

In February 2004, ING Bank N.V. issued RUB 1 billion 15 per cent. credit linked notes due November 2005 (“**ING Rouble Notes**”) and in September, October and December 2004, it issued U.S.\$ 140 million floating rate credit linked notes due September 2009 at an interest rate of six month LIBOR plus 5.20 per cent. (“**ING Dollar Notes**”), for the purposes of financing unsecured loans to HCFB. In February 2005 and in June 2005, HCFB repaid U.S.\$ 40 million and U.S.\$20 million of the ING Dollar Notes, respectively. The ING Rouble Notes and the ING Dollar Notes are listed and admitted to trading on the Luxembourg Stock Exchange.

In April 2004, Citigroup Global Markets Holdings Inc. issued U.S.\$ 35 million 7.90 per cent, credit linked notes due in April 2009 (“**CM April Notes**”). In May 2004, it issued U.S.\$ 35 million 7.90 per cent. credit linked notes due in May 2009 (“**CM May Notes**”). In June 2004, it issued U.S.\$ 25 million 8.60 per cent. credit linked notes due in June 2009 (“**CM June Notes**”). The CM April Notes, CM May Notes and the CM June Notes were issued in each case for the sole purpose of financing unsecured loans to HCFB.

All of the credit linked notes issued by ING Bank N.V. and Citigroup Global Markets Holding Inc. were issued for the purpose of facilitating loans from PPF Group companies to HCFB. All of the credit linked notes were initially subscribed by HCF and then sold to various members of the PPF Group, including Home Credit B.V.

### ***Debt Issues***

In October 2004, HCFB issued its debut domestic RUB 1.5 billion notes due 2007 (the “**First Domestic Notes**”). The first two semi-annual coupon payments due on the First Domestic Notes were set at the rate of 11.25 per cent. The First Domestic Notes are admitted to trading and listed on the MICEX Stock Exchange.

In February 2005, Eurasia Capital S.A. issued U.S.\$ 150 million 9.125 loan participation notes due 2008 for the sole purpose of financing a loan to HCFB. The notes were admitted to the official list of the UKLA Listing Authority and admitted to trading on the London Stock Exchange plc’s market for listed securities.

In May 2005, HCFB issued RUB 3 billion notes due 2010 (the “**Second Domestic Notes**”). The first two semi-annual coupon payments due on the Second Domestic Notes were set at the rate of 8.5 per cent. The Second Domestic Notes are admitted to trading and listed on the MICEX Stock Exchange.

### **SUBSIDIARIES**

The consolidated financial statements for the three months ended 31 March 2005 and 2004 and the years ended 31 December 2004 and 2003 include Infobos LLC and Liko-Technopolis LLC, each a subsidiary of HCFB. Infobos LLC is a dormant company and has no operations. Liko-Technopolis LLC is used to provide office cleaning and other maintenance services to HCFB and has no other operations. HCFB exercises control over Infobos LLC and Liko-Technopolis LLC through the ownership of 100 per cent. interest in their charter capital and through the control of their management.

The consolidated financial statements for the three months ended 31 March 2005 and the year ended 31 December 2004 also include Financial Innovations LLC, a 100 per cent. owned subsidiary of HCFB. Financial Innovations LLC was established in August 2004 as a special purposes vehicle guaranteeing HCFB’s obligations under the First Domestic Notes and the Second Domestic Notes.

HCFB has no other subsidiaries.

### **EMPLOYEES**

As of 31 March 2005, HCFB employed 2,940 employees (including employees based in Moscow and in the regions). Of HCFB’s total employees, 1,446 employees were based in Moscow and 1,494 employees in other Russian regions.

For sales staff training purposes, HCFB has developed a training programme for employees of HCFB and of its retail partners supervised by HCFB’s Human Resources group of the Administrative Department. The education and training of HCFB’s retail partners sales personnel in the region is supervised by a regional sales manager.

HCFB’s sales staff training programme consists of three courses and is designed for candidates which have successfully passed the initial selection process run by an independent recruitment agency. The first course covers HCFB’s history, an overview of HCFB’s consumer finance products, sales techniques and procedures. After completion of the first course and a test, successful candidates are admitted to the second course held three months after the first course. The second course covers client relationship techniques and conflict solving management. The third course is held three months following the second course and covers detailed study of client psychology and problem solving management.

The education and training of regional sales managers is run by professional training agencies.

During the three months ended 31 March 2005, HCFB’s staff costs amounted to RUB 207 million and represented 35.5 per cent. of HCFB’s general administrative expenses. During the year ended 31

December 2004, HCFB staff costs amounted to RUB 719 million, representing 35.8 per cent. of HCFB's general administrative expenses in 2004 compared to RUB 202 million, representing 40 per cent. of HCFB's aggregate operating expenses during the year ended 31 December 2003.

## **IT INFRASTRUCTURE**

Information technology is an integral part of HCFB's daily operations. HCFB is constantly implementing new technologies developed by the Home Credit Group's information technology group to ensure the information support of its present and future business.

Daily operations of HCFB are supported by two core banking information systems. The "Homer" system processes and generates data relating to the lifecycle of the credit products granted by HCFB (i.e., borrowers' personal data, credit check, scoring, loan repayment schedule, etc.). The "Homer" system is owned, maintained, operated and regularly updated by the Home Credit Group's information technology group in Brno (the Czech Republic), where the Home Credit Group's main data centre is located. The "Quorum" system supports HCFB's operations as a bank in general, including risk management and compliance with reporting requirements of the CBR.

The "Homer" system is remotely accessed by HCFB's staff via two dedicated frame relay lines with additional back-up connectivity via virtual private network lines and ISDN. Frame relay lines are operated by two different telecom operators and are physically connected by different telecommunications lines. HCFB's employees access the data entry part of the system via the Internet. Access to the "Quorum" system is restricted to internal users only.

The Home Credit Group and HCFB, as an integral part thereof, have developed an information storage system to secure reliable and continuous access to data for information systems. Home Credit Group's and HCFB's IT systems allow for off-site back-up data storage for both servers and processors and fall-back communication systems allowing uninterrupted operation of their IT systems. In 2004, Home Credit Group's and HCFB's IT systems successfully passed the first stage of a security audit undertaken by BDO, an independent organisation specialising, among other things, in the audit of internal control systems.

In order to provide the highest quality of services to its clients, HCFB is constantly seeking to improve the operational features and security of its IT systems. In 2006, HCFB contemplates replacing the "Quorum" system with a more sophisticated banking IT system.

## **LITIGATION**

HCFB has been, and continues to be, the subject of legal proceedings and adjudications from time to time in the ordinary course of its business, none of which has had, individually or in aggregate, a significant effect on the financial position of HCFB or its subsidiaries taken as a whole. There are no, and have not been, any legal or arbitration proceedings against or affecting HCFB, or any of its subsidiaries, or any of its, or their, assets or revenues, nor is HCFB aware of any pending or threatened proceedings of such kind, which may have, or have had, during the 12 months prior to the date of this Offering Circular a significant effect on the financial position of HCFB or its subsidiaries taken as a whole.

## **RISK MANAGEMENT**

### **Introduction**

The purpose of HCFB's asset, liability and risk management ("risk management") strategy is to evaluate, monitor and manage the size and concentration of the risks arising in the context of HCFB's activities. The principal categories of risk inherent in HCFB's business are credit risk, market risks (including foreign currency risk and interest rate risk) and liquidity risk. HCFB designed its risk management policy to manage these risks by establishing procedures and setting limits which are monitored by the relevant departments of HCFB.

### **Risk Management Organisational Structure**

HCFB's risk management organisation is divided between the bodies which are responsible for establishing risk management policies and procedures, including establishment of limits (certain of which are functioning at the Home Credit Group level), and bodies whose function is to implement those policies and procedures, including monitoring and controlling risks and limits on an ongoing basis.

### ***Policy Making Bodies***

The policy making level of HCFB's risk management operations is comprised of the Board of Directors, Management Board, Credit Risk Management Committee, Assets and Liabilities Management Committee (the "**ALCO**"), the Credit Committee, the Financial Markets Limits Committee and the Committee of Allowances for Miscellaneous Losses. These bodies perform the following functions:

#### ***The Board of Directors***

The Board of Directors exercises general management of HCFB, approves HCFB's credit policy and the risk management policy. The Board of Directors is also responsible for the creation and functioning of the internal control system of HCFB.

In addition, loans in excess of the limits established in accordance with HCFB's credit policy require the approval of one of the members of the Board of Directors.

#### ***The Management Board***

Responsibility for high-level risk monitoring and management is assigned to the Management Board of HCFB. The Management Board, among other things, approves HCFB's overall credit risk limit, general principles of HCFB's market risk management policy, establishes open currency position and stop-loss limits, liquidity assessment and management procedures, liquidity requirements, minimum necessary levels of liquid assets and maturity mismatch limits. The Management Board meets on a weekly basis. Meetings in absentia are disallowed. A quorate meeting of the Management Board must be attended by at least half of the appointed members of the Management Board.

The Management Board also performs certain other functions delegated by the Credit Risk Management Committee.

#### ***The Credit Risk Management Committee***

The Credit Risk Management Committee (the "**CRMC**") operates on the Home Credit Group level and is responsible for the overall management and coordination of the loan portfolio risk management (including management and monitoring of the main risk characteristics of the portfolios of each of HCF, HCS and HCFB). The CRMC is also responsible for the overall co-ordination of the credit approval and credit scoring procedures, early and late collection procedures and new types of products. The CRMC meets on the last Wednesday of each month. Certain of the CRMC's functions are delegated to HCFB's Management Board.

#### ***Assets and Liabilities Committee***

The principle objective of the ALCO is to ensure long-term economic effectiveness and stability of HCFB's operations. The ALCO is responsible for managing HCFB's assets and liabilities, co-ordinating HCFB's risk management and establishing HCFB's pricing policy.



The ALCO, in particular, provides recommendations to the Management Board on the market risk management policy, open currency position limits and stop-loss limits, establishes interest rate policy, advises the Management Board on the liquidity assessment and management procedures, liquidity requirements and maturity mismatch levels.

Changes in the composition of the ALCO are approved by the Management Board. Representatives of the Board of Directors of HCFB are members of the ALCO. The chairman of the ALCO must be a member of the Board of Directors. The ALCO meets on a regular basis. The ALCO meeting is quorate if attended by at least two thirds of its members. Decisions are approved by simple majority and each member has one vote. If the votes are distributed equally, the chairman of the ALCO has a casting vote. Two members of the ALCO that are representatives of the Board of Directors of HCFB have the right to veto any decision of the ALCO.

#### *Credit Committee*

The Credit Committee is responsible for the management of the credit risk arising in the context of HCFB's lending activities with retail partners, including establishment of exposure limits to corporate borrowers. The Credit Committee comprises three members and meets as necessary.

#### *Financial Markets Limits Committee*

The Financial Markets Limits Committee is responsible for the management of the credit risk arising in the context of HCFB's operations on the interbank market, including establishment of exposure limits to counterparties that are financial institutions. The Financial Markets Limits Committee comprises six members and meets as necessary, but not less than once a month.

#### *Committee of Allowances for Miscellaneous Losses*

The Committee of Allowances for Miscellaneous Losses is responsible for determining HCFB's provisioning policies under credit-related commitments not covered by HCFB's provisioning policies approved by the Management Board of HCFB. The Committee of Allowances for Miscellaneous Losses comprises six members and meets as necessary.

#### ***Policy Implementation Bodies***

The implementation level of HCFB's risk management is comprised of the Finance Department (which, among others, includes the Treasury and the Risk Control Service), Compliance Control Service and the Consumer Finance Risk Management Department.

*Finance Department.* The Finance Department is responsible for the development of HCFB's business plan and budget and implementation of HCFB's Credit Policy, Risk Management Policy and supporting policies and procedures. The Finance Department also prepares weekly reports on HCFB's loan portfolio exposure. The Head of the Finance Department is a member of the ALCO and the Management Board of HCFB.

*Treasury.* The Treasury is responsible for HCFB's risk hedging and creation of quality liquidity reserves, as well as managing HCFB's market positions and short-term liquidity.

Together with the Risk Control Service, the Treasury is responsible for monitoring compliance with HCFB's interest rate policy and various position limits. The Treasury is also responsible for the daily update of the Operational Liquidity Forecast Report.

*Risk Control Service.* The Risk Control Service is responsible for developing risk management methodology, evaluation and control of risks inherent in financial markets and compliance of HCFB's operations with the requirements of the CBR. The Risk Control Service also controls capitalisation and monitors HCFB's capital adequacy ratio.

*Consumer Loan Risk Management Department.* The Consumer Finance Risk Management Department is responsible for the implementation of HCFB's consumer lending policy.

*Internal Control Service.* The Internal Control Service assesses the adequacy of, and compliance with, CBR regulations, internal procedures and professional standards. The Internal Control Service is controlled by, and reports to, the Board of Directors of HCFB.



## ***Management Reporting Systems***

HCFB has implemented a management reporting system that requires the preparation, by the departments of HCFB responsible for the implementation of HCFB's risk management system, of the following reports and calculations:

- Daily basis-assessment and calculation of HCFB's exposure (in case of increased volatility of financial markets), report on compliance with interbank limits, operational liquidity forecast report and information on intraday cash flows;
- Weekly basis-reports on HCFB's consumer loan portfolio, reports on compliance with CBR requirements, capital adequacy and liquidity reports; and
- Monthly basis-review of principal loan portfolio risk characteristics, early and late collection procedures, breakdown of the receivables portfolio by maturity and report on the product composition of the loan portfolio and stress-scenario susceptibility reports.

## **Credit Risk**

HCFB is exposed to credit risk, which is the risk that a borrower or counterparty will be unable to pay amounts in full when due. Credit risk arises mainly in the context of HCFB's consumer finance activities and interbank operations.

The general principles of HCFB's credit policy are outlined in its credit policy and supporting policies approved by HCFB's Board of Directors. The credit policy is reviewed at least annually and outlines credit risk control and monitoring procedures and HCFB's credit risk management systems.

Credit risk arising in the context of HCFB's consumer lending activities is managed by the Credit Committee. The Credit Committee is responsible for approving the risk profile of new consumer finance products and establishing the weightings utilised by the scoring system for assessing the borrowers probability of default under the loan. The weightings are reviewed annually on the basis of loan repayment default reports with a breakdown per type of consumer finance goods, type of consumer finance products, region of sales, etc. Ongoing adjustments of the weightings are also undertaken in the event of unusual fluctuations in the approval/rejection rates, which is monitored on a daily basis.

Credit risk arising in the context of HCFB's lending to retail partners is managed by the Credit Committee. The Credit Committee is responsible for establishing exposure limits on a case-by-case basis with respect to corporate borrowers. These limits are established on the basis of supporting documentation provided by the Lending Unit (as a unit in the Finance Department dealing with corporate borrowers) and the Risk Control Service.

Credit risk arising in the context of HCFB's interbank operations is managed by the Financial Markets Limits Committee. Based on an analysis of the financial statements of, and other publicly available information regarding, HCFB's counterparties on the interbank market, the Financial Markets Limits Committee establishes overall limits in respect of groups of counterparties and individual limits for each counterparty which are reviewed on a monthly basis. The Financial Markets Limits Committee meets as necessary, but not less than once a month.

HCFB manages its overall credit risks by placing limits on the amount of risk accepted with respect to individual corporate clients, industry sectors and standard products, and by complying with exposure limits established by the CBR.

The exposure to individual corporate borrowers (including financial institutions) is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as foreign exchange contracts.

HCFB's compliance with these exposure limits is monitored by the Risk Control Service on a real-time basis. To date, there has been no material breach of these limits.

HCFB monitors its credit exposure with respect to its consumer loan portfolio on a weekly basis on the basis of reports prepared by the Finance Department. Credit exposure with respect to corporate borrowers and counterparties is monitored on a monthly basis. Credit exposure with respect to individual counterparties is further restricted by limits on exposure to a single counterparty calculated on the basis of the counterparty's financial position and creditworthiness. Exposure to companies comprising the PPF Group (including the Home Credit Group companies) under derivative contracts entered into for the purposes of managing HCFB's currency risk is deemed risk free.

HCFB also continuously monitors the performance of retail outlets where its points-of-sale are located, assesses associated risks and, if necessary, terminates distribution agreements.

#### *Provisioning Policy*

Generally, provisioning policy falls under the responsibility of the Management Board of HCFB, which approves internal documents regulating the determination of risk groups and creation of allowances for potential losses in connection with HCFB's lending activities. The Committee of Allowances for Miscellaneous Losses is responsible for the determination on a case-by-case basis of HCFB's provisioning policy in respect of credit-related commitments not covered by the internal documents approved by the Management Board of HCFB.

#### **IFRS Provisioning**

A provision for loan impairment is established if there is objective evidence that HCFB will not be able to collect the amounts due according to the original contractual terms. The amount of the provision is the difference between the carrying amount and estimated recoverable amount calculated as the present value of expected cash flows, including amounts recoverable from suretyships and collateral, discounted at the instrument's original effective interest rate. The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component (with respect to consumer finance products), the credit ratings assigned to the borrowers (for corporate borrowers and counterparties) and reflect the current economic environment, in which the borrowers operate.

#### **CBR Provisioning**

Until August 2004, for CBR regulatory purposes, HCFB applied a methodology based on RAS to calculate loan provisioning and determine expected losses. As of August 2004, the CBR allowed Russian banks to develop their own methodology to calculate loan provisioning and determine expected losses and HCFB started using a methodology similar to the IFRS methodology.

Currently for CBR regulatory purposes, HCFB calculates credit risk and provisions based on the borrower's financial condition and debt service quality. Credit risk and provisions may be calculated by reference to homogenous credit portfolios i.e., groups of loans consolidated on the basis of a certain credit risk criteria, as well as individual credit products. HCFB estimates credit risk and calculates loan provisions by reference to a portfolio of homogenous loans. The provisioning ranges are analysed on the basis of historical and statistical data and are reviewed on an annual basis.

The table below sets out the loan classification based on IFRS that HCFB applies for internal control and CBR regulatory purposes:

<b>Days Overdue</b>	<b>Provisioning level (%)</b>
0 .....	0.00%
1 - 30 .....	4.92%
31 - 60 .....	32.11%
61 - 90 .....	49.04%
91 - 120 .....	62.33%
121 - 150 .....	74.90%
151 - 180 .....	81.34%
181-270 .....	90.00%
271 - 360 .....	90.00%
Over 360 .....	100.00%

As of 31 March 2005, HCFB's average provision allowance was 7.9 per cent. with respect to its gross consumer loan portfolio (excluding accruals) and 2.4 per cent with respect to its gross corporate loan portfolio (excluding accruals).

#### **Market Risks**

HCFB is exposed to market risks, which arise from open interest rate and currency positions, all of which are exposed to market volatility.

The general principles of HCFB's market risk management policy are set out in the ALCO's recommendations to the Management Board of HCFB. The principal objective of HCFB's market risk management is to limit and reduce the amount of possible losses on open market positions which may be incurred by HCFB due to adverse changes in the currency exchange rates and interest rates.

Limits on potential losses are established by HCFB's Management Board on the basis of recommendations from the ALCO, and the Risk Control Service and the Treasury monitor compliance with such limits.

### *Currency Risk*

HCFB is exposed to fluctuations in the prevailing foreign currency exchange rates on its consolidated financial position and cash flows.

HCFB's currency positions are managed by the Treasury on a day-to-day basis and are monitored by the Head of the Treasury on a real-time basis.

HCFB's open currency position limits with respect to both overnight and intra-day positions and stop-loss limits are established by the Management Board of HCFB on the basis of the recommendations of the ALCO. HCFB has no proprietary trading position. Compliance with respective limits and open currency position limits established by the CBR is monitored on a daily basis by the Risk Control Service. As a matter of policy, HCFB does not maintain open currency positions. As of 31 March 2005, HCFB did not have any open currency positions.

Consumer loans to retail customers (which is HCFB's core business) are provided in Russian Roubles, and do not lead to foreign currency exposure for HCFB. However, in a situation where HCFB enters into financing transactions denominated in foreign currencies, the foreign exchange exposure is hedged by financial derivatives with banks. HCFB's derivative transactions are coordinated with HCI and PPF, a.s.

In order to manage HCFB's foreign currency risk, the Treasury enters into foreign currency forwards and swaps with first tier banks in Russia (such as Russian subsidiaries of foreign commercial banks and Russian major state-owned banks).

The table below presents, on a consolidated basis, HCFB's exposure to foreign currency exchange rate risk as of 31 March 2005. Included in the table are HCFB's assets and liabilities, categorised by currency.

As of 31 March 2005, HCFB had the following positions in currencies:

	As of 31 March 2005				
	RUB (in RUB thousands)	U.S.\$	CZK	Other currencies	Total
<b>Assets</b>					
Cash .....	10,340	1,210	—	615	12,165
Due from the Central Bank of the Russian Federation .....	580,061	—	—	—	580,061
Placements with banks and other financial institutions .....	208,062	2,346,458	790,238	2,824	3,347,582
Loans to customers .....	21,195,723	2,783	—	—	21,198,506
Financial assets at fair value through profit and loss .....	56,159	—	—	—	56,159
Property, equipment and intangible assets .	363,680	—	—	—	363,680
Income tax receivable .....	33,192	—	—	—	33,192
Other assets .....	180,287	1,634	7,080	925	189,926
<b>Total assets</b> .....	<b>22,627,504</b>	<b>2,352,085</b>	<b>797,318</b>	<b>4,364</b>	<b>25,781,271</b>
<b>Liabilities</b>					
Due to banks and other financial institutions .....	4,254,310	9,449,656	812,031	—	14,515,997
Debt securities issued .....	1,565,020	4,160,794	—	—	5,725,814
Current accounts and deposits from customers.....	2,194,373	7,239	—	3,399	2,205,011
Deferred tax liability.....	97,542	—	—	—	97,542
Other liabilities .....	171,314	5,705	8	57,978	235,005
<b>Total liabilities</b> .....	<b>8,282,559</b>	<b>13,623,394</b>	<b>812,039</b>	<b>61,377</b>	<b>22,779,369</b>
Effect of foreign currency derivatives .....	(11,255,031)	11,255,031	—	—	—
<b>Net position as of 31 March 2005</b> .....	<b>3,089,914</b>	<b>(16,278)</b>	<b>(14,721)</b>	<b>(57,013)</b>	<b>3,001,902</b>

#### *Interest Rate Risk*

HCFB is exposed to interest rate risk, principally as a result of lending at fixed interest rates in amounts and for periods which differ from those of its term borrowings at fixed interest rates. Interest margins on assets and liabilities having different maturities may increase as a result of changes in market interest rates. The primary goal of HCFB's interest risk management is to secure a stable positive margin between the interest rate income earned from its consumer lending activities and its cost of financing.

In line with Russian market practice, the majority of HCFB's assets and liabilities have fixed interest rates. HCFB manages its interest rate risk by maintaining an interest rate margin (interest rate on interest earning assets less interest rate on interest earning liabilities) sufficient to cover operational expenses and risk premium. As of 31 March 2005, the interest rate margin was 23.8 per cent.

The ALCO sets ranges of interest rates for different maturities at which HCFB may place assets and attract liabilities with and without approvals. Compliance with the interest rate policy is monitored by the Treasury and the Risk Control Service. Transactions in excess of the established limits require ALCO's approval. HCI and PPF, a.s. assist HCFB with interest rate risk management and provides financial risk advisory services.

In the absence of an effective market for hedging, HCFB does not enter into interest rate hedging transactions and normally seeks to match its interest rate positions.

The table below summarises the effective compound interest rates by major currencies for major monetary financial instruments outstanding as of 31 March 2005. The analysis has been prepared by using period-end effective rates.

	As of 31 March 2005			
	<u>RUB</u>	<u>U.S.\$</u>	<u>CZK</u> (%)	<u>Other currencies</u>
<b>Assets<sup>(1)</sup></b>				
Due from CBR .....	0.0	—	—	—
Placements with banks and other financial institutions .....				
Nostro accounts .....	0.5	0.0	0.0	0.0
Loans and term deposits .....	1.1	0.3	—	—
Loans to customers				
Loans to corporations .....	13.8	13	—	—
Loans to individuals .....	38.1	—	—	—
Available-for-sale assets .....	4.2	—	—	—
<b>Liabilities</b>				
Current accounts .....	0	0.4	—	0.5
Term deposits .....	5.3	4.4	—	5
Due to banks and other financial institutions				
Term deposits .....	—	7.4	—	—
Loro accounts .....	0.0	0.0	—	—
Unsecured bank loans .....	10.6	8.7	6.7	—
Short-term loans .....	—	10.1	—	—
Debt securities issued .....	12.7	10.1	—	—

(1) Dashes indicate where HCFB does not have respective assets or liabilities in the corresponding currency

For the three months ended 31 March 2005, HCFB's interest income was RUB 1,857 billion and its interest expense was RUB 513 million, resulting in net interest income of RUB 1,344 billion.

### Liquidity Risks

HCFB is also exposed to liquidity risk arising out of mismatches between the maturities of HCFB's assets and liabilities, which may result in HCFB being unable to meet its obligations in a timely manner.

Upon consultation with the ALCO, the Management Board of HCFB approves liquidity assessment and management procedures, determines liquidity requirements and sets minimum necessary levels of liquid assets and maturity mismatch limits.

HCFB's liquidity risk is managed by the Treasury and monitored by the Risk Control Service. Liquidity risk reports are reviewed by the ALCO on a regular basis.

For the purposes of structural liquidity management, HCFB prepares a long-term cash flow report, which forms part of HCFB's Financial Plan, which is updated on a quarterly basis.

For the purposes of short-term liquidity management, HCFB prepares a detailed daily cash flow forecast report for the following 90 days. The Operational Liquidity Forecast Report is updated on a daily basis by the Treasury and contains an overview of current account balances, expected and contracted cash flows from consumer lending, operational activities and financing activities, including hedging and derivatives, and information on available bank credit lines.

The Operational Liquidity Forecast is provided to HCFB's Board of Directors.

HCFB's liquidity is managed on the basis of the Financial Plan and the Operational Liquidity Forecast Report through interbank lending, reduction of its NOSTRO accounts balances and borrowings from the PPF Group (which are provided on an arms length basis). On the interbank market, HCFB also acts as a net short-term depositor of excess liquidity accumulated during the course of repayment of the consumer loans.

For the purposes of intraday liquidity management, the cash inflow/outflow information is collected on a near-real time basis during each business day. The Liquidity Control Unit of the Treasury updates information on intraday flows several times a day.

The following table outlines HCFB's liquidity position as of 31 March 2005 (based on contractual maturity):

	As of 31 March 2005						
	Less than 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	No maturity	Total
	(in RUB thousands)						
<b>ASSETS</b>							
Cash .....	12,165	-	-	-	-	-	12,165
Due from the Central Bank of the Russian Federation .....	262,552	-	-	-	-	317,509	580,061
Placements with banks and other financial institutions....	3,290,407	52,876	4,023	276	-	-	3,347,582
Loans to customers.....	1,293,957	1,058,388	18,198,611	647,550	-	-	21,198,506
Financial assets at fair value through profit and loss.....	-	-	50,001	6,153	-	5	56,159
Property, equipment and intangible assets .....	-	-	-	-	-	363,680	363,680
Income tax receivable .....	-	-	-	33,192	-	-	33,192
Other assets.....	24,322	117,583	26,374	5,008	-	16,639	189,926
<b>Total assets.....</b>	<b>4,883,403</b>	<b>1,228,847</b>	<b>18,279,009</b>	<b>692,179</b>	<b>-</b>	<b>697,833</b>	<b>25,781,271</b>
<b>LIABILITIES</b>							
Due to banks and other financial institutions .....	1,934,943	1,120,029	7,728,111	2,730,126	1,002,788	-	14,515,997
Debt securities issued.....	-	-	66,580	5,659,234	-	-	5,725,814
Current accounts and deposits from customers .....	2,153,248	36,502	15,261	-	-	-	2,205,011
Deferred tax liability .....	-	-	-	-	-	97,542	97,542
Other liabilities .....	103,755	93,812	37,438	-	-	-	235,005
<b>Total liabilities.....</b>	<b>4,191,946</b>	<b>1,250,343</b>	<b>7,847,390</b>	<b>8,389,360</b>	<b>1,002,788</b>	<b>97,542</b>	<b>22,779,369</b>
<b>Net position as of 31 March 2005.</b>	<b>691,457</b>	<b>(21,495)</b>	<b>10,431,619</b>	<b>(7,697,181)</b>	<b>(1,002,788)</b>	<b>600,291</b>	<b>3,001,902</b>
<b>Net position as of 31 December 2004.....</b>	<b>1,066,387</b>	<b>587,244</b>	<b>5,014,779</b>	<b>(3,490,125)</b>	<b>(978,408)</b>	<b>568,326</b>	<b>2,768,203</b>



## MANAGEMENT

The management of HCFB is separated into various levels and sub-levels, each of which is responsible for different aspects of HCFB's overall activities. The highest level of HCFB's management and the ultimate decision-making body is the General Participants' Meeting. This is followed by the Board of Directors responsible for the general management of HCFB, including strategy coordination and general supervision. The Board of Directors elects the Management Board (which is the collective executive body of HCFB) and the Chairman of the Management Board (which is the sole executive body of HCFB and its chief executive officer) that are jointly responsible for the day-to-day management of HCFB's activities.

A brief description of each the General Shareholders' Meeting, the Board of Directors, the Management Board and the Chairman of the Management Board is set out below.

### ***General Participants' Meeting***

The General Participants' Meeting is HCFB's highest governance body. HCFB's shareholders meetings are convened by the Board of Directors at least once a year. HCFB's shareholders meeting may also be convened upon the request of the Chairman of the Management Board, the internal audit commission, the external auditor and a participant holding more than 10 per cent. in the charter capital of HCFB. The following matters can only be dealt with by the General Participants' Meeting and may not be delegated to other governing bodies of HCFB:

- alteration of HCFB's charter;
- reorganisation and liquidation of HCFB, appointment of a liquidation committee and approval of interim and final liquidation balance sheet;
- election of members of the Board of Directors and early termination of their powers;
- increase and reductions of HCFB's charter capital;
- election of members of the internal audit commission and appointment of the external independent auditor;
- approval of dividends;
- approval of the annual report and annual financial statements;
- opening of branches and representative offices; and
- certain other matters provided for by law and HCFB's charter.

### ***Board of Directors***

The Board of Directors is responsible for matters relating to the general management of HCFB's activities, with the exception of those matters referred to the exclusive authority of the General Participants' Meeting. The Board of Directors meets as necessary and makes decisions by a simple majority provided that a quorum of half of the elected members of the Board of Directors is present. Members of the Board of Directors are elected until the next annual General Participants' Meeting and may be re-elected an unlimited number of times.

There are five members of the Board of Directors. The current members of the Board of Directors were elected by HCFB's participants at the General Participants' Meeting held on 27 April 2004. The name, position and certain other information of each member of the Board of Directors of HCFB are set out below.

Unless otherwise indicated, members of the Board of Directors do not perform any external functions.

*Stanislav Staněk* has been the Chairman of the Board of Directors since January 2003. Mr. Staněk is also Deputy Chairman of the Management Board of HCFB. Previously, Mr. Staněk was the General Director and the Chairman of the Management Board of Arcon Machinery, a.s.

*Robert Potáč* has been a member of the Board of Directors since January 2003. Mr. Potáč is also the Financial Director of HCI, Vice-chairman of the Board of Directors of HCF and is also a Managing Director of the global markets unit of PPF, a.s.

*Ladislav Chvátal* has been a member of the Board of Directors since January 2003. Mr. Chvátal is also a member of the Board of Directors of Česká pojišťovna and the Chairman of the Board of HCI and Chairman of the Supervisory Board of HCF.

*Petr Milev* has been a member of the Board of Directors since January 2003. Mr. Milev is the Chief Executive Officer of PPF Banka a.s., the Managing Director of the global markets unit of PPF a.s. and also a member of the Prague Stock Exchange's Chamber.

*Zdeněk Štika* has been a member of the Board of Directors since April 2004. Mr. Štika is also the Head of Credit Risk Management of HCFB. Previously, Mr. Štika was the Chairman of the Board of HCS.

The business address of Mr. Staněk and Mr. Štika is 4 Baumanskaya Street, Moscow, 105005, Russian Federation. The business address of Mr. Chvátal and Mr. Milev is 121, Na Pankráci, Prague 4, 140 21, Czech Republic. The business address of Mr. Potáč is 1096/8 Ovocný Trh, Prague 1, 117 19, Czech Republic.

#### ***Management Board and Chairman of the Management Board***

The Management Board is HCFB's collective executive body and is elected by the Board of Directors. Members of Management Board may be re-elected. The Management Board meets as necessary (but not less than twice a month) and makes its decisions by simple majority provided that a quorum of half of the elected members of the Management Board is present. The Management Board is responsible for the day-to-day management and administration of HCFB. The Chairman of the Management Board represents HCFB in its relations with third parties and acts as the chief executive officer of HCFB.

The name, position and certain other information of each member of the Management Board is set out below. Unless otherwise indicated, members of the Management Board do not perform any external functions.

*Andrei V. Lykov* has been the Chairman of the Management Board since July 2003. Prior to joining HCFB, Mr Lykov was the First Deputy Chairman of the Board of SBS-Agro Bank and Chairman of the Board of Directors of STB-Card.

*Václav Soukup* has been the First Deputy Chairman of the Management Board since July 2002. Mr. Soukup is also the Head of the Administrative and Business Support Department and a member of the Board of Directors of the Moscow Central Depository.

*Dmitri V. Mosolov* has been a member of the Management Board since January 2003. Mr. Mosolov is also the Head of the Financial Department. Previously, Mr. Mosolov was Head of the Internal Control of HCFB.

*Stanislav Staněk* has been the Deputy Chairman of the Management Board since April 2004. For further information on Mr. Staněk please see "Board of Directors".

*Tatiana V. Gordeeva* has been a member of the Management Board since July 1998. Ms. Gordeeva is also the Head of the Accounting Department and chief accountant of HCFB. Prior to joining HCFB, Ms. Gordeeva worked as deputy chief accountant in Eastern European Industrial Bank.

The business address of all members of the Management Board is 4 Baumanskaya Street, Moscow, 105005, Russian Federation.

## PARTICIPANTS

The charter capital of HCFB comprises of the nominal value of the participation interests held by the participants of HCFB. The nominal value of the participation interests is not broken down into individual shares. As of 31 March 2005, the nominal value of the charter capital of HCFB was RUB 173 million.

The following table sets forth HCFB's participants and the nominal value of their participation interests in the charter capital of HCFB as of 31 March 2005:

Participant	Nominal Value of Share (RUB)	Percentage
Home Credit Finance, a.s. ....	172,660,000	99.8
Ladislav Chvátal ....	340,000	0.2
<b>Total</b> .....	<b><u>173,000,000</u></b>	<b><u>100.0</u></b>

Under HCFB's charter and the Russian legislation, HCFB's participants have the right:

- to participate in the general participants meeting of HCFB and vote on all matters on its agenda, save for limited circumstances envisaged by Russian legislation;
- to receive dividends;
- to elect members to HCFB's Board of Directors;
- receive an amount of HCFB's assets upon its liquidation proportionate to their level of participation remaining after satisfaction of claims of HCFB's creditors;
- have unrestricted access to the documents of HCFB listed in Russian legislation and HCFB's charter;
- other rights envisaged by Russian legislation and HCFB's charter.

The right of HCFB's participants to dispose of the participation interest in the charter capital of HCFB is limited by the pre-emptive rights of other participants and HCFB.

## RELATED PARTY TRANSACTIONS

In accordance with IFRS (IAS 24), parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. HCFB enters into banking transactions in the normal course of business with participants, subsidiaries and affiliates. These transactions include attracting loans and accepting deposits, settlements and FX transactions. It is HCFB's policy to conduct all transactions with related parties at arm's length, under commercial and banking terms and conditions consistent with those it applies to unrelated parties. See "Business—Funding—Capital Support from Home Credit Group".

The following table sets forth certain financial information in respect of HCFBs' transactions with related parties as of 31 March 2005:

	Three months ended 31 March 2005 (in RUB thousands)
Interest income .....	1,277
Interest expense.....	(188,221)
Fee and commission income .....	30
Fee and commission expense .....	(76)
Net foreign exchange income/(loss).....	39,395
Other income.....	624
General administrative expenses .....	(58,753)
	<b>(205,724)</b>
	As of 31 March 2005 (in RUB thousands)
<b>Assets</b>	
Placements with banks and other financial institution .....	55,506
<b>Total assets</b> .....	<b>55,506</b>
<b>Liabilities</b>	
Current accounts and deposits from customers .....	(84,756)
Due to banks and other financial institutions .....	(6,841,023)
Financial liabilities at fair value through profit or loss.....	(37,138)
Other liabilities .....	(55,197)
<b>Total liabilities</b> .....	<b>(7,018,114)</b>

## THE ISSUER

### General

The Issuer is a public limited liability company (*société anonyme*), incorporated on 26 November 2004 in Luxembourg, for an unlimited period under the Luxembourg Law of 10 August, 1915 on Commercial Companies, as amended. The Issuer has its registered office at 1, allée Scheffer, L-2520, Luxembourg. The Issuer is registered with the Luxembourg Register of Commerce and Companies under number B104488. The Articles of Incorporation (“**statuts**” or the “**Articles**”) of the Issuer were published in the *Mémorial Recueil des Sociétés et Associations* (No. 152 of 18 February 2005, page 7260) (“**Memorial C**”).

### Corporate purpose of the Issuer

Article 3 of the Articles provides that the objects of the Issuer are amongst others, to issue bonds, notes and other debt instruments or securities and to enter into any fiduciary agreement whereby the proceeds of such issue will be deposited into a fiduciary account for the purpose of financing loans to HCFB and its affiliates and to grant security interest over its assets to a trustee in relation to the funds raised, including the issuance of bonds, notes and other debt instruments or securities.

The Issuer may carry out any transactions, whether commercial or financial which are directly or indirectly connected with its corporate object at the exclusion of any banking activity.

### Business Activity

The Issuer has not previously carried on any business or activities other than those incidental to its incorporation, the issue of the U.S.\$150,000,000 9.125 per cent. loan participation notes due 2008, the issue of the Notes, the Loan, the authorisation and the issue of the Notes and activities incidental to the exercise of its rights and compliance with its obligations under the Notes, the Subscription Agreement, the Agency Agreement, the Trust Deed and the other documents and agreements entered into in connection with the issue of the Notes and the Loan.

### Corporate Administration

The Directors (as defined in “Management” below) have been appointed as directors (“*administrateurs*”) of the Issuer. Certain administrative and corporate services will be provided to the Issuer by TMF Management Luxembourg S.A. in its capacity as corporate administrator (“*société de domiciliation*”) pursuant to a domiciliation agreement.

### Recent Developments

In February 2005, the Issuer issued U.S.\$ 150,000,000 9.125 per cent. loan participation notes due 2008 for the sole purpose of financing a loan to HCFB.

Save as stated above, there has been no significant change in the financial or trading position of the Issuer and no material adverse change in the financial position or prospects of the Issuer since the date of its incorporation.

### Capital

The authorised and subscribed capital of the Issuer is set at € 31,000 divided into 31 registered shares with a par value of € 1,000 each, fully paid up.

### Shareholders

The issued and outstanding shares in the Issuer’s share capital are owned and controlled as follows:

1 share by:

Eurasia Capital I, a foundation established under the laws of the Netherlands, with its registered office at 1076 AZ Amsterdam, Locatellikade 1; and

30 shares by:

Eurasia Capital II, a foundation established under the laws of the Netherlands, with its registered office at 1076 AZ Amsterdam, Locatellikade 1.

## Management

The Issuer is managed by its board of directors, who are appointed by the shareholders. The current directors (“**Directors**”) of the Issuer are:

TMF Corporate Services S.A., registered with the Register of Commerce and Companies in Luxembourg under number B. 84.993 and having its registered office at 1, allée Scheffer, L-2520, Luxembourg. TMF Corporate Services S.A. acts as a director of special purpose companies as its principal business activity<sup>1</sup> ;

TMF Administrative Services S.A., registered with the Register of Commerce and Companies in Luxembourg under number B. 94.030 and having its registered office at 1, allée Scheffer, L-2520, Luxembourg. TMF Administrative Services S.A. acts as a director of special purpose companies as its principal business activity<sup>2</sup> ; and

TMF Secretarial Services S.A., registered with the Register of Commerce and Companies in Luxembourg under number B. 94.029 and having its registered office at 1, allée Scheffer, L-2520, Luxembourg. TMF Secretarial Services S.A. acts as a director of special purpose companies as its principal business activity<sup>3</sup> .

## Subsidiaries

The Issuer has no subsidiaries or affiliates.

## Real estate assets

The Issuer does not own any real estate assets.

## Business Year

The business year of the Issuer begins on 1 January and ends on 31 December of each year, except for the first business year of the Issuer which began on 26 November 2004 and ended on 31 December 2004.

## Statutory Auditors

The statutory auditors of the Issuer are Alliance Révision S.à.r.l., with its registered office at 54, avenue Pasteur, L-2310, Luxembourg.

No external auditor has been appointed.

## Financial Statements

Financial statements will be published by the Issuer on an annual basis. These statements will not be approved by an external auditor.

The financial statements of the Issuer for the year that began on 26 November 2004 and ended 31 December 2004 were approved by the annual shareholders’ meeting of the Issuer held on 1 June 2005.

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1 The directors of TMF Corporate Services S.A., each of whose business address is 1, allée Scheffer, L-2520 Luxembourg, are J.W. van Koeverden Brouwer, X. Kotoula, and H. Neuman.

2 The directors of TMF Administrative Services S.A., each of whose business address is 1, allée Scheffer, L-2520 Luxembourg, are J.W. van Koeverden Brouwer, X. Kotoula, and H. Neuman.

3 The directors of TMF Secretarial Services S.A., each of whose business address is 1, allée Scheffer, L-2520 Luxembourg, are J.W. van Koeverden Brouwer, X. Kotoula, and H. Neuman.



## Capitalisation and Indebtedness

The following table sets out (i) the capitalisation and indebtedness of the Issuer as of 31 March 2005 and (ii) such capitalisation and indebtedness as adjusted for the issue of the Notes:

	<u>As of 31 March 2005</u>	
	<u>(EUR) (unaudited)</u>	
	<u>(Actual)</u>	<u>(As adjusted)</u>
<b>Liabilities</b>		
Debt securities issued .....	<u>115,678,260</u>	<u>327,755,070</u>
<b>Total liabilities</b> .....	<u>115,678,260</u>	<u>327,755,070</u>
<b>Shareholder' equity</b>		
Issued and fully subscribed share capital. ....	<u>31,000</u>	<u>31,000</u>
<b>Total shareholders' equity</b> .....	<u>31,000</u>	<u>31,000</u>
<b>Total capitalisation</b> .....	<u>115,709,260</u>	<u>327,786,070</u>

(1) All indebtedness of the Issuer is unsecured and unguaranteed. The Issuer does not have any contingent liabilities and has not given any guarantees.

Since 31 March 2005, there has been no material change in the Issuer's consolidated capitalisation, indebtedness, contingent liabilities or guarantees.

## Litigation

There are no, and have not been, any legal or arbitration proceedings against or affecting the Issuer, nor is the Issuer aware of any pending or threatened proceedings of such kind, which may have, or have had, during the 12 months prior to the date of this Offering Circular a significant effect on the financial positions of the Issuer.

## THE LOAN AGREEMENT

*The following is the text of the Loan Agreement, save as otherwise indicated in italics in Clause 7.1, which is a summary of the relevant Clause of the Loan Agreement, and save for the signature page, which has been excluded.*

**LOAN AGREEMENT**, dated 23 June 2005 **between:**

- (1) **HOME CREDIT & FINANCE BANK LIMITED LIABILITY COMPANY**, a limited liability company established under the laws of the Russian Federation whose registered office is 317A Zelenograd, Moscow, 124482, Russian Federation (“**Home Credit**”); and
- (2) **EURASIA CAPITAL S.A.**, a *société anonyme* incorporated in Luxembourg with limited liability whose registered office is at 1, allée Scheffer, L-2520 Luxembourg, registered with the Register of Commerce and Companies of Luxembourg under number B104488 (the “**Lender**”, which expression, where the context so admits, includes any successor Lender pursuant to the terms of this Agreement and the Lender acting in its capacity as issuer of the Notes).

**Whereas**, the Lender has at the request of Home Credit agreed to make available to Home Credit a loan facility in the amount of U.S.\$275,000,000 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 by the Lender under Clause 3 of the sum equal to the amount of the Facility, as from time to time reduced by prepayment.

“**Affiliate**” of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person or (ii) any other Person who is a director or officer (a) of such specified Person, (b) of any Subsidiary of such specified Person or (c) of any Person described in (i) above. 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.

“**Agency**” means any agency, authority, central bank, department, government, legislature, minister, official or public statutory Person (whether autonomous or not) of, or of the government of, any state or supra-national body.

“**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 Clifford Chance, 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.

“**Auditors**” means the auditors of Home Credit’s IFRS consolidated financial statements for the time being or, if they are unable or unwilling to carry out any action requested of them under this Agreement, such other internationally recognised firm of accountants as may be approved in writing by the Lender for this purpose.

“**Authorised Signatory**” means, in relation to Home Credit, any Person who is duly authorised (in such manner as may be reasonably acceptable to the Lender) and in respect of whom the Lender has received a certificate signed by a director or another Authorised Signatory of Home Credit setting out the name and signature of such Person and confirming such Person’s authority to act.

“**BIS Guidelines**” means the guidelines on capital adequacy standards (including the constituents of capital included in the capital base, the risk weights by category for on-balance-sheet assets, the

credit conversion factors for off-balance-sheet items, and the target Standard ratio) for international banks contained in the July 1998 text of the Basel Capital Accord, published by the Basel Committee on Banking Supervision (as amended, updated or supplemented from time to time), without any amendment or other modification by any other Agency.

**“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 (as defined in the Paying Agency Agreement) of the Principal Paying Agent is located.

**“Capital”** means Home Credit’s Capital as such term is defined in the BIS Guidelines.

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

**“Central Bank”** means the Central Bank of the Russian Federation.

**“Closing Date”** has the meaning given to it in the Subscription Agreement.

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

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

**“Exposure”** means:

- (a) the aggregate principal or nominal amount (net of specific provisions for losses) owed to Home Credit, whether direct or contingent, by a counterpart, or, in the case of a Single Party, by a group of counterparts, in respect of money borrowed, equity or debt raised, Guarantees, letters of credit or debt instruments issued or confirmed and other off-balance sheet engagements in the ordinary course of Home Credit’s commercial and consumer lending business; less
- (b) any such amount which is fully secured by rights of off-set against the Liquid Assets in equivalent amounts and comparable maturities placed with Home Credit.

**“Facility”** means the facility specified in Clause 2.

**“Funded Exposure”** means any Exposure that Home Credit would, in accordance with IFRS as consistently applied, include under “loans and advances to customers” in the balance sheet of Home Credit prepared in accordance with IFRS.

**“Group”** means Home Credit and its consolidated Subsidiaries taken as a whole.

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

**“IFRS”** means International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board (**“IASB”**) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time).

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

**“Indebtedness”** means any indebtedness, in respect of any Person for, or in respect of, moneys borrowed or raised including, without limitation, any amount raised by acceptance under any acceptance credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument; any amount raised pursuant to any issue of shares which are expressed to be redeemable either on a compulsory basis or at the option of the shareholder; any amount raised under any other transaction (including, but without limitation to, any forward sale or purchase agreement) having the economic or commercial effect of a borrowing; and the amount of any liability in respect of any Guarantee or indemnity for any of the items referred to above.

**“Independent Appraiser”** means any expert in the matter to be determined of international standing appointed by Home Credit pursuant to Clause 10.4 and approved by the Trustee (such approval not to be unreasonably withheld), provided, however, that such Independent Appraiser is not an Affiliate of the Group.

**“Interest Payment Date”** means 30 June and 30 December of each year, commencing on 30 December 2005.

**“Lender Account”** means account no. 3222 0002 with the Principal Paying Agent.

**“Lien”** means any mortgage, pledge, encumbrance, easement, restriction, covenant, right-of-way, servitude, lien, charge or other security interest or adverse claim of any kind (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement or lease in the nature thereof).

**“Liquid Assets”** means the aggregate (as of the relevant date for calculation) of Home Credit’s cash, demand and overnight deposits and other deposits with a maturity of not more than thirty (30) calendar days, and marketable securities with a final maturity of less than one year issued or guaranteed by the Russian Federation, or an Agency or subdivision thereof and claims against the Central Bank with a final maturity of less than one year.

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

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

**“Material Subsidiary”** means any Subsidiary of Home Credit which (i) in accordance with IFRS, as consistently applied, would be consolidated into Home Credit’s consolidated financial statements, and (ii):

- (a) has gross income representing 10 per cent. or more of the consolidated gross income of the Group; or
- (b) has total assets representing 10 per cent. or more of the consolidated total assets of the Group,

in each case calculated on a consolidated basis in accordance with IFRS, as consistently applied.

Compliance with the conditions set out in paragraphs (a) and (b) above shall be determined by reference to the latest consolidated annual or, as the case may be, audited or unaudited consolidated interim financial statements of that Subsidiary and the latest audited consolidated annual or, as the case may be, audited or unaudited consolidated interim financial statements of the Group; provided, however, that an Officers’ Certificate that a Subsidiary of Home Credit is or is not a Material Subsidiary, accompanied by a report by the Auditors addressed to the Directors of Home Credit as to proper extraction of the figures used in the Officers’ Certificate in determining the Material Subsidiaries of Home Credit and mathematical accuracy of the calculations shall, in the absence of manifest error, be conclusive and binding on all parties.

**“Moody’s”** means Moody’s Investors Service, Inc.

**“Net Asset Value”** means the amount by which the total value of the Group’s consolidated assets exceeds the amount of its total consolidated liabilities (less any net assets attributable to participants, as the case may be), as defined in accordance with IFRS.

**“Noteholder”** means the holder of a Note.

**“Notes”** means the U.S.\$275,000,000 8.625 per cent. loan participation notes due 2008 proposed to be issued by the Lender pursuant to the Trust Deed.

**“Offering Circular”** means the offering circular dated 23 June 2005 relating to the issue of the Notes.

**“Officers’ Certificate”** means a certificate signed by two officers of Home Credit at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of Home Credit.

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

**“Original Financial Statements”** mean the most recent audited consolidated financial statements of Home Credit.

**“Paying Agency Agreement”** means the paying agency agreement to be dated 27 June 2005, as amended, varied or supplemented relating to the Notes.

**“Permitted Liens”** means:

- (a) any Lien over or affecting any asset acquired by a member of the Group after the date hereof and subject to which such asset is acquired, if:
  - (i) such Lien was not created in contemplation of the acquisition of such asset by a member of the Group; and
  - (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by a member of the Group.
- (b) any Lien over or affecting any asset of any company which becomes a member of the Group after the date hereof, where such Lien is created prior to the date on which such company becomes a member of the Group, if:
  - (i) such Lien was not created in contemplation of the acquisition of such company; and
  - (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such company.
- (c) any netting or set-off arrangement entered into by any member of the Group in the normal course of its banking arrangements for the purpose of netting debit and credit balances;
- (d) any Lien upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any securitisation of receivables, asset-backed financing or similar financing structure and whereby all payment obligations secured by such Lien or having the benefit of such Lien, are to be discharged solely from such assets or revenues, *provided that* the aggregate value of assets or revenues subject to such Lien when added to the aggregate value of assets or revenues which are the subject of any securitisation of receivables, asset-backed financing or similar financing structure permitted pursuant to Clause 10.3, does not, at any such time, exceed 30 per cent. of the loans and advances to customers, as determined at any time by reference to the most recent quarterly balance sheet of Home Credit prepared in accordance with IFRS;
- (e) any title transfer or retention of title arrangement entered into by any member of the Group in the normal course of its trading activities on the counterparty’s standard or usual terms;
- (f) any Lien arising by operation of law and in the normal course of business;
- (g) Liens incurred, or pledges and deposits in connection with workers’ compensation, unemployment insurance and other social security benefits, and leases, appeal bonds and other obligations of like nature in the ordinary course of business;
- (h) Liens for *ad valorem*, income or property Taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings

for which Home Credit has set aside in its books of account reserves to the extent required by IFRS, as consistently applied;

- (i) any Lien granted by any Subsidiary of Home Credit in favour of Home Credit;
- (j) Liens upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any Repo transaction;
- (k) Liens arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market relating to the establishment of margin deposits and similar arrangements in connection with interest rate and foreign currency hedging operations;
- (l) Liens upon or with respect to immovable property acquired by the Group after the date of this Agreement where the aggregate value of such immovable property subject to such Liens does not at any one time exceed U.S.\$30,000,000;
- (m) any liens existing on the date of this Agreement; and
- (n) any other Lien where the aggregate value of the assets or revenues subject to such Lien does not exceed U.S.\$5,000,000.

**“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.

**“Principal Paying Agent”** means JPMorgan Chase Bank, N.A.

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

**“Related Party”** means with respect to any Person, (a) an Affiliate of such Person or (b) any of its Affiliates or (c) a group of its Affiliates.

**“Repayment Date”** means 30 June 2008.

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

**“Risk Weighted Assets”** means the aggregate of the Group’s consolidated balance sheet assets and off-balance sheet engagements, weighted for credit and market risk in accordance with the BIS Guidelines.

**“Rouble”** means the lawful currency from time to time 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.

**“Single Party”** means with respect to any counter-party such counter-party and all Related Parties of such counter-party.

**“Standard & Poor’s”** means Standard & Poor’s Ratings Service, a division of The McGraw-Hill Companies, Inc.

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

**“Subsidiary”** of any specified Person means any corporation, partnership, joint venture, association or other business or entity, whether now existing or hereafter organised or acquired, (a) in the case of a corporation, of which more than 50 per cent. of the total voting power of the Voting Stock is held by such first-named Person and/or any of its Subsidiaries and such first-named Person or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or (b) in the case of a partnership, joint venture, association, or other business or entity, with respect to which such first-named Person or any of its Subsidiaries has the power to direct



or cause the direction of the management and policies of such entity by contract or otherwise if (in each case) in accordance with IFRS, as consistently applied, such entity would be consolidated with the first-named Person for financial statement purposes.

“**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 a 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.

“**Tier 1 Capital**” means Home Credit’s Tier 1 capital, as such term is defined in the BIS Guidelines.

“**Trust Deed**” means the trust deed to constitute the Notes for the equal and rateable benefit of the Noteholders to be dated the Closing Date between the Lender 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.

“**US dollars**”, “**Dollars**”, “**US\$**” and “**U.S.\$**” mean the lawful currency of the United States of America.

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

## **1.2 Other Definitions**

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

## **1.3 Interpretation**

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

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

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

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

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

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

## **2 FACILITY**

### **2.1 Facility**

On the terms and subject to the conditions set forth herein, the Lender hereby agrees to lend Home Credit, and Home Credit hereby agrees to borrow from the Lender, U.S.\$275,000,000.

### **2.2 Purpose**

The proceeds of the Advance will be used by Home Credit to fund its consumer loan portfolio and for general banking purposes.

### **2.3 Arrangement Fee**

Home Credit shall pay a fee of U.S.\$2,081,669.74 to the Lender in connection with the arrangement of the Facility (the “**Arrangement Fee**”).

### **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 Home Credit and Home Credit 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**

Home Credit agrees to pay the Arrangement Fee to the Lender by 3:00 p.m. (London time) on the Business Day prior to the Closing Date. In the event that the Lender has not received from Home Credit by 3:00 p.m. (London time) on the Business Day prior to the Closing Date an amount in respect of the Arrangement Fee, Home Credit 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 Home Credit's account number 890 0575 204 with The Bank of New York, USA (SWIFT: IRVTUS3N).

#### **3.4      Ongoing Fees and Expenses**

In consideration of the Lender making available the Facility hereunder, Home Credit shall pay on demand to the Lender each year all ongoing commissions and costs as set forth to Home Credit in an invoice or invoices from the Lender.

### **4      INTEREST**

#### **4.1      Rate of Interest**

Home Credit 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 8.625 per cent. per annum (the "**Rate of Interest**").

#### **4.2      Payment**

Interest at the Rate of Interest shall accrue from day to day, starting from (and including) the Closing Date and shall be paid in arrear not later than 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 Repayment Date (or any date upon which the Loan is prepaid pursuant to Clause 5.2 or 5.3) 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, Home Credit 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, or clarification of, 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, Home Credit 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) Home Credit would have to or has been required to pay additional amounts pursuant to Clause 8, then Home Credit 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 reasonably determines (such determination being accompanied, if so requested by Home Credit by an Opinion of Counsel with the cost of such Opinion of Counsel being borne solely by Home Credit) that it is or would be unlawful or contrary to such applicable law, regulation, regulatory requirement or directive for the Lender to allow all or part of the Loan or the Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with this Agreement or the Notes and/or to charge or receive or to be paid interest at the rate then applicable to the Loan or the Notes, then upon notice by the Lender to Home Credit in writing (setting out in reasonable detail the nature and extent of the relevant circumstances), Home Credit and the Lender shall consult in good faith as to a basis which eliminates the application of such circumstances; provided, however, that the Lender 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, Home Credit. If such a basis has not been determined within the 30 days, then upon notice by the Lender to Home Credit in writing, Home Credit shall prepay the Loan in whole (but not in part) on the next Interest Payment Date or on such earlier date as the Lender (acting reasonably) shall certify to be necessary to comply with such requirements.

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

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

### **5.5 Payment of Other Amounts**

If the Loan is to be prepaid by Home Credit pursuant to any of the provisions of Clauses 5.2 or 5.3, Home Credit shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to the date of actual payment and all other sums payable by Home Credit pursuant to this Agreement with respect to the prepaid amount. For the avoidance of doubt, if the principal amount of the Loan is reduced pursuant to the provisions of Clause 5.4, then no interest shall accrue or be payable during the period from the preceding Interest Payment Date up to the date upon which such reduction takes place in respect of the amount by which the Loan is so reduced and Home Credit or the relevant Subsidiary of Home Credit, as the case may be, shall not be entitled to any interest in respect of the cancelled Notes.

### **5.6 Provisions Exclusive**

Home Credit 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 Home Credit 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 Account. The Lender agrees with Home Credit 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 Trust Deed and Paying Agency Agreement.

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

All payments to be made by Home Credit 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 Home Credit 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, Home Credit shall reimburse the Lender in Dollars for such payment on demand. For the avoidance of doubt, this Clause 6.2 is without prejudice to any obligations of the Lender contained in Clause 6.7.

### **6.3 Withholding on the Notes**

If the Lender notifies Home Credit (setting out in reasonable detail the nature and extent of the obligation with such evidence as Home Credit may reasonably require) that it 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 Notes in circumstances where the Lender is required to pay additional amounts pursuant to Condition 7 of the Notes, Home Credit agrees to pay to the Lender, not later than 11:30 a.m. (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 Account, such additional amounts as are equal to the said additional amounts which the Lender must pay pursuant to the terms of Condition 7 of the Notes; provided, however, that the Lender shall immediately upon receipt from any Paying Agent of any sums paid in respect of the Lender'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 Conditions, pay such additional amounts to Home Credit (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 subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which Home Credit has made a payment pursuant to this Clause 6, the Lender shall promptly pay to Home Credit so much of the benefit it received as will leave the Lender in substantially the same position as it would have been in had no additional amount been required to be paid by Home Credit 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 Home Credit, 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 Home Credit any information regarding its tax affairs or computations.

If as a result of a failure to obtain relief from deduction or withholding of any taxes referred to in Clause 6.2: (a) such taxes are deducted or withheld by Home Credit and pursuant to Clause 6.2 an increased amount is paid by Home Credit to the Lender in respect of such deduction or withholding, and (b) following the deduction or withholding of taxes as referred to above, Home Credit applies on behalf of the Lender to the competent taxing authority for a withholding tax refund (Home Credit having notified the Lender of such application) and such withholding tax is refunded or repaid by the relevant taxing authority to the Lender, the Lender shall as soon as reasonably practicable notify Home Credit of the receipt of such withholding tax refund and promptly transfer the actually received amount of the withholding tax refund in the currency actually received and less any applicable costs to a bank account of Home Credit specified for that purpose by Home Credit.

## **6.5 Representations of the Lender**

The Lender represents that, at the date hereof, (a) it is a company which at the date hereof is a resident of the Grand-Duchy of Luxembourg, is subject to taxation in the Grand-Duchy of Luxembourg on the basis of its registration as a legal entity, location of its board of directors or another similar criterion and it is not subject to taxation in the Grand-Duchy of Luxembourg merely on income from sources in the Grand-Duchy of Luxembourg or connected with property located in the Grand-Duchy of Luxembourg and it will be able to receive certification to this effect from the Luxembourg taxing authorities; (b) it does not have a permanent establishment in the Russian Federation and (c) does not have any current intentions to effect, during the term of the Loan, any corporate action or reorganisation or change of taxing jurisdiction that would result in the Lender ceasing to be a resident of the Grand-Duchy of Luxembourg and subject to taxation in the Grand-Duchy of Luxembourg.

## **6.6 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 Home Credit to make any deduction, withholding or payment as described in sub-Clause 6.2 or 6.3, then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or Home Credit'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. Home Credit 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.

## **6.7 Tax Treaty Relief**

**6.7.1** The Lender shall, provided that in each case a corresponding request from Home Credit is received by the Lender no later than 25 Business Days prior to the first Interest Payment Date or, as applicable, the beginning of each calendar year, and at Home Credit's cost, to the extent it is able to do so under applicable law including, without limitation, Russian laws, use commercially reasonable efforts to obtain and to deliver to Home Credit no later than 10 Business Days before the first Interest Payment Date or, as applicable, the beginning of each calendar year a certificate, issued by the competent taxing authority in Luxembourg confirming that the Lender is tax resident in Luxembourg and such other information or forms as may need to be duly completed and delivered by the Lender to enable Home Credit to apply to obtain relief from deduction or withholding of Russian taxes after the date of this Agreement or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian taxes has not been obtained.

**6.7.2** The Lender shall, at the request of Home Credit and at Home Credit's cost, to the extent it is able to do so under applicable law including, without limitation, Russian laws, from time to time use commercially reasonable efforts to obtain and to deliver to Home Credit



any additional duly completed application forms as need to be duly completed and delivered by the Lender to enable Home Credit to apply to obtain relief from deduction or withholding of Russian taxes or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian taxes has not been obtained.

**6.7.3** The certificate and, if required, other forms referred to in this Clause 6.7 shall be duly signed by the Lender, if applicable, and stamped or otherwise approved by the competent taxing authority in Luxembourg, if applicable. Together with any such certificate and, if required, other forms, the Lender shall deliver to Home Credit a copy of the same, certified by a Luxembourg notary to be a true and up-to-date copy of the original document. Any such notary's certificate shall be apostilled or otherwise legalised.

**6.7.4** If a relief from deduction or withholding of Russian taxes under this Clause 6.7 has not been obtained and further to an application of Home Credit to the relevant Russian taxing authorities the latter requests the Lender's rouble bank account details, the Lender shall at the request of Home Credit (a) use commercially reasonable efforts, at Home Credit's cost, to procure that such rouble bank account of the Lender is duly opened and maintained, and (b) thereafter furnish Home Credit with the details of such rouble bank account.

## **7 CONDITIONS PRECEDENT**

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

*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 receipt by the Lender on or prior to the Closing Date of executed copies of certain customary conditions precedent documents.*

### **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 Home Credit 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) Home Credit shall not be in breach of any of the terms, conditions and provisions of this Agreement, (d) the Subscription Agreement, the Trust Deed and the Paying Agency Agreement shall have been executed and delivered and (e) the Lender shall have received the full subscription moneys for the Notes pursuant to the Subscription 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 bank 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-Clause 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 Home Credit 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 Home Credit, together with a certificate signed by two directors 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) Home Credit, 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 and provided that the Lender shall not be entitled to such additional amount where such increased cost arises as a result of the negligence or wilful default of the Lender,

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 Home Credit 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, Home Credit'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 Home Credit's Representations and Warranties**

Home Credit represents and warrants to the Lender, with 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 Home Credit on the Closing Date, that:

- 9.1.1** it and each of its Material Subsidiaries is duly organised and incorporated and validly existing under the laws of its respective jurisdiction of incorporation and has the power and legal right to own its property, to conduct its business as currently conducted and, in the case of Home Credit only, to enter into and to perform its obligations under this Agreement and to borrow the Advance; that it has taken all necessary corporate, legal and other action required to authorise the borrowing of the Advance on the terms and subject to the conditions of this Agreement and to authorise the execution and delivery of this Agreement and all other documents to be executed and/or 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 and constitutes a legal, valid and binding obligation of Home Credit 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 (ii) to the fact that the gross-up provisions contained in Clause 6.2 or 6.3 may not be enforceable under Russian law and (iii) with respect to the enforceability of a judgment, to the laws of the relevant jurisdiction where such judgment must be enforced and whether there is a treaty in force relating to the mutual recognition of foreign judgments;
- 9.1.3** the execution, delivery and performance of this Agreement by Home Credit will not conflict with or result in any breach or violation of (i) any law or regulation or any order of any governmental, judicial, arbitral or public body or authority in the Russian Federation, (ii) the constitutive documents, rules and regulations of Home Credit or any of its Material Subsidiaries or the terms of the banking licence granted to Home Credit by the Central Bank or (iii) any agreement or other undertaking or instrument to which Home Credit or any of its Material Subsidiaries is a party or which is binding upon Home Credit or any of its Material Subsidiaries or any of their respective assets, nor result in the creation or imposition of any Liens on any of their respective assets pursuant to the provisions of any such agreement or other undertaking or instrument;
- 9.1.4** all consents, licences, notifications, authorisations or approvals of, or filings with, any governmental, judicial and public bodies and authorities of the Russian Federation (including, without limitation, the Central Bank) required by Home Credit in connection with the execution, delivery, performance, legality, validity, enforceability, and admissibility in evidence of this Agreement have been obtained or effected and are and shall remain in full force and effect;
- 9.1.5** no 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 Home Credit or any Material Subsidiary, and no such event will occur upon the making of the Advance;
- 9.1.6** there are no judicial, arbitral or administrative actions, proceedings or claims (including, but without limitation to, with respect to Taxes) which have been commenced or are

pending or, to the knowledge of Home Credit, threatened, against Home Credit or any of its Material Subsidiaries, the adverse determination of which could reasonably be expected to have a Material Adverse Effect;

- 9.1.7** except for Liens of the types referred to in the definition of Permitted Liens in Clause 1.1, Home Credit and each of its Material Subsidiaries has good title to its property free and clear of all Liens and Home Credit's obligations under the Loan rank at least *pari passu* with all its other unsecured and unsubordinated Indebtedness;
- 9.1.8** the audited consolidated financial statements of the Group as at and for the years ended 31 December 2003 and 2004 and the unaudited consolidated interim financial statements of the Group for the three months ended 31 March 2004 and 2005:
- (i) were prepared in accordance with IFRS, as consistently applied;
  - (ii) unless not required by IFRS, as consistently applied, disclose all liabilities (contingent or otherwise) and all unrealised or anticipated losses of the Group; and
  - (iii) save as disclosed therein, present fairly in all material respects the assets and liabilities of the Group as at that date and the results of operations of the Group during the relevant financial year;
- 9.1.9** there has been no material adverse change since 31 December 2004 in the condition (financial or otherwise), results of business, operations or immediate prospects of Home Credit or any of its Material Subsidiaries or on Home Credit's ability to perform its obligations under this Agreement;
- 9.1.10** the execution, delivery and enforceability of this Agreement is not subject to any tax, duty, fee or other charge, including, but without limitation to, 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 (other than state duty paid on any claim, petition or other application filed with a Russian court);
- 9.1.11** neither Home Credit nor any Material Subsidiary nor their respective 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** Home Credit and each Material Subsidiary is in compliance in all material respects with all applicable provisions of law;
- 9.1.13** there are no material strikes or other employment disputes against Home Credit or any Material Subsidiary which have been started or are pending or, to its knowledge, threatened;
- 9.1.14** in any proceedings taken in the Russian Federation in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitration award obtained in England in relation thereto will be recognised and enforced in the Russian Federation after compliance with the applicable procedures and rules and all other legal requirements in Russia;
- 9.1.15** subject to the performance by the relevant parties of the relevant established procedures in connection with the obtaining of an applicable withholding tax exemption for payments hereunder, no withholding in respect of any Taxes is required to be made from any payment by Home Credit under this Agreement;
- 9.1.16** all material licences, consents, examinations, clearances, filings, registrations and authorisations which are or may be necessary to enable Home Credit or any of its Material Subsidiaries to own its assets and carry on its business are in full force and effect and Home Credit and its Material Subsidiaries are conducting such business in accordance with such licences, consents, examinations, clearances, filings, registrations and authorisations;
- 9.1.17** with respect to the offer and sale of the Notes pursuant to the Subscription Agreement, neither it nor any of its Affiliates nor any Person acting on its or their behalf (i) has

engaged or will engage in any directed selling efforts (as defined in Regulations S under the U.S. Securities Act of 1933 (“**Regulation S**”));

**9.1.18** it is subject, without reservation, to civil and commercial law with respect to its obligations under this Agreement, and its execution of this Agreement constitutes, and its exercise of its rights and performance of its obligations hereunder will constitute, private and commercial acts done and performed for private and commercial purposes; and

**9.1.19** Home Credit and each Material Subsidiary has no material overdue tax liabilities other than those which have been disclosed in the Offering Circular.

## **9.2 Lender’s Representations and Warranties**

The Lender represents and warrants to Home Credit 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, the Subscription Agreement, the Paying Agency Agreement and the Trust Deed 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, the Subscription Agreement, the Paying Agency Agreement and the Trust Deed 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 any agreement or instrument to which the Lender is a party or by which it is bound or the constitutive documents of the Lender.

**9.2.3** This Agreement, the Subscription Agreement, the Paying Agency Agreement and the Trust Deed have been duly executed by and 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, the Subscription Agreement, the Paying Agency Agreement and the Trust Deed 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**

So long as any amount remains outstanding hereunder:

### **10.1 Negative Pledge**

Home Credit shall not, and shall not permit any of its Material Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Liens, other than Permitted Liens, on any of its assets, now owned or hereafter acquired, or any income or profits therefrom, securing any Indebtedness, unless, at the same time or prior thereto, the Loan is secured equally and rateably with such other Indebtedness.

### **10.2 Mergers**

(i) Home Credit shall not enter into any reorganisation (by way of a merger, accession, division, separation or transformation, or other bases or procedures for reorganisation contemplated or as may be contemplated from time to time by Russian legislation, as these terms are construed by applicable Russian legislation), and (ii) Home Credit shall ensure that, without the prior written consent of the Lender, no Material Subsidiary (A) enters into any reorganisation (whether by way of a merger, accession, division, separation or transformation as these terms are construed by applicable Russian legislation), or (B) in the case of a Material Subsidiary incorporated in a jurisdiction other than Russia participates in any type of corporate reconstruction or other analogous event (as determined under the legislation of the relevant jurisdiction), if (in the case of either (i) or (ii) above) any such reorganisation or other type of corporate reconstruction could

reasonably result in a Material Adverse Effect. For the avoidance of doubt, any such reorganisation or other type of corporate reconstruction contemplated by this Clause will not be considered to be capable of having a Material Adverse Effect for the purposes of this Clause in the event that it does not lead to a downgrading of either the senior unsecured issuer rating given to Home Credit by Standard & Poor's or the issuer rating of Home Credit given to Home Credit by Moody's or, in the circumstances under (i) above where Home Credit is not the surviving entity following such reorganisation or other type of corporate reconstruction, the ratings granted to such surviving entity immediately following such reorganisation by Moody's and Standard & Poor's are no less than the ratings granted to Home Credit by each of Moody's and Standard & Poor's immediately prior to such reorganisation or other type of corporate reconstruction.

### 10.3 Disposals

Home Credit shall not and shall ensure that its Material Subsidiaries do not (in each case disregarding sales of stock in trade on an arm's length basis in the ordinary course of business) sell, lease, transfer or otherwise dispose of, by one or more transactions or series of transactions (whether related or not), the whole or any part (the book value of which is 10 per cent. or more of the book value of the whole) of its revenues or its assets unless, without prejudice to Clause 10.12, such transaction(s) is/are (a) on an arm's length basis and on commercially reasonable terms and (b) has/have been approved by a resolution of the appropriate decision making body of Home Credit resolving that the transaction complies with the requirements of this Clause 10.3 and such resolution has been adopted by a majority of the members of such appropriate decision making body disinterested with respect to such transaction or series of transactions or, if there are insufficient disinterested members, by an Independent Appraiser. For the avoidance of doubt, this Clause 10.3 shall not apply to any revenues or assets (or any part thereof) the subject of any securitisation of receivables, asset-backed financing or similar financing structure originated by Home Credit whereby all payment obligations are to be discharged solely from such assets or revenues, provided that the aggregate value of assets or revenues which are the subject of all such securitisations of receivables, asset-backed financing or similar financing structures, when added to the aggregate value of assets or revenues subject to any Lien described under (d) in the definition of "**Permitted Liens**" and permitted under the terms of this Agreement, does not at any time exceed 30 per cent. of loans and advances to customers, as determined at any such time by reference to the most recent quarterly balance sheet of Home Credit prepared in accordance with IFRS (or its equivalent in other currencies).

### 10.4 Transactions with Affiliates

Home Credit shall not and shall ensure that none of its Subsidiaries shall, directly or indirectly, conduct any business, enter into or permit to exist any transaction or series of related transactions (including, without limitation, the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "**Affiliate Transaction**") including, without limitation, intercompany loans unless (a) the terms of such Affiliate Transaction are no less favourable to Home Credit or such Subsidiary, as the case may be, than those that could be obtained in a comparable arm's length transaction with a Person that is not an Affiliate of Home Credit or such Subsidiary; or (b) such Affiliate Transaction is made pursuant to a contract existing on the Closing Date (excluding any amendments or modifications thereof).

With respect to an Affiliate Transaction which is not an Exempted Transaction involving aggregate payments or value in excess of U.S.\$10,000,000 (or its equivalent in other currencies), Home Credit shall deliver to the Lender a written opinion from an Independent Appraiser to the effect that such Affiliate Transaction is fair, from a financial point of view, to Home Credit or the relevant Subsidiary, as the case may be.

For the purposes of this Clause 10.4, an "**Exempted Transaction**" means:

- (i) any transaction solely for the provision of credit scoring and/or information technology services;
- (ii) any transaction solely for the provision of hedging services;
- (iii) any loan or deposit of an aggregate principal amount not exceeding U.S.\$50,000,000 (or its equivalent in other currencies); or



- (iv) any transaction solely for the provision of management consultancy services by Home Credit International to Home Credit, where Home Credit shall have delivered to the Lender a written opinion from KPMG Limited to the effect that such transaction is fair, from a financial point of view, to Home Credit.

This Clause 10.4 does not apply to (a) compensation or employee benefit arrangements with any officer or director of Home Credit or a Subsidiary, as the case may be, arising as a result of their employment contract, or (b) any Affiliate Transaction between Home Credit and any of its Subsidiaries or between any Subsidiaries of Home Credit.

#### **10.5 Maintenance of Authorisations**

Home Credit shall, and shall procure that each of its Material Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things reasonably necessary, in the opinion of Home Credit or the relevant Material Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business and Home Credit shall take all necessary action to obtain, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Russian Federation for the execution, delivery or performance of this Agreement or for the validity or enforceability thereof, provided that, in any case if Home Credit and/or the relevant Material Subsidiary, as the case may be, can remedy any failure to comply with this Clause 10.5 within 90 days of such failure or of the occurrence of such event, then this covenant shall be deemed not to have been breached.

#### **10.6 Maintenance of Property**

Home Credit shall, and shall ensure that its Material Subsidiaries will, cause all property that is material in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as, in the judgement of Home Credit or any Material Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times, provided that if Home Credit or any such Material Subsidiary can remedy any failure to comply with the above within 90 days or any failure relates to property with a value not exceeding U.S.\$5,000,000 (or its equivalent in other currencies), this covenant shall be deemed not to have been breached.

#### **10.7 Payment of Taxes and Other Claims**

Home Credit shall, and shall ensure that its Material Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue and without incurring penalties, (a) all Taxes levied or imposed upon the income, profits or property of Home Credit and its Material Subsidiaries and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of Home Credit or any of its Material Subsidiaries; provided, however, that none of Home Credit nor any Material Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (a) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS, as consistently applied or other appropriate provision has been made or (b) whose amount, together with all such other unpaid or undischarged Taxes, assessments, charges and claims, does not in the aggregate exceed U.S.\$10,000,000 (or its equivalent in other currencies).

#### **10.8 Maintenance of Insurance**

So long as any amount remains outstanding under this Agreement, Home Credit shall and shall ensure that each of its Subsidiaries will, keep those of their material properties which are of an insurable nature insured with insurers of good standing against loss or damage to the extent that property of similar character is usually so insured by corporations in the same jurisdictions similarly situated and owning like properties in the same jurisdictions.



## **10.9 Financial Information**

- 10.9.1** Home Credit shall as soon as the same become available, but in any event within 120 days after the end of each of its financial years, deliver to the Lender the Group's consolidated financial statements for such financial year, in each case audited by the Auditors.
- 10.9.2** Home Credit shall as soon as the same become available, but in any event within 90 days after the end of each half of each of its financial years, deliver to the Lender the Group's consolidated financial statements for such period.
- 10.9.3** Home Credit shall, so long as the Advance or any other sum owing under this Agreement remains outstanding, deliver to the Lender, without undue delay, such additional information regarding the financial position or the business of Home Credit and its Subsidiaries as the Lender may reasonably request including providing certification to the Trustee pursuant to the Trust Deed.
- 10.9.4** Home Credit shall ensure that each set of consolidated financial statements delivered by it pursuant to this Clause 10.9 is:
- (i) prepared on the same basis as was used in the preparation of its Original Financial Statements and in accordance with IFRS and consistently applied; and
  - (ii) in the case of the statements provided pursuant to sub-Clause 10.9.1 and sub-Clause 10.9.2, accompanied by a report thereon of the Auditors referred to in sub-Clause 10.9.1 (including opinions of such Auditors with accompanying notes and annexes) in each case, in a form satisfactory to the Lender; and
  - (iii) in the case of the statements provided pursuant to sub-Clause 10.9.3, certified by an Authorised Signatory of Home Credit as giving a true and fair view of the Group's consolidated financial condition as at the end of the period to which those consolidated financial statements relate and of the results of the Group's operations during such period.
- 10.9.5** Home Credit shall from time to time, on the request of the Lender, furnish the Lender with such information about the business and consolidated financial condition of Home Credit or the Group as the Lender may reasonably require.

## **10.10 Financial Covenants**

Home Credit shall (except as otherwise specifically provided or agreed by the Lender) at all times (save in respect of sub-Clause 10.10.3 below, which will apply in respect of the time periods set out therein) maintain:

- 10.10.1** full compliance with prudential supervision ratios and other requirements of the Central Bank;
- 10.10.2** a ratio of Capital to Risk Weighted Assets of not less than 15 per cent;
- 10.10.3** at all times on and after 30 September 2005, a ratio of Tier 1 Capital to Risk Weighted Assets of not less than 15 per cent.;
- 10.10.4** a ratio of Exposure to any single borrower, which is not a Related Party, to Net Asset Value of not more than 20 per cent; and
- 10.10.5** a ratio of Funded Exposure to any single borrower, which is not a Related Party, to Net Asset Value of not more than 10 per cent.

## **10.11 Change of Business**

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

## **10.12 Ranking of Claims**

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

### **10.13 Officers' Certificates**

On each Interest Payment Date (other than the final Interest Payment Date that falls on the Repayment Date), Home Credit shall deliver to the Lender, written notice in the form of an Officers' Certificate stating whether any Default or Event of Default has occurred and, if it has occurred, what action Home Credit is taking or proposes to take with respect thereto.

On each Interest Payment Date (other than the final Interest Payment Date that falls on the Repayment Date) or promptly upon request by the Lender (and in any event within 15 Business Days after such request), Home Credit shall deliver to the Lender, written notice in the form of an Officers' Certificate listing its Material Subsidiaries, accompanied by a report by the Auditors addressed to the directors of Home Credit as to the proper extraction of the figures used in the Officers' Certificate.

### **10.14 Notes Held by Home Credit**

Upon being so requested in writing by the Lender, Home Credit shall deliver to the Lender an Officers' Certificate of Home Credit setting out the total principal amount of Notes which, at the date of such certificate, are held by Home Credit (or any Subsidiary of Home Credit) and have not been cancelled and are retained by it for its own account or for the account of any other company.

## **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, the Lender shall be entitled to the remedies set forth in Clause 11.3.

**11.1.1** Home Credit fails to pay any amount payable hereunder as and when such amount becomes payable in the currency and in the manner specified herein provided such failure to pay continues for more than five Business Days.

**11.1.2** Home Credit fails to perform or observe any covenant or agreement contained herein to be performed or observed by it, provided such failure continues for more than 30 Business Days.

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

**11.1.4** (i) Any Indebtedness of Home Credit or any of its Material Subsidiaries is not paid when due (after the expiry of any applicable grace period); or  
(ii) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of Home Credit or (as the case may be) the relevant Material Subsidiary or (provided that no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness,

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above, individually or in the aggregate, exceeds U.S.\$5,000,000 (or its equivalent in any other currency or currencies).

**11.1.5** The occurrence of any of the following events: (i) any of Home Credit, or any of its Material Subsidiaries seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation commissioner (*likvidatsionnaya komissiya*) or a similar officer of any of Home Credit, or any of its Material Subsidiaries as the case may be; (ii) the presentation or filing of a petition in respect of any of Home Credit or its Material Subsidiaries in any court, arbitration court or before any Agency alleging, or for, the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceedings) of any of Home Credit or its Material Subsidiaries, unless such petition is demonstrated

to the reasonable satisfaction of the Lender to be vexatious or frivolous; (iii) the institution of the supervision (*nablyudeniye*), financial rehabilitation (*finansovoye ozdorovlenie*), external management (*vneshneye upravleniye*), bankruptcy management (*konkursnoye proizvodstvo*) over Home Credit or any of its Material Subsidiaries, (iv) the entry by Home Credit or any of its Material Subsidiaries into, or the agreeing by Home Credit or any of its Material Subsidiaries to enter into, amicable settlement (*mirovoye soglasenie*) with its creditors, as such terms are defined in the Federal Law of Russia No. 127-FZ “On Insolvency (Bankruptcy)” dated 26 October 2002 (as amended or replaced from time to time); (v) the institution of the financial rehabilitation (*finansovoye ozdorovlenie*), pursuant to the request of the Central Bank, temporary administration (*vremennoye upravleniye*) or reorganisation (*reorganizatsiya*) with respect to Home Credit or any of its Material Subsidiaries as such terms are defined in the Federal Law of the Russian Federation No-40-FZ “On Insolvency (Bankruptcy) of Credit Organisations” dated 25 February 1999 (as amended or replaced from time to time); (vi) any judicial liquidation in respect of Home Credit or any of its Material Subsidiaries; and/or (vii) revocation of the general banking licence or the licence for taking deposits from individuals of Home Credit or, if applicable, of any of its Material Subsidiaries.

- 11.1.6** Home Credit or any of its Material Subsidiaries is unable or admits inability to pay its debts as they fall due, generally suspends making payments on its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling any of its Indebtedness; the value of the assets of any of Home Credit or its Material Subsidiaries is less than its liabilities; and/or a moratorium is declared in respect of any Indebtedness of any of Home Credit or its Material Subsidiaries.
- 11.1.7** Any expropriation, attachment, sequestration, execution or distress is levied against, or an encumbrancer takes possession of or sells, the whole or any material part (in the opinion of the Lender) of, the property, undertaking, revenues or assets of Home Credit or any of its Material Subsidiaries.
- 11.1.8** Any governmental authorisation necessary for the performance of any obligation of Home Credit under this Agreement fails to be in full force and effect.
- 11.1.9** Any government, Agency or court takes any action that, in the opinion of the Lender, has a Material Adverse Effect on Home Credit or any of its Material Subsidiaries, including, without prejudice to the foregoing: (i) the management of any member of the Group is wholly or partially displaced or the authority of any member of the Group in the conduct of its business is wholly or partially curtailed; or (ii) all or a majority of the issued shares of any member of the Group or the whole or any part (the book value of which is 20 per cent. or more of the book value of the whole) of its revenues or assets is seized, nationalised, expropriated or compulsorily acquired; or (iii) Home Credit’s banking licence or its licence for taking deposits from individuals is revoked.
- 11.1.10** The shareholders of Home Credit shall have approved any plan of liquidation or dissolution of Home Credit other than by way of a reorganisation permitted pursuant to Clause 10.2.
- 11.1.11** The aggregate amount of unsatisfied judgments, decrees or orders of courts or other appropriate law-enforcement bodies for the payment of money against Home Credit and other Material Subsidiaries in the aggregate exceeds U.S.\$5,000,000, or the equivalent thereof in any other currency or currencies and there is a period of 60 days following the entry thereof during which such judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed and such default continues for 10 days after the notice specified in Clause 11.2.
- 11.1.12** At any time it is or becomes unlawful for Home Credit 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.
- 11.1.13** Home Credit or any of its Material Subsidiaries ceases to carry on the principal business it carried on at the date hereof.

**11.1.14** Home Credit repudiates this Agreement, the Subscription Agreement or the Paying Agency Agreement or evidences an intention to repudiate this Agreement, the Subscription Agreement or the Paying Agency Agreement.

**11.1.15** The charter of Home Credit is amended in a way which would contravene or result in the contravention of any material provision of this Agreement.

**11.1.16** Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing sub-Clauses.

## **11.2 Notice of Default**

Home Credit shall deliver to the Lender and the Trustee, within 30 days after becoming aware thereof, written notice of any event which is a Default, its status and what action Home Credit 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 Home Credit, (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 Home Credit 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 Home Credit; provided, however, that if any event of any kind referred to in sub-Clauses 11.1.5 and 11.1.6 occurs, the obligations of the Lender hereunder shall immediately terminate, and all amounts payable hereunder by Home Credit that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by Home Credit.

## **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**

Home Credit undertakes to the Lender, that if the Lender or any of its Affiliates, each director, officer, employee or agent of the Lender and each Person controlling the Lender within the meaning of the United States securities laws (each an “**indemnified party**”) incurs any loss, liability, cost, claim, charge, expense (including without limitation Taxes, legal fees, costs and expenses), demand or damage (a “**Loss**”) as a result of or in connection with the Loan, this Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the Notes and/or the Notes being outstanding, Home Credit shall pay to the Lender on demand an amount equal to such Loss and all costs, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred unless such Loss was caused either by such indemnified party’s negligence or wilful misconduct. The Lender shall not have any duty or obligation, whether as fiduciary or trustee for any indemnified party or otherwise, to recover any such payment or to account to any other Person for any amounts paid to it under this Clause.

## **12.2 Independent Obligation**

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

### **12.3 Evidence of Loss**

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

### **12.4 Survival**

The obligations of Home Credit pursuant to Clauses 6.2, 6.3 and 12.1 shall survive the execution and delivery of this Agreement and the drawdown and repayment of the Loan by Home Credit.

### **12.5 Currency Indemnity**

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

## **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 Home Credit's obligations recorded therein.

### **13.2 Stamp Duties**

**13.2.1** Home Credit shall pay all stamp, registration and documentary taxes or similar charges (if any) imposed on Home Credit 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 all related documents 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 Home Credit to pay such taxes or similar charges upon presentation by the Lender to Home Credit of documentary evidence of such costs and expenses.

**13.2.2** Home Credit 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 and all related documents, Home Credit 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 Home Credit 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 Home Credit, any right, power or privilege hereunder and no course of dealing between Home Credit 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 Home Credit:**

Baumanskaya 4  
105005 Moscow  
Russian Federation  
  
Fax: +7 095 980 6297  
Attention: Julia Guschina  
Deputy Head of Corporate Finance  
Home Credit & Finance Bank

##### **13.4.2 if to the Lender:**

Eurasia Capital S.A.  
1, allée Scheffer  
L-2520 Luxembourg  
  
Fax: +352 241 433300  
Attention: Board of Directors

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 Home Credit or any agreements of the Lender or Home Credit pursuant to sub-Clauses 6.4 or 6.5 or Clause 8.

**13.5.2** Home Credit 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 as contemplated by the Trust Deed.

#### **13.6 Prescription**

Subject to the Lender having received the principal amount thereof or interest thereon from Home Credit, the Lender shall forthwith repay to Home Credit the principal amount or the interest amount thereon, respectively, of any Notes upon such Notes becoming void pursuant to Condition 10 of the Notes.

#### **13.7 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.



### 13.8 Choice of Law

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

### 13.9 Jurisdiction

**13.9.1** For the exclusive benefit of the other party, each of Home Credit 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.

**13.9.2** 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.

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

**13.9.4** 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 Agreement may be settled by arbitration in accordance with the Rules of the LCIA (formerly known as the London Court of International Arbitration (“**LCIA**”)), 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 LCIA 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.

**13.9.5 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 Clifford Chance Secretaries Limited, 10 Upper Bank Street, London E14 5JJ 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 Home Credit to serve process in any other manner permitted by law.

**13.9.6 Home Credit's Process Agent:** Home Credit agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Clifford Chance Secretaries Limited, 10 Upper Bank Street, London, E14 5JJ, 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 Home Credit's behalf, Home Credit 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 Home Credit. Nothing in this Clause shall affect the right of the Lender to serve process in any other manner permitted by law.

### **13.10 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.

### **13.11 Language**

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

### **13.12 Amendments**

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

### **13.13 Partial Invalidity**

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

**IN WITNESS WHEREOF**, the parties hereto have caused this Agreement to be executed on the date first written above.

## 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 Certificates.*

The U.S.\$275,000,000 8.625 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 Eurasia Capital S.A. (the “**Issuer**”) are constituted by a trust deed (such trust deed as modified and/or restated and/or supplemented from time to time, the “**Trust Deed**”) to be dated 27 June 2005 (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 (the “**Noteholders**”).

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of making a U.S.\$275,000,000 loan (the “**Loan**”) to Home Credit & Finance Bank Limited Liability Company (“**Home Credit**”). The Issuer and Home Credit have recorded the terms of the Loan in a loan agreement (such agreement as modified and/or restated and/or supplemented from time to time, the “**Loan Agreement**”) dated 23 June 2005 between the Issuer and Home Credit.

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 Loan Agreement (less any amounts in respect of the Reserved Rights (as defined in the Trust Deed)). Noteholders must therefore rely solely and exclusively on the covenant to pay under the Loan Agreement and the credit and financial standing of Home Credit. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer. None of the Noteholders, the Trustee or the other creditors (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors or the Trustee for so long as the Notes are outstanding, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

The Issuer has charged by way of first fixed charge in favour of the Trustee its rights and interests as Lender under the Loan Agreement as security for its payment obligations in respect of the Notes and under the Trust Deed, excluding the Reserved Rights (the “**Charge**”) and has assigned absolutely certain other rights under the Loan Agreement to the Trustee, excluding the Reserved Rights (the “**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 (as defined in the Trust Deed) or by an Extraordinary Resolution of the Noteholders to exercise certain of its powers under the Trust Deed (including any rights arising under the Loan Assignment).

Payments in respect of the Notes will be made (subject to the receipt of the relevant funds from Home Credit) pursuant to a paying agency agreement (the “**Agency Agreement**”) to be dated 27 June 2005 and made between the Issuer, JPMorgan Chase Bank, N.A., as the principal paying agent (the “**Principal Paying Agent**”), J.P. Morgan Bank Luxembourg S.A. as paying agent, registrar and transfer agent (the “**Paying Agent**” and, together with the Principal Paying Agent, the “**Paying Agents**”, the “**Registrar**” and the “**Transfer Agent**”, which expressions shall include any successors), Home Credit and the Trustee.

Copies of the Trust Deed, 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 Loan Agreement and the Agency

Agreement. Noteholders are bound by, and are deemed to have notice of, all the provisions thereof. Terms defined in the Trust Deed (including the Schedules thereto) shall have the same meaning when used herein, except as otherwise provided.

## **1 Status**

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to make the Loan. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for making the Loan 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 Loan Agreement, less any amounts in respect of the Reserved Rights.

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 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 Loan Agreement, less any amounts in respect of the Reserved Rights. 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, the provisions of these Terms and Conditions, the Trust Deed, the Agency Agreement 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 Home Credit of its obligations under the Loan Agreement or the recoverability of any sum of principal or interest (or any additional amounts) due or to become due from Home Credit 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 Home Credit;
- 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 Home Credit 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 Home Credit of its obligations under the Loan Agreement and Home Credit'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 (as defined in the Loan Agreement) and/or other certificates (whether or not addressed to or obtained by the Trustee) from Home Credit or procured by Home Credit as a means of monitoring whether or not Home Credit is complying with its obligations under the Loan Agreement or as to the identity of Material Subsidiaries (as defined in the Loan Agreement) and shall not otherwise be responsible for investigating any aspect of Home Credit's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is 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, validity or adequacy 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 rights under or in respect of 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 Loan Agreement or direct recourse to Home Credit except through action by the Trustee pursuant to any of the relevant Security Interests granted to the Trustee in the Trust Deed. Neither the Issuer nor the Trustee shall be required to take proceedings to enforce payment under the Trust Deed or the Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction.

## **2 Form, Denomination, Register, Title and Transfers**

- 2.1 Form and denomination:** The Notes are in registered form in the denominations of U.S.\$100,000 or higher integral multiples of U.S.\$1,000 (each an “**Authorised Holding**”) without interest coupons.
- 2.2 Register:** The Registrar will maintain a register (the “**Register**”) in respect of the Notes in accordance with the provisions of the Agency Agreement with a copy to be kept with the Issuer and updated from time to time. In these Conditions the “holder” or “Noteholder” means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “Noteholder” shall be construed accordingly. A certificate (each a “**Certificate**”) will be issued to each Noteholder in respect of its registered holding. Each Certificate will be serially numbered with an identifying number which will be recorded in the Register. The Issuer will also maintain a register (the “**Issuer's Register**”) at its registered office. Under the terms of the Agency Agreement, the Registrar will provide to the Issuer such information about the changes in the Register as shall enable the Issuer to maintain the Issuer's Register up-to-date. In case of inconsistency between the Register and the Issuer's Register, the Issuer's Register shall prevail.
- 2.3 Title:** The holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Certificate) and no person shall be liable for so treating such holder.
- 2.4 Transfer:** Subject to paragraphs 2.7 and 2.8 below, a Note may be transferred upon surrender of the relevant Certificate, with the endorsed form of transfer duly completed, at the specified office of the Registrar or Transfer Agent, together with such evidence as the Registrar or the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer provided, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Holdings. Where not all the Notes represented by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Notes will be issued to the transferor.
- 2.5 Registration and delivery of Certificates:** Within five business days of the surrender of a Certificate in accordance with paragraph 2.4 above, the Registrar will register the transfer in question and deliver a new Certificate of a like principal amount to the Notes transferred to each relevant holder for collection at its specified office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, “business day” means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar or the relevant Transfer Agent has its specified office.
- 2.6 No charge:** The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or the relevant Transfer Agent but against such indemnity as the Registrar or (as the case may be) the Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.



- 2.7 Closed Periods:** The Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.
- 2.8 Regulations concerning transfers and registration:** All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

### **3 Restrictive Covenants**

- 3.1** As provided in the Trust Deed, so 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 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 Trustee from time to time with respect to the the Loan Agreement, except as otherwise expressly provided in the Trust Deed. 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.
- 3.2** Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not, *inter alia*, purchase any Notes, incur any other indebtedness for borrowed moneys, engage in any other business (other than acquiring and holding the Security Interests in respect of the Notes or holding the security interests in respect of the U.S.\$150,000,000 9.125 per cent. loan participation notes due 2008 issued by the Issuer on 3 February 2005 (the “**February Notes**”), making a deposit with J.P. Morgan Bank Luxembourg S.A pursuant to the deposit agreement in connection with the February Notes and performing any act incidental to or necessary in connection with the foregoing), declare any dividends, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person (otherwise than as contemplated in these conditions and the Trust Deed), issue any shares, give any guarantee or assume any other liability, or, subject to the laws of Luxembourg, petition for any winding-up or bankruptcy.

### **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 Loan Agreement, which interest under the Loan Agreement is equal to 8.625 per cent. per annum as set out in Clause 4.1 of 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 (subject to receipt as aforesaid).

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 June and 30 December of each year, commencing on 30 December 2005.

### **5 Redemption and Purchase**

Unless previously prepaid or repaid, Home Credit will be required to repay the Loan on 29 June 2008 and, subject to such repayment, as set forth in the Loan Agreement, all the Notes then remaining outstanding will, on 30 June 2008, be redeemed or repaid by the Issuer at 100 per cent. of the principal amount thereof.

If the Loan should become repayable (and be repaid) pursuant to the terms and conditions of the Loan Agreement but otherwise than by reason of an Event of Default (as defined in the Loan



Agreement), prior to 30 June 2008, as set forth in the terms and conditions of the Loan Agreement, 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 Loan being repaid together with accrued interest) and the Issuer will endeavour to give not less than eight days' notice thereof to the Trustee and the Noteholders.

The Loan Agreement provides that Home Credit 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 Home Credit or such Subsidiary, surrendered by Home Credit or such Subsidiary, as the case may be, to the Issuer for cancellation, whereupon the Issuer shall instruct the Registrar to cancel such Notes. Upon such cancellation by or on behalf of the Registrar, the Loan shall be deemed to have been prepaid by Home Credit 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 upon redemption will be made against presentation and surrender (or, in the case of a partial payment, endorsement) of the relevant Certificates 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 (other than interest due on redemption) shall be made by U.S. dollar cheque drawn on, or upon application by a holder of a Note to the specified office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the specified office of any Paying Agent.

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

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.

Each payment in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar's specified office) on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the holder in the Register at the opening of business on the relevant Record Date.

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, Registrar, Transfer 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 official list of the Financial Services Authority (the "**UKLA**") in its capacity as competent authority under the Financial Services and Markets Act 2000 and admitted to trading on the London Stock Exchange's market for listed securities (the "**Stock Exchange**"), there will be a paying agent with a specified office in London 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 Loan Agreement.

Save as directed by the Trustee pursuant to the Trust Deed, the Issuer will require Home Credit to make all payments of principal and interest to be made pursuant to the Loan Agreement 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 its 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 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 (or, in the event of a Relevant Event, the jurisdiction where the Trustee is domiciled for tax purposes), 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 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 that and only at such time as the Issuer receives an equivalent payment from Home Credit under the Loan Agreement. To the extent that the Issuer receives any such equivalent payment from Home Credit, 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 Loan Agreement 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 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 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 European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- 7.4** in respect of a Note presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another paying agent in a Member State of the European Union.

As used herein, “**Relevant Date**” (i) means the date on which any payment under the terms and conditions of the Loan Agreement first becomes due but (ii) if the full amount payable by Home Credit has not been received by, or for the account of, the Issuer pursuant to the terms and conditions of 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 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 a Relevant Event (as defined in the Trust Deed), 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 declare all amounts payable under the Loan Agreement by Home Credit 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 a 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, in respect of any vote by poll, be entitled to one vote per U.S.\$100,000 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 Loan Agreement. 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 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, or by Home Credit of the terms and conditions 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 Trustee (which 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 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 Loan Agreement being charged and assigned, respectively, to, and to the satisfaction of, 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.

The Trust Deed contains provision for the appointment or removal of a Trustee by a meeting of Noteholders passing an extraordinary resolution, provided that (a) in the case of the removal of a Trustee, at all times there remains a trustee in office in respect of the Notes and a trustee in respect of the February Notes (the “**Original Trustee**” which includes any successor), (b) the same person shall at all times be the Trustee under the Trust Deed and the Original Trustee (as defined in the Trust Deed) unless the Original Trustee agrees otherwise and (c) no person may be appointed to be Trustee unless he has agreed with the Original Trustee (or each of them if more than one) for the benefit of the holders of the February Notes that he will not take any action or bring any proceedings to challenge the validity, enforceability or effectiveness of (i) the February Notes or the trust deed(s) constituting them insofar as the same relate to the security created for the February Notes and releases all or any rights it may have to do so, or (ii) the provisions of the Notes and the Trust Deed which limit the rights of the Trustee and the Noteholders to receive payment of any amount only to

the extent that such amounts are received from Home Credit pursuant to the Loan Agreement. The Trustee has agreed in the Trust Deed, for the benefit of the Original Trustee, similar restrictions. Any appointment or removal of a Trustee shall be notified to the Noteholders in accordance with Condition 13. The Trustee may also resign such appointment giving not less than three months' notice to the Noteholders provided that such resignation shall not become effective unless there remains a Trustee in office after such resignation.

#### **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 and provisions entitling it to be paid costs and expenses in priority to the claims of the Noteholders.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan 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 Home Credit in respect of the Loan Agreement. The Trustee is entitled to assume that Home Credit is performing all of its obligations pursuant to 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 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 Certificates**

If a Certificate shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and requirements of the Stock Exchange, be replaced at the specified office of the Registrar in London 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 Certificates 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*) 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.

#### **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 ("**Further Notes**"). Such Further Notes shall be issued under a deed supplemental to the Trust Deed. In relation to any issue of Further Notes (i) the Issuer will enter into a loan agreement with Home Credit on substantially the same terms as the Loan Agreement (or on the same terms except for the first payment of interest) subject to any modifications which, in the sole opinion of the Trustee, would not materially prejudice the interests of the Noteholders, (ii) the Issuer shall inform Moody's Investor Services Inc. of the issue of the Further Notes and (iii) the Security Interests granted in respect of the Notes will be amended or supplemented so as to secure amounts due in respect of such Further Notes also and/or the Issuer will provide a further fixed charge in favour of the Trustee in respect of certain rights and interests under the Loan Agreement or any further loan agreement and will assign absolutely certain of its rights and interests under the Loan Agreement or any further loan agreement and any loan assignment to secure amounts due on the Notes and such Further Notes.

## **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.

### **PRINCIPAL PAYMENT AGENT AND TRANSFER AGENT**

JPMORGAN CHASE BANK, N.A.  
Trinity Tower  
9 Thomas More Street  
London E1W 1YT United Kingdom

### **PAYING AGENT, REGISTRAR AND TRANSFER AGENT**

J.P. MORGAN BANK LUXEMBOURG S.A.  
6 route de Treves  
L-2633 Senningerberg  
Luxembourg

## 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 Certificate which will apply to, and in some cases modify, the Conditions of the Notes while the Notes are represented by the Global Certificate.*

The Notes will be represented by a Global Certificate which will be registered in the name of Chase Nominees Limited as nominee for, and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg.

Subject to receipt of funds from HCFB, the Global Certificate will become exchangeable in whole but not in part (free of charge to the holder), for Definitive Certificates if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reasons of legal holidays) or announces an intention permanently to cease business or (b) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 7 of the Terms and Conditions of the Notes which would not be suffered were the Notes in the form of Definitive Certificates.

Whenever the Global Certificate is to be exchanged for Definitive Certificates, such Definitive Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Certificate following delivery, by or on behalf of the registered holder of the Global Note Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as required to complete and deliver such Definitive Certificates (including, but without limitation to, the names and addresses of the persons in whose names the Definitive Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Certificate at the Specified Office (as defined in the Agency Agreement) of the Registrar or the Transfer Agent. Such exchange will be effected in accordance with the provisions of the Agency Agreement, the Trust Deed and the Global Certificate.

In addition, the Global Certificate will contain a provision which modifies the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Certificate. The following is a summary of this provision:

*Notices:* Notwithstanding Condition 13 (*Notices*), so long as the Global Certificate is held by or on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an “**Alternative Clearing System**”), notices to Noteholders represented by the Global Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System.



## SUBSCRIPTION AND SALE

ING Bank N.V., London Branch, Merrill Lynch International and PPF Banka, a.s. (each a “**Manager**” and together, the “**Managers**”) have, pursuant to the terms and conditions set forth in a subscription agreement, dated 23 June 2005 (the “**Subscription Agreement**”), joint and severally agreed with the Issuer, subject to the satisfaction of certain conditions set forth therein, to subscribe and pay for the Notes at the issue price of 100 per cent. of the principal amount of the Notes. HCFB has agreed to pay certain commissions, fees, costs and expenses in connection with the Loan and the offering of the Notes and to reimburse the Managers, the Issuer, the Agents and the Trustee for certain of their expenses in connection with the offering of the Notes. The Managers are entitled to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to payment being made to the Issuer.

### United States

The Notes have not been and will not be registered under the Securities Act or the securities laws of any other jurisdiction. In the Subscription Agreement, each Manager has agreed that:

The Notes may not be offered or sold within the United States, except pursuant to an exemption from the registration requirements of the Securities Act or in transactions not subject to those registration requirements.

In addition, until 40 days after the commencement of the Offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act.

Terms used in this paragraph have the meanings given to them by Regulation S. The Notes are being offered and sold only outside of the United States in reliance on Regulation S.

### United Kingdom

Each Manager has represented and agreed that (i) it has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to admission of the Notes to listing in accordance with Part VI of the Financial Services and Markets Act 2000 (the “**FSMA**”) 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) or the FSMA, or (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 FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to 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.

### 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 to the public in or from 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 will not be available to the public.

### Italy

The offering of the Notes in Italy has not been registered with the *Commissione Nazionale per la Società e la Borsa* (“**CONSOB**”) pursuant to Italian securities legislation and, accordingly, (i) the Notes cannot be offered, sold or delivered in the Republic of Italy (“**Italy**”) nor may any copy of this Offering Circular or any other document relating to the Notes be distributed in 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 (the “**Financial Services Act**”), (ii) the Notes cannot be offered, sold and/or delivered, nor may any copy of this Offering Circular or any other document relating to the Notes be distributed, either in the primary or in the secondary market, to individuals in Italy and (iii) sales of the Notes in Italy shall only be:

(a) negotiated with “**Professional Investors**” (*operatori qualificati*) other than physical persons, as defined under Article 31, paragraph 2, of CONSOB Regulation No. 11522 of 1 July 1998 as amended (the “**CONSOB Regulation No. 11522**”);

(b) effected in compliance with Article 129 of the Legislative Decree No. 385 of 1 September 1993 (the “**Italian Banking Act**”) and the implementing instructions of the Bank of Italy, pursuant to which the issue or the offer of securities in Italy may need to be preceded and followed by an appropriate notice to be filed with the Bank of Italy depending, *inter alia*, on the aggregate value of the securities issued or offered in Italy and their characteristics;

(c) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Italian Banking Law, the Financial Services Act, CONSOB Regulation No. 11522 and all the other relevant provisions of Italian law; and

(d) effected 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.

## **Russia**

Each Manager has agreed that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in Russia or to any person located within the territory of Russia unless and to the extent otherwise permitted under Russian law.

## **Federal Republic of Germany**

Each Manager has represented, warranted and undertaken to the Issuer and HCFB that the Notes have not been and will not be publicly offered in Germany and, accordingly, no securities sales prospectus (*Verkaufsprospekt*) for a public offering of the Notes in Germany in accordance with the German Securities Sales Prospectus Act of 9 September 1998, as amended (*Wertpapier-Verkaufsprospektgesetz*, the “**Prospectus Act**”) has been, or will be, published or circulated by the Issuer or HCFB in connection with the offering of the Notes in the Federal Republic of Germany. Each Manager has represented, warranted and agreed that it has offered and sold and will only offer and sell the Notes in accordance with the Prospectus Act.

## **Hong Kong**

Each Manager has represented, warranted and agreed to the Issuer and HCFB that (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b), or in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance and (ii) it has not issued or had in its possession for the purposes of the issue and will not issue or have in its possession for the purposes of issue whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance of Hong Kong and any rules made thereunder.

## **Philippines**

Each Manager has represented, warranted and undertaken to the Issuer and HCFB that (i) the Notes are not intended to be registered with the Philippine Securities and Exchange Commission under the Philippines’ Republic Act No. 8799 (the “**Securities Regulation Code**”), pursuant to which securities are not permitted to be sold or offered for sale or distribution within the Philippines, without a registration statement duly filed with, and approved by, the Philippine Securities and Exchange Commission unless such securities are exempt securities under Section 9 of the Securities Regulation Code or are sold in an exempt transaction under Section 10 of the Securities Regulation Code and that (ii) accordingly, each Manager may offer the Notes in the Philippines under an exempt transaction pursuant to Section 10.1(L) of the Securities Regulation Code.

## **Singapore**

Each Manager has represented, warranted and undertaken to the Issuer and HCFB that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager has represented, warranted and undertaken to the Issuer and HCFB that it has not circulated or distributed nor will it circulate or distribute this Offering Circular and any other document or material in connection with the offer or sale or invitation for subscription or purchase, of any Notes, nor has it offered or sold or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “**Securities and Futures Act**”), (ii) to a sophisticated investor and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the Securities and Futures Act.

## **Switzerland**

Each Manager has represented, warranted and undertaken to the Issuer and HCFB that the Notes will not be offered, directly or indirectly, to the public in Switzerland and that this Offering Circular does not constitute a public offering prospectus as that term is understood pursuant to article 652a or art. 1156 of the Swiss Federal Code of Obligations. The Issuer has not applied for a listing of the Notes pursuant to this Offering Circular on the SWX Swiss Exchange or any other regulated securities market in Switzerland, and consequently, the information presented in this Offering Circular does not necessarily comply with the information standards set out in the listing rules of the SWX Swiss Exchange.

## **General**

No action has or will be taken in any jurisdiction by the Issuer, HCFB or any Manager 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. Persons into whose hands this Offering Circular comes are required by the Issuer, HCFB and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

## TAXATION

*The following is a general description of certain Russian and Luxembourg tax considerations relating to the Notes and the Loan. It does not purport to be a complete analysis of all tax considerations relating to the Notes whether in those countries or elsewhere. Prospective purchasers of Notes should consult their tax advisers as to the consequences of a purchase of Notes, including but not limited to the consequences of receipt of interest and of a sale or redemption of the Notes. This summary is based upon the law in effect on the date of this document and is subject to any change in law that may take effect after such date.*

### Russian Taxation

#### *Taxation of the Notes*

##### *General*

The following is a summary of certain Russian tax considerations relevant to the 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 and the interpretations thereof by the Federal Tax Service (and its predecessor, the Russian Ministry of Taxes and Levies) as in effect on the date of this Offering Circular and is subject to changes that may come into effect after that date. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal authorities of Russia. Nor does the summary seek to address the availability of double tax treaty relief in respect of the Notes, and it should be noted that there may be practical difficulties, including satisfying certain documentation requirements, involved in claiming double tax treaty relief. Prospective investors should consult their own advisers regarding the tax consequences of investing in the Notes. No representations with respect to the Russian tax consequences to any particular holder are made hereby.

Many aspects of Russian tax law are subject to significant uncertainties. Further, the substantive provisions of the 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 Noteholder** means an individual present in Russia for an aggregate period of less than 183 days in a given calendar year (excluding days of arrival in Russia, but including days of departure from Russia) or a legal entity or organisation in each case not organised under Russian law that holds and disposes of the Notes otherwise than through a permanent establishment in Russia.

The Russian tax treatment of interest payments made by HCFB to the Issuer under the Loan Agreement may affect the holders of the Notes. See “*Taxation of Interest on the Loan*” below.

##### *Non-Resident Holders*

A non-resident Noteholder of a Note should not be subject to any Russian taxes on receipt from the Issuer of amounts payable in respect of principal, premium or interest on the Notes, subject to what is stated in “*Taxation of Interest on the Loan*”.

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

In the event that proceeds from a sale, redemption or disposal of Notes are received from a source within Russia, a non-resident holder that is a legal entity or organisation should not be subject to Russian tax in respect of such proceeds, provided that no portion thereof is attributable to accrued interest. Any portion of such sales proceeds attributable to accrued interest may be subject to Russian withholding tax on income at the rate of 20 per cent., subject to any available double tax treaty relief, even if the disposal itself results in a capital loss. Non-resident Noteholders that are legal entities and organizations should consult their own tax advisers with respect to this possibility.

If proceeds from a disposal of the Notes are received from a source within Russia, a nonresident Noteholder who is an individual will generally be subject to tax at a rate of 30 per cent., subject to any

available double tax treaty relief, in respect of gross proceeds from such disposal less any available cost deduction (which includes the purchase price of the Notes) and in respect of interest income. In this regard, if the Notes are disposed of in Russia, for Russian personal income tax purposes, the proceeds of such disposition are likely to be regarded as income received from a Russian source. The tax may be withheld at source of payment or, if the tax is not withheld, then the non-resident Noteholder who is an individual may be liable to pay the tax. Non-resident holders who are individuals should consult their own tax advisers with respect to the tax consequences of the receipt of proceeds from a source within Russia in respect of a disposition of the Notes.

There is a risk that the taxable base may be affected by changes in the exchange rates between the currency of acquisition of the Notes, the currency of sale of the Notes and Roubles.

Where proceeds from the disposition of the Notes are received from a Russian source, in order for the non-resident holder, whether an individual, legal entity or organisation, to enjoy the benefits of an applicable double tax treaty, documentary evidence is required to confirm the applicability of the double tax treaty for which benefits are claimed. Currently, a non-resident holder would need to provide to the payer a certificate of tax residence issued by the competent tax authority of the relevant treaty country. In addition, an individual must provide appropriate documentary proof of tax payments outside of Russia on income with respect to which treaty benefits are claimed. Because of uncertainties regarding the form and procedures for providing such documentary proof, individuals in practice may not be able to obtain an advance relief on receipt of proceeds from a source within Russia.

#### *Resident Holders*

A Noteholder who is an individual resident in Russia or a legal person who is not a nonresident in Russia is subject to all applicable Russian taxes in respect of gains from a disposition of the Notes and interest received on the Notes.

#### *Taxation of Interest on the Loan*

In general, payments of interest on borrowed funds by a Russian entity to a non-resident 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 the professional advice it has received, HCFB believes that payments of interest on the Loan should not be subject to withholding taxes under the terms of the double taxation treaty between Russia and the Grand Duchy of Luxembourg. However, there can be no assurance that prospective investors will obtain such relief under the treaty. In addition if, as a result of the enforcement by the Trustee of the security granted to it by the Issuer by way of security interest in the Trust Deed, interest under the Loan becomes payable to the Trustee, the benefit of the double tax treaty between Russia and Luxembourg may cease and payment of interest may be subject to Russian withholding tax.

If the payments under the Loan Agreement are subject to any withholding taxes (as a result of which the Issuer would reduce payments under the Notes in the amount of such withholding taxes), HCFB is obliged to pay such additional amounts as may be necessary so that the net payments received by the Issuer will not be less than the amount it would have received in the absence of such withholding taxes. It should be noted, however, that gross-up provisions in contracts may not be enforceable under Russian law. In the event that HCFB fails to pay such additional amounts where it is obliged to do so, such failure would constitute an Event of Default under the Loan Agreement. If HCFB is obliged to pay additional amounts, it may prepay the Loan in full. In such case, all outstanding Notes would be redeemable at par with accrued interest.

Russian VAT is not applied to the rendering of financial services involving the provision of a loan in monetary form. Therefore, no VAT will be payable in Russia on any payment of interest or principal in respect of the Loan.

#### **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*

All payments of interest and principal by the Issuer under the Notes can be made free and clear of any withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein, in accordance with applicable Luxembourg law (see, however paragraph “EU Savings Directive on the Taxation of Income in the form of Interest Payments (Directive 2003/48/EEC)” below, which may be applicable in the event of the Issuer appointing a Paying Agent in Luxembourg);

### *Taxes on Income and Capital Gains*

A holder of a Note who derives income from such Note or who realises a gain on the disposal or redemption thereof will not be subject to Luxembourg taxation on such income or capital gains unless:

- (i) such holder is, or is deemed to be, resident in Luxembourg for Luxembourg tax purposes (or for the purposes of the relevant provisions); or
- (ii) such income or gain is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg; or
- (iii) such income or gain is attributable to a fixed base of business in Luxembourg.

### *Net Wealth Tax*

Luxembourg net wealth tax will not be levied on a holder of a Note unless:

- (i) such holder is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or
- (ii) such Note is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg; or
- (iii) such Note is attributable to a fixed base of business in Luxembourg.

### *Inheritance and Gift Tax*

Where the Notes are transferred for no consideration, note in particular:

- (i) no Luxembourg inheritance tax is levied on the transfer of the Notes upon death of a holder of a Note in cases where the deceased holder was not a resident of Luxembourg for inheritance tax purposes.
- (ii) Luxembourg gift tax will be levied in the event that the gift is made pursuant to a notarial deed signed before a Luxembourg notary.

### *Value Added Tax*

There is no Luxembourg value-added tax payable in respect of payments in consideration for the issue of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of a Note; provided that 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 value added tax does not apply with respect to such services.

### *Other Taxes and Duties*

It is not compulsory that the Notes be filed, recorded or enrolled with any court or other authority in Luxembourg or that registration tax, transfer tax, capital tax, stamp duty or any other similar tax or duty (other than court fees and contributions for the registration with the Chamber of Commerce) be paid in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including any foreign judgment in the courts of Luxembourg) of the Notes in accordance therewith. However, ad valorem registration duties may be due on the Notes where ownership of the Notes is voluntarily registered, or where registration is ordered following (i) notarisation of the Notes; (ii) reference to the Notes in a public deed; or (iii) production of or reference to the Notes in judicial proceedings in Luxembourg or before any other Luxembourg official authority (*autorité constituée*).

### *Residence*

A holder of a Note will not become resident, or deemed to be resident, in Luxembourg by reason only of the holding of such Note or the execution, performance, delivery and/or enforcement of that or any other Note.



**EU Savings Directive on the Taxation of Income in the form of Interest Payments (Directive 2003/48/EEC)**

On June 3, 2003, the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. The directive has been scheduled to be applied by Member States beginning July 1, 2005, provided that certain non-EU countries adopt similar measures as of the same date. Under the directive, each Member State will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State. For a transitional period, however, Austria, Belgium and Luxembourg will be permitted to apply an optional information reporting system whereby if a beneficial owner does not comply with one of two procedures for information reporting, the Member State will levy a withholding tax on payments to such beneficial owner, at rates rising over the course of the transitional period to 35 per cent. The transitional period is to commence on the date from which the directive is to be applied by Member States and to terminate at the end of the first fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

## GENERAL INFORMATION

1. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg with a Common Code of 022187872. The International Securities Identification Number for the Notes is XS0221878720.
2. The listing of the Notes on the Official List will be expressed as a percentage of their principal amount (exclusive of accrued interest). It is expected that the listing of the Notes on the Official List and admission of the Notes to trading on the London Stock Exchange's market for listed securities will be granted on or before 27 June 2005 subject to the issue of the Notes. Prior to the official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlements in U.S. dollars and for delivery on the third business day after the day of the transaction.
3. The Loan Agreement and the other documents to be entered into by HCFB in relation to the issue of the Notes have been approved and authorised by a resolution at a meeting of the Management Board of HCFB dated 6 June 2005. The Subscription Agreement has been also approved and authorised by a resolution at a meeting of the General Participants' Meeting of HCFB dated 17 June 2005.
4. The Loan Agreement and the other documents to be entered into by the Issuer in relation to the issue of the Notes have been approved and authorised by a resolution at a meeting of the Board of Directors of the Issuer dated 17 June 2005.
5. Other than as disclosed elsewhere in this Offering Circular, since 31 March 2005 there has been no significant change in the financial or trading position of HCFB and its subsidiaries and no material adverse change in the financial position or prospects of HCFB and its subsidiaries since 31 December 2004.
6. Other than as disclosed elsewhere in this Offering Circular, since the date of incorporation of the Issuer on 26 November 2004, there has been no significant change in the financial or trading position of the Issuer and no material adverse change in the financial position or prospects of the Issuer since 26 November 2004.
7. HCFB 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. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the Loan Agreement and the other documents to be entered into by the Issuer in connection with the issue of the Notes.
9. 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.
10. 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 HCFB, 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.
11. The Trust Deed provides, *inter alia*, that the Trustee may act and/or rely on the opinion or advice of or a certificate of 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.
12. The consolidated interim balance sheet and consolidated interim statements of income and cash flows of HCFB as of and for the three months ended 31 March 2005 and 2004 were reviewed (but not audited) and the consolidated balance sheet and consolidated statements of income, cash flows and changes in equity of HCFB as of and for the years ended 31 December 2004 and 2003 were audited by KPMG. The business address of KPMG is 11, Gogolevsky Boulevard, Moscow 121019, Russian Federation. KPMG have given and not withdrawn their consent to the issue of this Offering Circular and inclusion in it of their review report and audit report in the form and context in which they are included and have authorised the contents of those parts of the listing particulars for the purposes of Regulation 6(1)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities Regulations) 2001.
13. The financial statements of the Issuer for the year ended 31 December 2004 were approved by the Issuer's shareholders at the annual shareholders' meeting held on 1 June 2005. The Issuer's financial statements for the year ended 31 December 2004 are expected to be filed with the Luxembourg Register of Commerce and Companies by the end of June 2005. After the filing of the financial statements a notice will be published in the Mémorial C Recueil des Sociétés et Associations indicating that the financial statements have been filed with the Luxembourg Register of Commerce and Companies.

14. Copies (and certified English translations where the documents at issue are not in English) of the following documents may be inspected at the offices of the Principal Paying Agent in London during usual business hours on any weekday (Saturdays and public holidays excepted) for 14 days from the date of this Offering Circular:
- (a) a copy of this Offering Circular, together with any supplement to this Offering Circular;
  - (b) the articles of association of the Issuer;
  - (c) the articles of association of HCFB;
  - (d) the audited consolidated financial statements of HCFB in respect of the three months ended 31 March 2005 and 2004 and the financial years ended 31 December 2004 and 2003;
  - (e) the unaudited financial statements of the Issuer for the year ended 31 December 2004.
  - (f) the Subscription Agreement;
  - (g) the Loan Agreement;
  - (h) the Agency Agreement; and
  - (i) The Trust Deed, which includes the forms of the Global Certificate and the Definitive Certificates.
15. J.P.Morgan Bank Luxembourg S.A. will act as Registrar in relation to the Notes. A register of the Notes shall also be kept at the registered office of the Issuer. In case of inconsistency between the register kept by the Registrar and the one kept by the Issuer at its registered office, register kept by the Issuer at its registered office shall prevail.

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# **Home Credit and Finance Bank**

**Consolidated Interim Financial Statements  
for the three month period ended 31 March 2005**



**KPMG Limited**  
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Moscow 119019  
Russia

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### **Independent Accountant's Review**

To the Owners of

OOO "Home Credit and Finance Bank"

We have reviewed the accompanying interim consolidated balance sheet of OOO "Home Credit and Finance Bank" and its subsidiaries (the "Group") as of 31 March 2005 and the related interim statements of income and cash flows for the three month period then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the International Standard on Auditing applicable to review engagements as issued by the International Federation of Accountants. This standard requires that we plan and perform the review to obtain moderate assurance about whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company 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.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements are not presented fairly, in all material respects, in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

KPMG Limited  
25 May 2005



**Home Credit and Finance Bank**  
*Consolidated Interim Income Statement*  
*for the three month period ended 31 March 2005*

	<u>Note</u>	<b>3 months ended 31 Mar 2005 TRUB</b>	<b>3 months ended 31 Mar 2004 TRUB</b>
Interest income .....	4	1,856,972	631,220
Interest expense .....	4	<u>(513,350)</u>	<u>(179,963)</u>
<b>Net interest income</b> .....		<b>1,343,622</b>	<b>451,257</b>
Fee and commission income .....	5	348,968	165,522
Fee and commission expense .....	6	<u>(11,763)</u>	<u>(356)</u>
<b>Net fee and commission income</b> .....		<b>337,205</b>	<b>165,166</b>
Other operating (expense)/income .....	7	<u>(33,496)</u>	<u>12,077</u>
<b>Operating income</b> .....		<b>1,647,331</b>	<b>628,500</b>
Impairment losses .....	8	(753,793)	(211,574)
General administrative expenses .....	9	<u>(582,259)</u>	<u>(297,340)</u>
<b>Operating expenses</b> .....		<b>(1,336,052)</b>	<b>(508,914)</b>
<b>Profit before tax</b> .....		<b>311,279</b>	<b>119,586</b>
Income tax expense .....	10	<u>(77,580)</u>	<u>(12,928)</u>
<b>Net profit attributable to participants</b> .....		<b><u>233,699</u></b>	<b><u>106,658</u></b>

The interim consolidated financial statements as set out on pages F-4 to F-15 were approved by the Board of Management on 25 May 2005.

Chairman of the Management Board

Chief Accountant

Lykov A.V.

Gordeeva T.V.

**Home Credit and Finance Bank**  
*Consolidated Interim Balance Sheet*  
*as at 31 March 2005*

	<u>Note</u>	<u>31 Mar 2005</u> <b>TRUB</b>	<u>31 Dec 2004</u> <b>TRUB</b>
<b>ASSETS</b>			
Cash .....		12,165	6,444
Due from the Central Bank of the Russian Federation .....	11	580,061	3,403,010
Placements with banks and other financial institutions .....	12	3,347,582	3,520,103
Loans to customers .....	13	21,198,506	18,371,076
Financial assets at fair value through profit or loss .....	14	141,402	54,340
Property, equipment and intangible assets .....	15	363,680	326,802
Income tax receivable .....		33,192	8,945
Other assets .....	16	<u>104,683</u>	<u>137,933</u>
<b>Total assets .....</b>		<b><u>25,781,271</u></b>	<b><u>25,828,653</u></b>
<b>LIABILITIES</b>			
Due to banks and other financial institutions .....	17	(14,515,997)	(19,130,262)
Debt securities issued .....	18	(5,725,814)	(1,533,658)
Current accounts and deposits from customers .....	19	(2,205,011)	(1,977,215)
Financial liabilities at fair value through profit or loss .....	20	(94,890)	(252,666)
Deferred tax liability .....		(97,542)	(29,127)
Other liabilities .....	21	<u>(140,115)</u>	<u>(137,522)</u>
<b>Net assets attributable to participants .....</b>	<b>22</b>	<b><u>3,001,902</u></b>	<b><u>2,768,203</u></b>

# Home Credit and Finance Bank

## Consolidated Interim Statement of Cash Flows for the three month period ended 31 March 2005

	<u>Note</u>	<u>3 months ended 31 Mar 2005 TRUB</u>	<u>3 months ended 31 Mar 2005 TRUB</u>
<b>Operating activities</b>			
Profit before tax .....		311,279	119,586
Adjustments for:			
Impairment losses .....	8	753,793	211,574
Net unrealised foreign exchange gain .....		(199,966)	(214,450)
Net accrued interest (income)/expense .....		(62,143)	84,716
Net accrued fee expenses .....		1,530	—
Depreciation and amortisation .....	9	20,902	8,521
Loss/(gain) on disposal of property, equipment and intangible assets .....		484	(33)
Loss/(gain) on disposal of investments .....		102	(255)
Net accrued general administrative expenses .....		(372)	47,325
<b>Net operating cash flow before changes in working capital .....</b>		<b>825,609</b>	<b>56,984</b>
Increase in loans to customers .....		(3,303,640)	(1,637,949)
Decrease in placements with financial institutions (other than cash equivalents) .....		167,116	5,072
Increase in financial assets at fair value through profit or loss ...		(50,017)	—
Decrease/(increase) in other assets .....		30,609	(34,143)
(Decrease)/increase in deposits from banks and other financial institutions .....		(4,780,824)	600,912
Increase in current accounts and deposits from customers .....		228,166	67,900
Increase in debt securities issued .....		4,162,637	—
(Decrease)/increase in other liabilities .....		(6,696)	447
<b>Cash flows used in operations .....</b>		<b>(2,727,040)</b>	<b>(740,777)</b>
Income taxes paid .....		(33,411)	—
<b>Cash flows used in operating activities .....</b>		<b>(2,760,451)</b>	<b>(740,777)</b>
<b>Investing activities</b>			
Proceeds from sale of property and equipment .....		50	—
Acquisition of property, equipment and intangible assets .....		(58,314)	(28,684)
<b>Cash flows used in investing activities .....</b>		<b>(58,264)</b>	<b>(28,684)</b>
<b>Financing activities</b>			
Proceeds from the issue of charter capital and other capital contributions .....		—	1,178,000
<b>Cash flows from financing activities .....</b>		<b>—</b>	<b>1,178,000</b>
Net (decrease)/increase in cash and cash equivalents .....		(2,818,715)	408,539
Cash and cash equivalents at 1 January .....		6,385,249	2,252,752
Foreign exchange effect on cash and cash equivalents .....		(1,410)	(29,717)
<b>Cash and cash equivalents at 31 March 26 .....</b>		<b>3,565,124</b>	<b>2,631,574</b>

## Home Credit and Finance Bank

### *Notes to the Consolidated Interim Financial Statements for the three month period ended 31 March 2005*

#### 1. Description of the Group

Home Credit and Finance Bank (the “Bank”) was established in the Russian Federation as a Limited Liability Company and was granted its general banking license in 1990.

##### **Registered office**

317A Zelenograd  
Moscow 124482  
Russian Federation

<u>Participants</u>	<u>Country of incorporation</u>	<u>Ownership interest (%)</u>	
		<u>31 Mar 2005</u>	<u>31 Dec 2004</u>
Home Credit Finance a.s.	Czech Republic	99.80	99.80
Chvatal Ladislav	—	0.20	0.20

On 18 April 2005, Home Credit Finance a.s. transferred its 99.8% share in the Bank to Home Credit B.V., a related company registered in the Netherlands. The transfer has not yet been registered by the Central Bank of the Russian Federation.

<u>Consolidated subsidiaries</u>	<u>Country of incorporation</u>	<u>Ownership interest (%)</u>	
		<u>31 Mar 2005</u>	<u>31 Dec 2004</u>
Infobos (LLC)	Russian Federation	100.00	70.00
Liko-Technopolis (LLC)	Russian Federation	100.00	95.00
Financial Innovations (LLC)	Russian Federation	100.00	100.00
Eurasia Capital S.A.	Luxemburg	0.00	—

Eurasia Capital S.A. is a special purpose entity established to facilitate the Group’s issues of debt securities (refer to note 18). The entity is not owned by the Group and the control arises through the predetermination of the entity’s activities.

<u>Council</u>		<u>Board of Management</u>	
Stanek Stanislav	Chairman	Lykov Andrei	Chairman
Potac Robert	Deputy Chairman	Soukup Vaclav	First Deputy Chairman
Chvatal Ladislav	Member	Mosolov Dmitri	Deputy Chairman
Stika Zdenek	Member	Gordeeva Tatiana	Chief Accountant, Member
Milev Petr	Member	Stanek Stanislav	Deputy Chairman

##### **Principal activities**

The principal activity of the Bank and its subsidiaries (together referred to as the “Group”) is the provision of consumer financing to private individual customers in the Russian Federation. The activities of the Group are regulated by the Central Bank of the Russian Federation (“the CBR”).

#### 2. Basis of preparation

The consolidated interim financial statements follow, in the context of measurement, all requirements of International Financial Reporting Standards (IFRS), including International Accounting Standards (IAS), promulgated by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB. The disclosures in these consolidated interim financial statements have been presented in accordance with IAS 34 *Interim Financial Reporting*, and therefore should be interpreted in conjunction with the Group’s annual financial statements for the period ended 31 December 2004, as these consolidated interim financial statements provide an update of previously reported financial information.

#### 3. Significant accounting policies

Except as described below, the significant accounting policies applied in the preparation of the consolidated interim financial statements are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31 December 2004.

## Home Credit and Finance Bank

### *Notes to the Consolidated Interim Financial Statements for the three month period ended 31 March 2005*

**(a) Net assets attributable to participants**

According to relevant Russian legislation, a participant in the limited liability company may unilaterally withdraw from the company. In such case the company is obliged to pay the withdrawing participant's share of net assets of the company. As a result, charter capital, other capital contributions and retained earnings attributable to the participants in the Bank have been presented as a liability in order to comply with the revised *IAS 32 Financial Instruments: Disclosure and Presentation* (refer to note 22). Comparative information has been restated accordingly.

**(b) Financial assets at fair value through profit or loss**

Upon application of the revised *IAS 39 Financial Instruments: Recognition and Measurement*, the Group has designated financial assets, which were previously recognized as available-for-sale assets, as financial assets at fair value through profit or loss. In previous periods, gains and losses arising from a change in the fair value of available-for-sale instruments were recognised in profit and loss account. As a result, the designation of those assets as at fair value through profit or loss does not require restatement of financial results in the comparative information.

**4. Interest income and interest expense**

	<b>3 months ended 31 Mar 2005 TRUB</b>	<b>3 months ended 31 Mar 2004 TRUB</b>
<b>Interest income</b>		
Loans to individuals	1,830,665	624,693
Placements with banks and other financial institutions	25,333	5,324
Loans to corporations	830	1,028
Securities	144	175
	<u><b>1,856,972</b></u>	<u><b>631,220</b></u>
<b>Interest expense</b>		
Due to banks and other financial institutions	406,551	179,615
Debt securities	106,054	—
Current accounts and deposits from customers	745	348
	<u><b>513,350</b></u>	<u><b>179,963</b></u>

**5. Fee and commission income**

	<b>3 months ended 31 Mar 2005 TRUB</b>	<b>3 months ended 31 Mar 2004 TRUB</b>
Fees from retailers	330,861	139,197
Customer payments processing and account maintenance	14,417	24,960
Cash operations	3,578	1,307
Other	112	58
	<u><b>348,968</b></u>	<u><b>165,522</b></u>

# Home Credit and Finance Bank

## Notes to the Consolidated Interim Financial Statements for the three month period ended 31 March 2005

### 6. Fee and commission expense

	3 months ended 31 Mar 2005 TRUB	3 months ended 31 Mar 2004 TRUB
Payments processing and account maintenance	7,688	330
Fees to retailers	3,987	—
Other	88	26
	<u>11,763</u>	<u>356</u>

### 7. Other operating (expense)/income

	3 months ended 31 Mar 2005 TRUB	3 months ended 31 Mar 2004 TRUB
Net foreign exchange (loss)/gain	(51,679)	11,076
Contractual penalties from customers	16,237	128
Other	1,946	873
	<u>(33,496)</u>	<u>12,077</u>

### 8. Impairment losses

	3 months ended 31 Mar 2005 TRUB	3 months ended 31 Mar 2004 TRUB
Loans to customers	751,155	212,565
Other assets	2,638	(991)
	<u>753,793</u>	<u>211,574</u>

### 9. General administrative expenses

	3 months ended 31 Mar 2005 TRUB	3 months ended 31 Mar 2004 TRUB
Employee compensation	169,976	106,040
Communications and information services	149,165	45,791
Taxes other than income tax	51,602	16,686
Payroll related taxes	37,143	29,715
Advertising and marketing	36,165	24,376
Office supplies	28,024	11,892
Occupancy	27,752	14,241
Depreciation and amortisation	20,902	8,521
Professional services	16,194	16,716
Other	45,336	23,362
	<u>582,259</u>	<u>297,340</u>

### 10. Income tax expense

	3 months ended 31 Mar 2005 TRUB	3 months ended 31 Mar 2004 TRUB
Current tax expense	9,156	—
Deferred tax expense	68,424	12,928
	<u>77,580</u>	<u>12,928</u>



## Home Credit and Finance Bank

*Notes to the Consolidated Interim Financial Statements  
for the three month period ended 31 March 2005*

### 11. Due from the Central Bank of the Russian Federation

	<b>31 Mar 2005</b>	<b>31 Dec 2004</b>
	<b>TRUB</b>	<b>TRUB</b>
Minimum reserve deposit	317,509	220,619
Nostro accounts	262,552	1,182,336
Term deposits	—	2,000,055
	<b><u>580,061</u></b>	<b><u>3,403,010</u></b>

The minimum reserve deposit is a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the CBR and whose withdrawability is restricted.

### 12. Placements with banks and other financial institutions

	<b>31 Mar 2005</b>	<b>31 Dec 2004</b>
	<b>TRUB</b>	<b>TRUB</b>
Nostro accounts	3,144,405	76,483
Loans and term deposits	203,177	3,443,620
	<b><u>3,347,582</u></b>	<b><u>3,520,103</u></b>

Advance payments of TRUB 129,113 (31 December 2004: TRUB 441,774) paid by the Group to counterparties in respect of foreign currency derivative contracts, as well as the balance of a margin account of TRUB 43,165 (31 December 2004: TRUB 7,092) held with Saint-Petersburg Currency Exchange in respect of foreign currency futures contracts are included in term deposits above. These balances are intended to secure the Group's future payments on these derivative contracts.

## Home Credit and Finance Bank

### *Notes to the Consolidated Interim Financial Statements for the three month period ended 31 March 2005*

#### 13. Loans to customers

	<b>31 Mar 2005</b>	<b>31 Dec 2004</b>
	<b>TRUB</b>	<b>TRUB</b>
Loans to individuals .....	23,100,733	19,507,669
Loans to corporations .....	30,686	45,165
Accumulated impairment losses .....	(1,932,913)	(1,181,758)
	<b><u>21,198,506</u></b>	<b><u>18,371,076</u></b>

Contractually overdue loans were as follows:

	<b>31 Mar 2005</b>	<b>31 Dec 2004</b>
	<b>TRUB</b>	<b>TRUB</b>
Gross contractually overdue loans .....	3,889,568	2,348,983
Accumulated impairment losses .....	(1,746,740)	(1,068,580)
Net contractually overdue loans .....	<b><u>2,142,828</u></b>	<b><u>1,280,403</u></b>

#### 14. Financial assets at fair value through profit or loss

	<b>Note</b>	<b>31 Mar 2005</b>	<b>31 Dec 2004</b>
		<b>TRUB</b>	<b>TRUB</b>
Positive fair value of derivative instruments .....	23	85,243	48,096
Debt securities .....		56,155	6,239
Equity securities .....		4	5
		<b><u>141,402</u></b>	<b><u>54,340</u></b>

#### 15. Property, equipment and intangible assets

##### (a) Intangible assets

	<b>31 Mar 2005</b>	<b>31 Dec 2004</b>
	<b>TRUB</b>	<b>TRUB</b>
Acquisition cost .....	34,432	23,970
Accumulated depreciation .....	(2,476)	(1,335)
Carrying amount .....	<b><u>31,956</u></b>	<b><u>22,635</u></b>

##### (b) Property and equipment

	<b>31 Mar 2005</b>	<b>31 Dec 2004</b>
	<b>TRUB</b>	<b>TRUB</b>
Acquisition cost .....	949,523	902,535
Accumulated depreciation .....	(617,799)	(598,368)
Carrying amount .....	331,724	304,167

## Home Credit and Finance Bank

### *Notes to the Consolidated Interim Financial Statements for the three month period ended 31 March 2005*

#### 16. Other assets

	<b>31 Mar 2005</b>	<b>31 Dec 2004</b>
	<b>TRUB</b>	<b>TRUB</b>
Prepaid expenses .....	44,849	63,892
Settlements with suppliers .....	41,012	9,061
Materials, supplies and other inventories .....	16,639	50,026
Other taxes receivable .....	5,008	11,534
Other .....	3,112	6,719
Accumulated impairment losses .....	(5,937)	(3,299)
	<b><u>104,683</u></b>	<b><u>137,933</u></b>

#### 17. Due to banks and other financial institutions

	<b>31 Mar 2005</b>	<b>31 Dec 2004</b>
	<b>TRUB</b>	<b>TRUB</b>
Unsecured loans .....	8,601,382	12,679,379
Subordinated loans .....	4,788,557	4,659,504
Term deposits .....	1,120,029	1,785,029
Other balances .....	6,029	6,350
	<b><u>14,515,997</u></b>	<b><u>19,130,262</u></b>

Unsecured loans and term deposits were provided by several domestic and foreign financial institutions including related parties. Subordinated loans include an amount of TRUB 3,000,000 (31 December 2004: TRUB 3,000,000) from related parties which are obliged to convert this amount into charter capital.

#### 18. Debt securities issued

	<b><u>Maturity</u></b>	<b><u>Interest rate</u></b>	<b>31 Mar 2005</b>	<b>31 Dec 2004</b>
			<b>TRUB</b>	<b>TRUB</b>
Unsecured RUB bond issue of TRUB 1,500,000 .....	October 2007	Floating	1,566,580	1,533
Loan participation notes issue of TUSD 150,000 .....	February 2008	Fixed	4,159,234	—
			<b><u>5,725,814</u></b>	<b><u>1,533,658</u></b>

The RUB bonds were issued by the Group in October 2004 with a fixed coupon rate valid for the subsequent twelve months. Coupon rates for the remaining period will be set by the Group on a semiannual basis starting October 2005. Bondholders are entitled to require early redemption of the bond issue at par on each coupon date starting from October 2005.

The USD loan participation notes were issued by the Group in February 2005 (through Eurasia Capital S.A., refer to note 1). The proceeds from the issue were deposited with a fiduciary bank which used the amount to grant an unsecured loan to the Bank.

## Home Credit and Finance Bank

### *Notes to the Consolidated Interim Financial Statements for the three month period ended 31 March 2005*

#### 19. Current accounts and deposits from customers

	31 Mar 2005 TRUB	31 Dec 2004 TRUB
Current accounts .....	2,145,259	1,867,699
Term deposits .....	54,259	107,267
Demand deposits .....	5,493	2,249
	<u>2,205,011</u>	<u>1,977,215</u>

#### 20. Financial liabilities at fair value through profit or loss

	Note	31 Mar 2005 TRUB	31 Dec 2004 TRUB
Negative fair value of derivative instruments .....	23	94,890	252,666
		<u>94,890</u>	<u>252,666</u>

#### 21. Other liabilities

	31 Mar 2005 TRUB	31 Dec 2004 TRUB
Settlements with suppliers .....	85,730	79,727
Accrued employee compensation .....	46,509	43,159
Other taxes payable .....	1,493	13,403
Other .....	6,383	1,233
	<u>140,115</u>	<u>137,522</u>

#### 22. Net assets attributable to participants

	Charter Capital TRUB	Other capital contributions TRUB	(Accumulated losses) / Retained Earnings TRUB	Total TRUB
Balance as of 31 December 2004 .....	405,707	2,444,336	(81,840)	2,768,203
Net profit for the interim period .....	—	—	233,699	233,699
<b>Balance as of 31 March 2005 .....</b>	<b><u>405,707</u></b>	<b><u>2,444,336</u></b>	<b><u>151,859</u></b>	<b><u>3,001,902</u></b>

#### 23. Derivative financial instruments

At 31 March 2005 the following derivative contracts were outstanding:

	Notional amount with remaining life of		Fair value	
	Less than 3 months TRUB	3 to 12 months TRUB	Assets TRUB	Liabilities TRUB
Foreign currency futures contracts .....	2,503,887	556,512	18,311	(10,421)
Foreign currency swap contracts .....	819,419	—	10,768	—
Foreign currency forward contracts .....	4,883,393	2,420,827	56,164	(84,469)
	<u>8,206,699</u>	<u>2,977,339</u>	<u>85,243</u>	<u>(94,890)</u>

## Home Credit and Finance Bank

### *Notes to the Consolidated Interim Financial Statements for the three month period ended 31 March 2005*

At 31 December 2004 the following derivative contracts were outstanding:

	Notional amount with remaining life of		Fair value	
	Less than 3 months TRUB	3 to 12 months TRUB	Assets TRUB	Liabilities TRUB
Foreign currency futures contracts .....	791,199	—	929	(15,218)
Foreign currency swap contracts .....	5,815,022	—	46,143	(70,855)
Foreign currency forward contracts .....	6,867,803	1,609,425	1,024	(166,593)
	<b>13,474,024</b>	<b>1,609,425</b>	<b>48,096</b>	<b>(252,666)</b>

## 24. Commitments

The Group has outstanding commitments to extend credit. These commitments take the form of approved consumer loans, approved credit limits related to customer's credit card accounts and approved overdraft facilities.

	31 Mar 2005 TRUB	31 Dec 2004 TRUB
Consumer loan commitments .....	508,682	2,267,095
Credit card commitments .....	193,795	53,687
Undrawn overdraft facilities .....	8,857	3,879
	<b>711,334</b>	<b>2,324,661</b>

The total outstanding contractual commitments to extend credit indicated above represents future cash requirements, though some of these commitments may expire or terminate without being funded.

## 25. Operating leases

The Group leases a number of premises and equipment under operating lease. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

Non-cancellable operating lease rentals are payable as follows:

	31 Mar 2005 TRUB	31 Dec 2004 TRUB
Less than one year .....	96,248	45,189
Between one and five years .....	5,944	6,145
	<b>102,192</b>	<b>51,334</b>

During the three month period ended 31 March 2005 TRUB 27,752 (three month period ended 31 March 2004: TRUB 14,241) was recognised as an expense in the income statement in respect of operating leases.

## Home Credit and Finance Bank

### *Notes to the Consolidated Interim Financial Statements for the three month period ended 31 March 2005*

#### 26. Cash and cash equivalents

Cash and cash equivalents at the end of the period consisted of the following items:

	<b>31 Mar 2005</b>	<b>31 Dec 2004</b>
	<b>TRUB</b>	<b>TRUB</b>
Cash .....	12,165	6,444
Nostro accounts with the Central Bank of Russian Federation .....	262,552	1,182,336
Term deposits with Central Bank of Russian Federation .....	—	2,000,055
Placements with financial institutions due within one month .....	3,290,407	3,196,414
	<b><u>3,565,124</u></b>	<b><u>6,385,249</u></b>

#### 27. Capital adequacy ratio

Capital adequacy has been calculated under the methodology set out by the BIS, using the definition of capital adopted by the CBR. Tier I capital is represented by the Group's net assets attributable to participants, Tier II capital is represented by subordinated loans, up to a limit of 50% of Tier I capital.

	<b>31 Mar 2005</b>	<b>31 Dec 2004</b>
	<b>TRUB</b>	<b>TRUB</b>
Risk weighted assets .....	22,454,825	19,904,614
Tier I capital .....	3,001,902	2,768,203
Tier II capital .....	1,500,951	1,384,102
<b>Total capital</b> .....	<b><u>4,502,853</u></b>	<b><u>4,152,305</u></b>
Tier I ratio .....	13.4%	13.9%
Capital Adequacy Ratio .....	20.1%	20.9%



# **Home Credit and Finance Bank**

**Consolidated Financial Statements  
for the year ended 31 December 2004**

**KPMG Limited**

11 Gogolevsky Boulevard  
Moscow 119019  
Russia

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Fax +7 (095) 937 4400/99  
[www.kpmg.ru](http://www.kpmg.ru)

## **Independent Auditor's Report**

To the Council of  
Home Credit and Finance Bank

We have audited the accompanying consolidated balance sheet of OOO "Home Credit & Finance Bank" and its subsidiaries (the "Group") as of 31 December 2004 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Limited  
23 March 2005

**Home Credit and Finance Bank**  
**Consolidated Income Statement**  
*for the year ended 31 December 2004*

	Note	2004 TRUB	2003 TRUB
Interest income	4	3,428,609	361,778
Interest expense	4	<u>(887,857)</u>	<u>(113,195)</u>
<b>Net interest income</b>		<b>2,540,752</b>	<b>248,583</b>
Fee and commission income	5	1,100,029	161,469
Fee and commission expense	6	<u>(25,163)</u>	<u>(783)</u>
<b>Net fee and commission income</b>		<b>1,074,866</b>	<b>160,686</b>
Other operating income/(expense)	7	<u>7,964</u>	<u>(65,616)</u>
<b>Operating income</b>		<b>3,623,582</b>	<b>343,653</b>
Impairment losses	8	(1,023,136)	(156,500)
General administrative expenses	9	<u>(2,007,872)</u>	<u>(504,713)</u>
<b>Operating expenses</b>		<b>(3,031,008)</b>	<b>(661,213)</b>
<b>Profit/(loss) before tax</b>		<b>592,574</b>	<b>(317,560)</b>
Income tax (expense)/benefit	10	<u>(185,476)</u>	<u>73,621</u>
<b>Net profit/(loss) for the period</b>		<b><u>407,098</u></b>	<b><u>(243,939)</u></b>

The consolidated financial statements as set out on pages F-19 to F-45 were approved by the Board of Management of the Bank on 23 March 2005.

Chairman of the Board



Lykov A.V.

Chief Accountant

A handwritten signature in blue ink, appearing to be "T.V. Gordeeva".

Gordeeva T.V.

*Home Credit and Finance Bank*  
*Consolidated Balance Sheet*  
*for the year ended 31 December 2004*

	Note	2004 TRUB	2003 TRUB
<b>ASSETS</b>			
Cash		6,444	4,915
Due from the Central Bank of the Russian Federation	11	3,403,010	1,313,041
Placements with banks and other financial institutions	12	3,520,103	1,336,095
Loans to customers	13	18,371,076	5,220,867
Available-for-sale assets	14	6,244	6,456
Property, equipment and intangible assets	15	326,802	153,271
Deferred tax asset	16	-	73,640
Other assets	17	194,974	65,092
<b>Total assets</b>		<b><u>25,828,653</u></b>	<b><u>8,173,377</u></b>
<b>LIABILITIES AND EQUITY</b>			
Due to banks and other financial institutions	18	19,130,262	6,737,022
Current accounts and deposits from customers	19	1,977,215	151,481
Debt securities issued	20	1,533,658	-
Deferred tax liability	16	29,127	-
Other liabilities	21	390,188	101,769
<b>Total liabilities</b>		<b><u>23,060,450</u></b>	<b><u>6,990,272</u></b>
<b>Equity</b>			
Charter capital	22	405,707	405,707
Other capital contributions	22	2,444,336	1,266,336
Accumulated losses		(81,840)	(488,938)
<b>Total equity</b>		<b><u>2,768,203</u></b>	<b><u>1,183,105</u></b>
<b>Total liabilities and equity</b>		<b><u>25,828,653</u></b>	<b><u>8,173,377</u></b>

**Home Credit and Finance Bank**  
*Consolidated Statement of Changes in Equity*  
*for the year ended 31 December 2004*

	<b>Charter capital TRUB</b>	<b>Other capital contributions TRUB</b>	<b>Accumulated losses TRUB</b>	<b>Total TRUB</b>
Balance as of 1 January 2003	332,707	164,336	(297,999)	199,044
Transfers	-	(53,000)	53,000	-
Contributions by owners	73,000	1,155,000	-	1,228,000
Net loss for the period	<u>-</u>	<u>-</u>	<u>(243,939)</u>	<u>(243,939)</u>
<b>Balance as of 31 December 2003</b>	<b><u>405,707</u></b>	<b><u>1,266,336</u></b>	<b><u>(488,938)</u></b>	<b><u>1,183,105</u></b>

	<b>Charter capital TRUB</b>	<b>Other capital contributions TRUB</b>	<b>Accumulated losses TRUB</b>	<b>Total TRUB</b>
Balance as of 1 January 2004	405,707	1,266,336	(488,938)	1,183,105
Contributions by owners	-	1,178,000	-	1,178,000
Net profit for the period	<u>-</u>	<u>-</u>	<u>407,098</u>	<u>407,098</u>
<b>Balance as of 31 December 2004</b>	<b><u>405,707</u></b>	<b><u>2,444,336</u></b>	<b><u>(81,840)</u></b>	<b><u>2,768,203</u></b>

**Home Credit and Finance Bank**  
*Consolidated Statement of Cash Flows*  
*for the year ended 31 December 2004*

	<b>Note</b>	<b>2004 TRUB</b>	<b>2003 TRUB</b>
<b>Operating activities</b>			
Profit/(loss) before tax		592,574	(317,560)
Adjustments for:			
Impairment losses	8	1,023,136	156,500
Net unrealised foreign exchange loss		454,726	78,855
Net accrued interest (income)/expense		(384,770)	28,728
Net accrued fee income		(11,740)	-
Depreciation and amortisation	9	55,006	12,516
(Gain)/loss on disposal of property, equipment and intangible assets		(38)	4,459
Gain on disposal of investments		(26)	(116)
Accrued general administrative expenses		137,057	13,427
<b>Net operating cash flow before changes in working capital</b>		<b>1,865,925</b>	<b>(23,191)</b>
Increase in loans to customers		(13,711,176)	(5,250,107)
Increase in placements with financial institutions (other than cash equivalents)		(132,213)	(382,448)
Increase in other assets		(95,990)	(66,530)
Increase in deposits from banks and other financial institutions		11,919,193	6,671,060
Increase in current accounts and deposits from customers		1,824,752	16,188
Increase in bonds issued		1,500,000	-
Increase/(decrease) in other liabilities		11,081	(1,663)
<b>Cash flows from operations</b>		<b>3,181,572</b>	<b>963,309</b>
Income taxes paid		(91,673)	(19)
<b>Cash flows from operating activities</b>		<b>3,089,899</b>	<b>963,290</b>
<b>Investing activities</b>			
Proceeds from sale of property and equipment		61	1
Net proceeds from sale of investments		92	51,055
Acquisition of property, equipment and intangible assets		(228,560)	(150,595)
Acquisition of investments		-	(35,552)
<b>Cash flows from investing activities</b>		<b>(228,407)</b>	<b>(135,091)</b>
<b>Financing activities</b>			
Proceeds from the issue of charter capital and other capital contributions		1,178,000	1,228,000
<b>Cash flows from financing activities</b>		<b>1,178,000</b>	<b>1,228,000</b>
Net increase in cash and cash equivalents		4,039,492	2,056,199
Cash and cash equivalents at 1 January		2,252,752	182,535
Foreign exchange effect on cash and cash equivalents		93,005	14,018
<b>Cash and cash equivalents at 31 December</b>	29	<b>6,385,249</b>	<b>2,252,752</b>



## 1. Description of the Group

Home Credit and Finance Bank (the “Bank”) was established in the Russian Federation as a Limited Liability Company and was granted its general banking license in 1990.

### Registered office

317A Zelenograd  
Moscow 124482  
Russian Federation

Shareholders	Country of incorporation	Ownership interest (%)	
		2004	2003
Home Credit Finance a.s.	Czech Republic	99.80	99.80
Chvatal Ladislav	-	0.20	0.20

Consolidated subsidiaries	Country of incorporation	Ownership interest (%)	
		2004	2003
Infobos (LLC)	Russian Federation	70.00	70.00
Liko-Technopolis (LLC)	Russian Federation	95.00	95.00
Financial Innovations (LLC)	Russian Federation	100.00	-

### Council

Stanek Stanislav	Chairman
Potac Robert	Deputy Chairman
Chvatal Ladislav	Member
Stika Zdenek	Member
Milev Petr	Member

### Board of Management

Lykov Andrei	Chairman
Soukup Vaclav	First Deputy Chairman
Mosolov Dmitry	Deputy Chairman
Gordeeva Tatiana	Chief Accountant, Member
Stanek Stanislav	Deputy Chairman

### Principal activities

The principal activity of the Group is the provision of consumer financing to private individual customers in the Russian Federation. The activities of the Group are regulated by the Central Bank of the Russian Federation (“the CBR”).

### Russian business environment

The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks which do not typically exist in other markets. The accompanying financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

## **2. Basis of preparation**

The consolidated financial statements for the year ended 31 December 2004 comprise the Bank and its subsidiaries (together referred to as the “Group”).

### **(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB).

### **(b) Basis of measurement**

The consolidated financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading and available-for-sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities are stated at amortised cost. Non-financial assets and liabilities are stated at historical cost. Non-financial assets and liabilities of the Group have been restated for the effects of inflation as described in note 3(b).

### **(c) Presentation and measurement currency**

The national currency of the Russian Federation is the Russian Rouble (“RUB”). Management have determined the Group’s measurement currency to be the RUB as it reflects the economic substance of the underlying events and circumstances of the Group. The RUB is also the Group’s presentation currency for the purposes of these financial statements. Financial information presented in RUB has been rounded to the nearest thousand.

### **(d) Basis of consolidation**

#### **(i) Subsidiaries**

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

#### **(ii) Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group’s interest in the enterprise. Unrealised gains arising from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### **3. Significant accounting policies**

#### **(a) Foreign currency transactions**

Transactions in foreign currencies are translated to Roubles at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to roubles at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to roubles at the foreign exchange rate ruling at the date of the transaction.

#### **(b) Inflation accounting**

Prior to 2003, the economy of the Russian Federation was considered to be a hyperinflationary economy. In order to comply with IAS 29 *Financial Reporting in Hyperinflationary Economies*, the consolidated financial statements for the year ended 31 December 2002 have been restated to account for changes in the general purchasing power of the Russian rouble. The restatement was based on relevant price indices at the balance sheet date. The indices were derived from the inflation rates which are issued by the State Statistical Committee of the Russian Federation ("Goskomstat"). The indices used were as follows:

	<u>Indices</u>
31 December 1991	100
31 December 1992	2,642
31 December 1993	25,023
31 December 1994	78,470
31 December 1995	182,046
31 December 1996	221,597
31 December 1997	245,949
31 December 1998	453,704
31 December 1999	619,691
31 December 2000	744,425
31 December 2001	884,504
31 December 2002	1,018,277

As from 1 January 2003 the Russian Federation is no longer considered to be a hyperinflationary economy, and therefore from this date the consolidated financial statements have not been adjusted for inflation. The carrying amounts of the Group's assets, liabilities and equity items at 1 January 2003 form the basis for subsequent accounting.

#### **(c) Cash and cash equivalents**

The Group considers cash, nostro accounts and term placements with the Central Bank of Russia (the "CBR") and balances with other financial institutions due within one month to be cash and cash equivalents. The minimum reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its withdrawability.

### **3. Significant accounting policies (continued)**

#### **(d) Financial instruments**

##### **(i) Classification**

*Trading instruments* are those that the Group principally holds for the purpose of short-term profit taking. These include investments and derivative contracts that are not designated and effective hedging instruments, and liabilities from short sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

*Originated loans and receivables* are loans and receivables created by the Group providing money to a debtor other than those created with the intention of short-term profit taking. Originated loans and receivables comprise loans and advances to banks and customers other than purchased loans.

*Held-to-maturity assets* are financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity.

*Available-for-sale assets* are financial assets that are not held for trading purposes, originated by the Group, or held to maturity.

##### **(ii) Recognition**

Financial instruments held for trading, available-for-sale assets, held-to-maturity assets and originated loans and receivables are recognised on the day they are transferred to or originated by the Group.

##### **(iii) Measurement**

Financial instruments are measured initially at cost, including transaction costs. Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

##### **(iv) Fair value measurement principles**

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

### **3. Significant accounting policies (continued)**

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

#### **(v) *Gains and losses on subsequent measurement***

Gains and losses arising from a change in the fair value of all trading instruments and available-for-sale assets are recognised in the income statement.

#### **(vi) *Derecognition***

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.

Financial instruments held for trading, available-for-sale assets, held-to-maturity assets and originated loans and receivables are derecognised on the day they are transferred by the Group.

#### **(vii) *Repurchase and reverse repurchase agreements***

Securities sold under agreements to repurchase are retained within the trading or available-for-sale securities portfolios and accounted for accordingly. Liability accounts are used to record the obligation to repurchase. The difference between the sale and repurchase price represents interest expense and is recognised in the income statement over the term of the repurchase agreement.

Securities held under reverse repurchase agreements are recorded as receivables. The difference between the purchase and sale price represents interest income and is recognised in the income statement over the term of the reverse repurchase agreement. The receivables due under reverse repurchase agreements are shown net of any impairment losses.

#### **(viii) *Derivative financial instruments***

The Group uses derivative financial instruments to hedge its exposure to foreign exchange risk arising from financing activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Where a derivative financial instrument is used to hedge solely the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument and the hedged item is recognised in the income statement as foreign exchange income/(expense).

#### **(e) *Offsetting***

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.

### **3. Significant accounting policies (continued)**

#### **(f) Property and equipment**

##### **(i) Owned assets**

Items of property and equipment are stated at cost less accumulated depreciation (refer below) and impairment losses (refer to note 3(h) below). The cost for self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

##### **(ii) Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (refer below) and impairment losses (refer to note 3(h) below).

Operating leases, under the terms of which the Group does not assume substantially all the risks and rewards of ownership, are expensed.

##### **(iii) Subsequent expenditure**

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

##### **(iv) Depreciation**

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of the individual assets. Property and equipment are depreciated from the date the asset is available for use. The estimated useful lives are as follows:

Computers and equipment	4 years
Vehicles	5 years
Furniture	5 years
Leasehold improvement	5 years
Land and buildings	17 years

#### **(g) Intangible assets**

##### **(i) Goodwill**

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets and liabilities acquired. Goodwill is stated at cost less accumulated amortisation and impairment losses (refer to note 3(h) below).

##### **(ii) Intangible assets**

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses (refer to note 3(h) below). Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.



### **3. Significant accounting policies (continued)**

#### **(iii) Amortisation**

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Goodwill is amortised from the date of initial recognition; other intangible assets are amortised from the date the asset is available for use. The estimated useful lives are as follows:

Software	1-5 years
Licenses	5 years

#### **(h) Impairment**

The carrying amounts of the Group's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

#### **(i) Calculation of recoverable amount**

The recoverable amount of the Group's investments in held-to-maturity assets and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. The recoverable amount of the Group's trading instruments and assets available-for-sale is their fair value.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### **(ii) Reversals of impairment**

An impairment loss in respect of a held-to-maturity asset or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **(i) Pensions**

The Government of the Russian Federation is responsible for providing pensions and retirement benefits to the Group's employees. A regular contribution linked to employees salaries is made by the Group to the Government to fund the national pension plans. Payments under these pension schemes are charged as expenses as they fall due.

### **3. Significant accounting policies (continued)**

#### **(j) Interest bearing borrowings**

Interest-bearing borrowings are recognised initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

#### **(k) Provisions**

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### **(l) Other payables**

Other payables are stated at their cost.

#### **(m) Charter capital and other capital contributions**

Charter capital represents the nominal value of the Bank's charter capital. Other capital contributions comprise amounts contributed by the owners in excess of this amount.

#### **(n) Taxation**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### **3. Significant accounting policies (continued)**

#### **(o) Interest income and expense**

Interest income and expense is recognized in the income statement as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis. Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of the loan together with the related direct costs, are deferred and recognised as an adjustment to the effective interest rate.

#### **(p) Fee and commission income**

Fee and commission income is recognized when the corresponding service is provided.

#### **(q) Dividend income**

Dividend income from investments in companies where the Group does not have control or significant influence is recognized in the income statement on the date that the dividend is declared.

#### 4. Interest income and interest expense

	<b>2004</b>	<b>2003</b>
	<b>TRUB</b>	<b>TRUB</b>
<b>Interest income</b>		
Loans to individuals	3,383,429	343,538
Placements with banks and other financial institutions	41,007	9,451
Loans to corporations	3,487	7,859
Securities	686	930
	<u><b>3,428,609</b></u>	<u><b>361,778</b></u>
<b>Interest expense</b>		
Balances from banks and other financial institutions	851,463	109,964
Debt securities	33,658	-
Current accounts and deposits from customers	2,736	3,231
	<u><b>887,857</b></u>	<u><b>113,195</b></u>

#### 5. Fee and commission income

	<b>2004</b>	<b>2003</b>
	<b>TRUB</b>	<b>TRUB</b>
Fees from retailers	952,316	147,750
Customer payment processing and account maintenance	141,804	11,754
Cash operations	5,786	1,567
Other	123	398
	<u><b>1,100,029</b></u>	<u><b>161,469</b></u>

#### 6. Fee and commission expense

	<b>2004</b>	<b>2003</b>
	<b>TRUB</b>	<b>TRUB</b>
Customer payment processing and account maintenance	22,889	767
Other	2,274	16
	<u><b>25,163</b></u>	<u><b>783</b></u>

#### 7. Other operating income

	<b>2004</b>	<b>2003</b>
	<b>TRUB</b>	<b>TRUB</b>
Contractual penalties from customers	24,083	413
Net foreign exchange expense	(26,618)	(68,718)
Other	10,499	2,689
	<u><b>7,964</b></u>	<u><b>(65,616)</b></u>

## 8. Impairment losses

	<b>2004</b>	<b>2003</b>
	<b>TRUB</b>	<b>TRUB</b>
Loans to customers	1,020,896	158,055
Placements with banks and other financial institutions	-	(2,434)
Other	2,240	879
	<u><b>1,023,136</b></u>	<u><b>156,500</b></u>

## 9. General administrative expenses

	<b>2004</b>	<b>2003</b>
	<b>TRUB</b>	<b>TRUB</b>
Employee compensation	590,296	164,776
Communications and information services	363,827	65,853
Advertising and marketing	315,050	71,642
Taxes other than income tax	179,331	42,428
Payroll related taxes	129,154	37,446
Occupancy	95,441	29,637
Office supplies	82,486	23,353
Professional services	73,916	20,957
Depreciation and amortisation	55,006	12,516
Travel expenses	37,789	10,222
Security	5,305	1,534
Repairs and maintenance	4,773	5,461
Other	75,498	18,888
	<u><b>2,007,872</b></u>	<u><b>504,713</b></u>

## 10. Income tax (expense)/benefit

	<b>2004</b>	<b>2003</b>
	<b>TRUB</b>	<b>TRUB</b>
Current tax expense	(82,709)	(19)
Deferred tax (expense)/benefit	16 <u>(102,767)</u>	<u>73,640</u>
<b>Total income tax (expense)/benefit in the income statement</b>	<u><b>(185,476)</b></u>	<u><b>73,621</b></u>
<b>Reconciliation of effective tax rate</b>	<b>2004</b>	<b>2003</b>
	<b>TRUB</b>	<b>TRUB</b>
<b>Profit/(loss) before tax</b>	<u><b>592,574</b></u>	<u><b>(317,560)</b></u>
Income tax using the applicable tax rate (24%)	(142,218)	76,214
Effect of deferred tax assets not recognised	-	6,677
Net non-deductible costs	(43,320)	(9,377)
Effect of income taxed at lower tax rates	62	107
<b>Total income tax (expense)/benefit in the income statement</b>	<u><b>(185,476)</b></u>	<u><b>73,621</b></u>

## 11. Due from the Central Bank of the Russian Federation

	<b>2004</b>	<b>2003</b>
	<b>TRUB</b>	<b>TRUB</b>
Term deposits	2,000,055	700,022
Nostro accounts	1,182,336	281,929
Minimum reserve deposit	<u>220,619</u>	<u>331,090</u>
	<b><u>3,403,010</u></b>	<b><u>1,313,041</u></b>

The minimum reserve deposit is a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the CBR and whose withdraw ability is restricted.

## 12. Placements with banks and other financial institutions

	<b>2004</b>	<b>2003</b>
	<b>TRUB</b>	<b>TRUB</b>
Loans and term deposits	3,436,528	1,250,417
Nostro accounts	<u>83,575</u>	<u>85,678</u>
	<b><u>3,520,103</u></b>	<b><u>1,336,095</u></b>

Advance payments of TRUB 441,774 (2003: TRUB 22,774) paid by the Bank to counterparties in respect of foreign currency forward contracts are included in term deposits above. These advance payments are intended to secure the Group's future payments on these derivative contracts.

## 13. Loans to customers

	<b>2004</b>	<b>2003</b>
	<b>TRUB</b>	<b>TRUB</b>
Loans to individuals	19,507,669	5,365,320
Loans to corporations	<u>45,165</u>	<u>16,409</u>
Accumulated impairment losses	<u>(1,181,758)</u>	<u>(160,862)</u>
	<b><u>18,371,076</u></b>	<b><u>5,220,867</u></b>

Loans to individuals are solely provided to Russian residents.

At 31 December 2004 contractually overdue loans were as follows:

	<b>2004</b>	<b>2003</b>
	<b>TRUB</b>	<b>TRUB</b>
Gross contractually overdue loans	2,348,983	686,587
Accumulated impairment losses	<u>(1,068,580)</u>	<u>(159,939)</u>
Net contractually overdue loans	<b><u>1,280,403</u></b>	<b><u>526,648</u></b>



## 14. Available-for-sale assets

	<b>2004</b>	<b>2003</b>
	<b>TRUB</b>	<b>TRUB</b>
Promissory notes (unlisted)	17,122	16,855
Government securities	6,238	6,451
Equity instruments (unlisted)	226	346
	<hr/>	<hr/>
Accumulated impairment losses	(17,342)	(17,196)
	<hr/>	<hr/>
	<b>6,244</b>	<b>6,456</b>
	<hr/> <hr/>	<hr/> <hr/>

## 15. Property, equipment and intangible assets

	<b>Computers and equipment</b>	<b>Vehicles</b>	<b>Furniture</b>	<b>Leasehold</b>	<b>Land &amp; Buildings</b>	<b>Intangible assets</b>	<b>Total</b>
	<b>TRUB</b>	<b>TRUB</b>	<b>TRUB</b>	<b>TRUB</b>	<b>TRUB</b>	<b>TRUB</b>	<b>TRUB</b>
<b>Cost</b>							
Balance at 1 January	276,624	31,524	487,146	29	10,773	509	806,605
Additions	148,417	24,065	7,414	10,867	15,891	23,461	230,115
Disposals	(158)	(2,234)	(107,823)	-	-	-	(110,215)
<b>Balance at 31 December</b>	<b>424,883</b>	<b>53,355</b>	<b>386,737</b>	<b>10,896</b>	<b>26,664</b>	<b>23,970</b>	<b>926,505</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Accumulated depreciation</b>							
Balance at 1 January	166,323	3,769	482,714	6	184	338	653,334
Depreciation charge	42,993	8,846	1,468	54	648	997	55,006
Disposals	(86)	(728)	(107,823)	-	-	-	(108,637)
<b>Balance at 31 December</b>	<b>209,230</b>	<b>11,887</b>	<b>376,359</b>	<b>60</b>	<b>832</b>	<b>1,335</b>	<b>599,703</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Net book value</b>							
<b>at 1 January</b>	<b>110,301</b>	<b>27,755</b>	<b>4,432</b>	<b>23</b>	<b>10,589</b>	<b>171</b>	<b>153,271</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Net book value</b>							
<b>at 31 December</b>	<b>215,653</b>	<b>41,468</b>	<b>10,378</b>	<b>10,836</b>	<b>25,832</b>	<b>22,635</b>	<b>326,802</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## 16. Deferred tax asset and liability

The Group's applicable tax rate for current and deferred tax is 24% (2003: 24%). Deferred tax assets and liabilities are attributable to the following items:

	Assets		Liabilities		Net	
	2004	2003	2004	2003	2004	2003
	TRUB	TRUB	TRUB	TRUB	TRUB	TRUB
Tax loss carry-forwards	(27,198)	(49,803)	-	-	(27,198)	(49,803)
Placements with banks and other financial institutions	-	-	1,753	-	1,753	-
Loans to customers	(28,879)	-	58,346	533	29,467	533
Property, equipment and intangible assets	-	-	30,705	4,535	30,705	4,535
Fair value of derivative financial instruments	-	(21,639)	23,619	-	23,619	(21,639)
Other items	(39,011)	(7,216)	9,792	(50)	(29,219)	(7,266)
<b>Net deferred tax liabilities/(assets)</b>					<b>29,127</b>	<b>(73,640)</b>

## 17. Other assets

	2004	2003
	TRUB	TRUB
Materials, supplies and other inventories	50,026	28,077
Positive fair value of derivative instruments	48,096	-
Other taxes receivables	11,534	8,560
Settlements with suppliers	9,061	5,413
Income tax receivable	8,945	-
Other	70,611	24,247
Accumulated impairment losses	(3,299)	(1,205)
	<b>194,974</b>	<b>65,092</b>

## 18. Due to banks and other financial institutions

	2004	2003
	TRUB	TRUB
Unsecured loans	12,679,379	3,344,241
Subordinated loans	4,659,504	-
Term deposits	1,785,029	3,386,986
Other balances	6,350	5,795
	<b>19,130,262</b>	<b>6,737,022</b>

Unsecured loans and term deposits were provided by several domestic and foreign financial institutions including related parties. Subordinated loans include an amount of TRUB 3,000,000 from related parties which are obliged to convert this amount into Group's equity.

In February 2005, the Group was granted a three year unsecured loan of MUS\$ 150 with a fixed interest rate.

## 19. Current accounts and deposits from customers

	<b>2004</b>	<b>2003</b>
	<b>TRUB</b>	<b>TRUB</b>
Current accounts	1,867,699	124,323
Term deposits	107,267	25,147
Demand deposits	2,249	2,011
	<u><b>1,977,215</b></u>	<u><b>151,481</b></u>

## 20. Debt securities issued

		<b>Amount outstanding</b>	
		<b>2004</b>	<b>2003</b>
	<b>Maturity</b>	<b>TRUB</b>	<b>TRUB</b>
Unsecured bond issue of TRUB 1,500,000	October 2007	1,533,658	-
		<u><b>1,533,658</b></u>	<u><b>-</b></u>

The bond was issued by the Group in October 2004 with a fixed coupon rate valid for the subsequent twelve months. Coupon rates for the remaining period will be set by the Group on a semi-annual basis starting October 2005. Bondholders are entitled to require early redemption of the bond issue at par on each coupon date starting October 2005.

## 21. Other liabilities

	<b>2004</b>	<b>2003</b>
	<b>TRUB</b>	<b>TRUB</b>
Negative fair value of derivative instruments	252,666	92,873
Settlements with suppliers	79,727	5,541
Accrued salary expenses	43,159	206
Other taxes payable	13,403	2,731
Other	1,233	417
	<u><b>390,188</b></u>	<u><b>101,769</b></u>

## 22. Charter capital and other capital contributions

	<b>Charter capital TRUB</b>	<b>Other capital contributions TRUB</b>
Balance at 1 January	405,707	1,266,336
Other contributions by shareholders	<u>-</u>	<u>1,178,000</u>
<b>Balance at 31 December</b>	<b><u>405,707</u></b>	<b><u>2,444,336</u></b>

In 2004 the total other capital contribution received of TRUR 1,178,000 was made by its majority shareholder, Home Credit Finance a.s.

## 23. Financial instruments

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party or the obligation to deliver cash or another financial asset to another party.

Management of the risk arising from financial instruments is fundamental to the Group's business and is an essential element of the Group's operations. The major risks faced by the Group are those related to credit exposures, liquidity and movements in interest rates and foreign exchange rates. These risks are managed in the following manner:

### (a) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The majority of the Group's exposure to credit risk arises in connection with the provision of consumer financing to private individual customers, which is the Group's principal business. As the Group's loan portfolio consists of large amount of loans with relatively low outstanding amounts, the loan portfolio does not comprise any significant individual items.

The Group has developed policies and procedures for the management of credit exposures, including credit scoring of customers, guidelines to limit portfolio concentration and the establishment of a credit department which actively monitors the Group's credit risk.

### (b) Interest rate risk

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Group's management. These limits restrict the potential effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities.

## 23. Financial instruments (continued)

### Effective interest rates and repricing analysis

In respect of interest-bearing financial assets and liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

TRUB	Effective interest rate	2004						Total	Effective interest rate	2003					Total
		less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	less than 3 months			3 to 12 months	1 to 2 years	2 to 5 years			
Interest bearing financial assets															
Due from CBR															
Nostro accounts (RUB)*	0.0%	1,182,336	-	-	-	-	1,182,336	0.0%	281,929	-	-	-	-	281,929	
Term deposits (RUB)*	0.8%	2,000,055	-	-	-	-	2,000,055	0.8%	700,022	-	-	-	-	700,022	
Placements with banks and other financial institutions															
Nostro accounts (RUB)	0.4%	18,967	-	-	-	-	18,967	0.0%	53,499	-	-	-	-	53,499	
Nostro accounts (USD)	0.0%	32,543	-	-	-	-	32,543	0.0%	19,637	-	-	-	-	19,637	
Nostro accounts (CZK)	0.1%	29,111	-	-	-	-	29,111	0.0%	10,200	-	-	-	-	10,200	
Nostro accounts (other currencies)	0.0%	2,954	-	-	-	-	2,954	0.0%	2,342	-	-	-	-	2,342	
Loans and term deposits (RUB)*	1.7%	405,300	37,785	-	-	-	443,085	0.7%	222,774	-	-	-	-	222,774	
Loans and term deposits (USD)*	2.2%	2,985,750	7,693	-	-	-	2,993,443	2.3%	1,024,632	2,231	780	-	-	1,027,643	
Loans to customers															
Loans to corporations (RUB)*	13.3%	-	28,516	-	-	-	28,516	17.5%	-	951	-	-	-	951	
Loans to corporations (USD)*	14.0%	2,775	13,874	-	-	-	16,649	14.3%	-	14,539	-	-	-	14,539	
Loans to individuals (RUB)*	37.4%	2,088,389	15,567,379	670,118	-	-	18,325,886	45.4%	1,660,759	3,085,968	458,507	-	-	5,205,234	
Loans to individuals (USD)*	20.0%	25	-	-	-	-	25	20.0%	-	-	143	-	-	143	
Available-for-sale assets (RUB)*	7.1%	-	-	3,999	2,239	-	6,238	8.1%	94	-	-	6,346	-	6,440	
Interest bearing financial liabilities															
Current accounts and deposits from customers															
Current accounts and demand deposits (RUB)*	0.0%	1,868,097	-	-	-	-	1,868,097	0.0%	123,601	-	-	-	-	123,601	
Current accounts and demand deposits (USD)*	0.3%	1,851	-	-	-	-	1,851	0.0%	722	-	-	-	-	722	
Term deposits (RUB)*	5.6%	92,012	5,171	-	-	-	97,183	12.5%	10,994	4,212	-	-	-	15,206	
Term deposits (USD)*	5.0%	4,140	1,983	-	-	-	6,123	6.3%	7,749	3,512	-	-	-	11,261	
Term deposits (other currencies)*	5.8%	3,413	548	-	-	-	3,961	7.3%	691	-	-	-	-	691	
Due to banks and other financial institutions															
RUB*	8.6%	2,516,501	3,996,250	-	-	-	6,512,751	12.4%	250,049	1,072,757	-	-	-	1,322,806	
USD	8.3%	1,114,110	5,855,579	-	2,666,481	978,408	10,614,578	8.5%	5,746	830,319	1,233,910	-	-	2,069,975	
CZK	6.2%	1,216,420	786,513	-	-	-	2,002,933	9.6%	2,234,137	-	1,110,104	-	-	3,344,241	
Debt securities issued (RUB)	11.3%	-	1,533,658	-	-	-	1,533,658	-	-	-	-	-	-	-	

\*These assets/liabilities bear interest at a fixed rate.

## 23. Financial instruments (continued)

### (c) Liquidity risk

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The following table shows assets and liabilities by remaining contractual maturity dates.

TRUB	2004							2003						
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Total	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	No maturity	Total	
Assets														
Cash	6,444	-	-	-	-	-	6,444	4,915	-	-	-	-	4,915	
Due from CBR	3,182,391	-	-	-	-	220,619	3,403,010	981,951	-	-	-	331,090	1,313,041	
Placements with banks and other financial institutions	3,196,414	278,211	45,478	-	-	-	3,520,103	1,265,886	67,198	2,231	780	-	1,336,095	
Loans to customers	784,812	1,306,377	15,609,769	670,118	-	-	18,371,076	569,933	1,090,826	3,101,458	458,650	-	5,220,867	
Available-for-sale assets	-	-	-	6,238	-	6	6,244	94	-	-	6,346	16	6,456	
Property, equipment and intangible assets	-	-	-	-	-	326,802	326,802	-	-	-	-	153,271	153,271	
Deferred tax asset	-	-	-	-	-	-	-	-	-	-	-	73,640	73,640	
Other assets	57,735	7,657	79,556	-	-	50,026	194,974	2,729	30,762	31,601	-	-	65,092	
Total assets	7,227,796	1,592,245	15,734,803	676,356	-	597,453	25,828,653	2,846,669	1,189,363	3,322,406	661,652	153,2875	8,173,377	
Liabilities														
Due to banks and other financial institutions	4,175,096	671,935	10,638,342	2,666,481	978,408	-	19,130,262	255,795	2,234,137	1,903,076	2,344,014	-	6,737,022	
Current accounts and deposits from customers	1,876,080	93,433	7,702	-	-	-	1,977,215	137,899	5,858	7,724	-	-	151,481	
Debt securities issued*	-	-	33,658	1,500,000	-	-	1,533,658	-	-	-	-	-	-	
Deferred tax liability	-	-	-	-	-	29,127	29,127	-	-	-	-	-	-	
Other liabilities	110,233	239,633	40,322	-	-	-	390,188	43,586	55,452	2,731	-	-	101,769	
Total liabilities	6,161,409	1,005,001	10,720,024	4,166,481	978,408	29,127	23,060,450	437,280	2,295,447	1,913,531	2,344,014	-	6,990,272	
Net position as at 31 December	1,066,387	587,244	5,014,779	(3,490,125)	(978,408)	568,326	2,768,203	2,409,389	(1,106,084)	1,408,875	(1,682,362)	153,287	1,183,105	

\* Debt securities are classified based on their stated maturity of October 2007, however the securities carry early redemption rights – refer note 20.



## 23. Financial instruments (continued)

### (d) Foreign currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecast assets in a foreign currency are either greater or less than the liabilities in that currency.

Foreign exchange rate risk mainly arises due to the funding of the Bank operations with liabilities denominated in foreign currencies. Derivative financial instruments are used by the Group to hedge the mismatches in the foreign currency structure of assets and liabilities.

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	2004					2003				
TRUB	CZK	RUB	USD	Other currencies	Total	CZK	RUB	USD	Other currencies	Total
Assets										
Cash	-	4,159	1,270	1,015	6,444	-	3,368	504	1,043	4,915
Due from the Central bank of the Russian Federation	-	3,403,010	-	-	3,403,010	-	1,313,041	-	-	1,313,041
Placements with banks and other financial institutions	29,111	462,052	3,025,986	2,954	3,520,103	10,200	276,273	1,047,280	2,342	1,336,095
Loans to customers	-	18,354,402	16,674	-	18,371,076	-	5,206,185	14,682	-	5,220,867
Available-for-sale assets	-	6,244	-	-	6,244	-	6,456	-	-	6,456
Property, equipment and intangible assets	-	326,802	-	-	326,802	-	153,271	-	-	153,271
Deferred tax asset	-	-	-	-	-	-	73,640	-	-	73,640
Other assets	2	191,736	3,236	-	194,974	1,423	61,931	1,738	-	65,092
Total assets	29,113	22,748,405	3,047,166	3,969	25,828,653	11,623	7,094,165	1,064,204	3,385	8,173,377
Liabilities										
Current accounts and deposits from customers	-	1,965,280	7,974	3,961	1,977,215	-	138,807	11,983	691	151,481
Due to banks and other financial institutions	2,002,933	6,512,751	10,614,578	-	19,130,262	3,344,241	1,322,806	2,069,975	-	6,737,022
Debt securities issued	-	1,533,658	-	-	1,533,658	-	-	-	-	-
Deferred tax liability	-	29,127	-	-	29,127	-	-	-	-	-
Other liabilities	19,434	323,269	-	47,485	390,188	-	98,633	-	3,136	101,769
Total liabilities	2,022,367	10,364,085	10,622,552	51,446	23,060,450	3,344,241	1,560,246	2,081,958	3,827	6,990,272
Effect of foreign currency derivatives	1,947,876	(9,438,274)	7,490,398	-	-	3,329,370	(4,326,866)	997,496	-	-
Net position as of 31 December 2004	(45,378)	2,946,046	(84,988)	(47,477)	2,768,203	(3,248)	1,207,053	(20,258)	(442)	1,183,105

## 23. Financial instruments (continued)

### (e) Fair value of financial instruments

Due to the lack of liquidity and published “indicator interest rates” in the Russian market, the Bank has concluded that it is not possible to determine the fair value of certain of its financial assets and financial liabilities.

The financial assets and financial liabilities that the Bank does believe it is able to estimate fair values for include cash, due from the Central Bank of Russia, financial instruments held for trading and placements with non-Russian banks and financial institutions and debt securities issued. The Bank estimates the fair value of these assets to be not materially different from their carrying values.

## 24. Derivative financial instruments

At 31 December 2004 the following contracts were outstanding based on which the Group was obliged to purchase USD at a fixed RUB/USD exchange rate:

	<b>Maturity</b>	<b>Notional amount TUSD</b>	<b>Fair value TRUB</b>
Foreign currency forward contracts	March 2005	95,900	(43,941)
Foreign currency forward contracts	January 2005	88,000	(70,196)
Foreign currency forward contracts	February 2005	63,600	(11,109)
Foreign currency forward contracts	October 2005	40,000	(12,906)
Foreign currency forward contracts	April 2005	18,000	(27,417)
Foreign currency futures contracts	February 2005	10,000	871
Foreign currency futures contracts	January 2005	9,500	58
Foreign currency futures contracts	March 2005	9,013	(15,218)
Foreign currency swap contracts	January 2005	7,000	(134)
		<b>341,013</b>	<b>(179,992)</b>

At 31 December 2004 the following contracts were outstanding based on which the Group was obliged to purchase CZK for USD at a fixed CZK/USD exchange rate:

	<b>Maturity</b>	<b>Notional amount TCZK</b>	<b>Fair value TRUB</b>
Foreign currency swap contracts	January 2005	1,613,892	(24,573)
Foreign currency swap contracts	February 2005	1,502,868	(45,454)
		<b>3,116,760</b>	<b>(70,027)</b>

## 24. Derivative financial instruments (continued)

At 31 December 2004 the following contracts were outstanding based on which the Group was obliged to purchase USD for CZK at a fixed CZK/USD exchange rate:

	<b>Maturity</b>	<b>Notional amount TUSD</b>	<b>Fair value TRUB</b>
Foreign currency swap contracts	January 2005	67,000	45,449
		<b>67,000</b>	<b>45,449</b>

At 31 December 2003 the following contracts were outstanding based on which the Group was obliged to purchase USD at a fixed RUB/USD exchange rate:

	<b>Maturity</b>	<b>Notional amount TUSD</b>	<b>Fair value TRUB</b>
Foreign currency forward contracts	March 2004	79,900	(3,460)
Foreign currency swap contracts	February 2004	30,000	(11,821)
Foreign currency forward contracts	February 2004	22,000	(4,075)
Foreign currency swap contracts	January 2004	15,000	(177)
		<b>146,900</b>	<b>(19,533)</b>

At 31 December 2003 the following contracts were outstanding based on which the Group was obliged to purchase CZK for USD at a fixed CZK/USD exchange rate:

	<b>Maturity</b>	<b>Notional amount TCZK</b>	<b>Fair value TRUB</b>
Foreign currency swap contracts	January 2004	2,000,000	(42,181)
Foreign currency swap contracts	February 2004	1,400,000	(14,293)
Foreign currency swap contracts	March 2004	600,000	(16,866)
		<b>4,000,000</b>	<b>(73,340)</b>

## 25. Commitments

The Group has outstanding commitments to extend credit. These commitments take the form of approved loans, approved overdraft facilities and approved credit limits related to customer's credit card accounts.

	<b>2004 TRUB</b>	<b>2003 TRUB</b>
<b>Contracted amount</b>		
Loan commitments (loans to individuals)	2,320,782	420,002
Undrawn overdraft facilities	3,879	20,000
	<b>2,324,661</b>	<b>440,002</b>

The total outstanding contractual commitments to extend credit indicated above represents future cash requirements, though some of these commitments may expire or terminate without being funded.

## 26. Operating leases

The Group leases a number of premises and equipment under operating lease. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

Non-cancellable operating lease rentals are payable as follows:

	<b>2004</b> <b>TRUB</b>	<b>2003</b> <b>TRUB</b>
Less than one year	45,189	37,854
Between one and five years	6,145	-
	<u><b>51,334</b></u>	<u><b>37,854</b></u>

During the year TRUB 95,441 (2003: TRUB 29,637) was recognised as an expense in the income statement in respect of operating leases.

## 27. Contingencies

### (a) Litigation

The Group management is not aware of any significant actual, pending or threatened claims against the Group.

### (b) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by numerous taxes and frequently changing legislation which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in the Russian Federation substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations.

## 28. Related party transactions

Amounts included in the income statement in relation to related party transactions are as follows:

	<b>2004</b> <b>TRUB</b>	<b>2003</b> <b>TRUB</b>
Interest income	3,685	404
Interest expense	(843,823)	(94,742)
Fee and commission income	182	-
Fee and commission expense	(27)	(6,702)
Net foreign exchange income/(loss)	382,620	(33,509)
Other income	6,350	99
General administrative expenses	(195,817)	(27,713)
	<u><b>(646,830)</b></u>	<u><b>(162,163)</b></u>

## 28. Related party transactions (continued)

Amounts included in the balance sheet in relation to related party transactions are as follows:

	<b>2004</b> <b>TRUB</b>	<b>2003</b> <b>TRUB</b>
Placements with banks and other financial institutions	37,937	13,134
Other assets	46,135	2,768
Current accounts and deposits from customers	(91,095)	(201)
Due to banks and other financial institutions	(16,618,254)	(6,481,227)
Other liabilities	<u>(131,105)</u>	<u>(80,742)</u>
	<b><u>(16,756,382)</u></b>	<b><u>(6,546,268)</u></b>

Effective interest rate on the amounts due to banks and other financial institutions shown above was 8.6% as of 31 December 2004 (2003: 10.1%).

Included above in Other assets and Other liabilities are the fair values of derivative contracts concluded with related parties outstanding at the balance sheet date as follows:

	<b>2004</b> <b>TRUB</b>	<b>2003</b> <b>TRUB</b>
Notional amount of derivative contracts	6,730,729	6,009,730
Fair value of derivative contracts	(37,484)	(77,606)

## 29. Cash and cash equivalents

Cash and cash equivalents at the end of the year are composed of the following items:

	<b>Note</b>	<b>2004</b> <b>TRUB</b>	<b>2003</b> <b>TRUB</b>
Placements with financial institutions due within one month		3,196,414	1,265,886
Term deposits due from Central Bank of Russia	11	2,000,055	700,022
Nostro accounts with the Central Bank of Russia	11	1,182,336	281,929
Cash		<u>6,444</u>	<u>4,915</u>
		<b><u>6,385,249</u></b>	<b><u>2,252,752</u></b>

### 30. Capital adequacy ratio

Capital adequacy ratio was calculated in compliance with instructions of BIS. It measures capital compared to risk weighted assets. Tier I capital is represented by the Group's equity, Tier II capital is represented by subordinated loans, up to a limit of 50% of the Tier I capital.

	<b>2004</b>	<b>2003</b>
	<b>TRUB</b>	<b>TRUB</b>
Risk weighted assets	19,904,614	5,867,870
Tier I capital	2,768,203	1,183,105
Tier II capital	1,384,102	-
<b>Total capital</b>	<b>4,152,305</b>	<b>1,183,105</b>
Tier I ratio	13.9%	20.2%
Capital Adequacy Ratio	20.9%	20.2%

## **APPENDIX — OVERVIEW OF THE BANKING SECTOR AND BANKING REGULATION IN THE RUSSIAN FEDERATION**

### **Infrastructure**

The current institutional framework of the Russian banking sector consists of the CBR, state-owned banks and private commercial banks.

### **History and Development of the Russian Banking Sector**

Under the Soviet regime, Gosbank allocated resources from the Government's budget according to the prevailing economic plan and the state-owned Sberbank monopoly offered retail banking services. In 1987, with the liberalisation of government controls over companies and interbank settlements, a small group of dependent specialised banks developed to attract savings deposits and finance foreign trade, construction, industry, agriculture and small enterprises.

During the second phase of reform from 1988 to 1989, many regional commercial banks emerged (primarily in the form of co-operatives or joint stock companies). After the collapse of the Soviet Union in November 1991, the CBR assumed all of Gosbank's functions, and the government liquidated Gosbank one month later. In 1991, three of the specialised state banks transformed into joint stock companies. Some regional branches of the banks became independent from head offices through management buy-outs.

Until the mid-1990s, the number of commercial banks in the Russian Federation was increasing (from approximately 358 in 1990 to 2,538 in 1996). Very few of these entities enjoyed sufficient economies of scale to be viable as stand-alone entities and most were dependent on support from their shareholders. The reluctance of Russian corporations to outsource their banking services was and continues to be one of the reasons for the industry's fragmented nature. Many Russian banks remain poorly managed, with inadequate or non-existent risk management systems. Corporate governance in the sector is weak, with creditor abuse still rife. Financial disclosure is poor and ownership structures lack transparency.

The weakness of the Russian banking system was exposed in 1998 during the Russian financial market crisis brought about by the Government's default on much of its short-term domestic debt.

Many banks went bankrupt or were placed under the administration of the Credit Organisations Restructuring Agency ("ARCO"), a state corporation established in 1999 to restructure defaulting banks and protect their creditors. In 2002, 14 banks were under the ARCO's administration and by 31 December 2002 11 of them had completed the financial restructuring process. Other defaulting banks were liquidated. Following the stabilisation of the banking sector in recent years, ARCO's role has decreased substantially. On 18 October 2003, the last credit organisation was withdrawn from ARCO's administration.

Pursuant to Federal Law No. 87-FZ of 28 July 2004, the ARCO went to liquidation. It is expected that the liquidation procedures will be completed by the end of 2005.

As of 1 May 2005, the number of credit organisations operating in the Russian Federation amounted to approximately 1,288. However, poor corporate governance, risk management, transparency and weak management remain widespread among many Russian banks.

According to the CBR, as of 1 February 2005 the total assets of the Russian banking sector were valued at approximately RUR 7,268.4 billion, with own assets valued at approximately RUR 967.0 billion. The total charter capital of Russian credit organisations were just RUR 380.5 billion as of 1 January 2005.

In 2002, 2003, 2004 and 2005 the Russian banking sector continued to restore its creditability in the eyes of creditors and retail depositors facilitating the increase of the banks' resource base. The main source of growth of the banks financial resources is the increasing number of retail deposits. In February 2005 the amount of credit balances on Rouble and foreign currency accounts of individuals increased to approximately RUR 2,024.3 billion as compared to RUR 1,583.4 billion in February 2004. The second source of growth of financial resources are credit balances on accounts of corporate clients. The amount of credit balances on Rouble and foreign currency accounts of corporate clients increased from approximately RUR 300.5 billion in February 2004 to RUR 548.7 billion in February 2005. The remaining sources of growth of the banking sector's resource base are increasing volumes of issue of debt securities (primarily promissory notes) and interbank credit operations amounting to RUR 612.3 billion and RUR 752.3 billion in March 2005, respectively, as compared to RUR 272.5 billion and RUR 203.1 billion in January 2002, respectively.



As of 1 March 2005 of the Russian banking sector's total assets, 62.8 per cent. are represented by account receivables under credit operations, 15.5 per cent. are represented by investments into securities, 9.2 per cent. and 2.9 per cent. are represented by credit balances on accounts with the CBR and correspondent banks, respectively, 9.6 per cent. are represented by other assets. Although the volume and amount of credit operations is increasing, Russian banks are focused mainly on short-term financing due to the insufficient creditworthiness and transparency of Russian entities. That in turn broadens the practice of tied loans and financing of affiliated parties.

In April-July 2004 the Russian banking sector experienced its first serious turmoil since the financial crisis of August 1998. As a result of the recent circulation of various market rumours and, in some cases, certain regulatory and liquidity problems, several Russian privately-owned banks have collapsed or ceased or significantly limited their operations. A number of Russian privately-owned banks were experiencing liquidity problems and were unable to attract funds on the interbank market or from their clients or shareholders. Simultaneously, they faced large withdrawals of deposits by both retail and corporate clients. According to the CBR, from 15 June until 1 August 2004 private depositors withdrew approximately RUR 30 billion from Russian banks, except for Sberbank.

The CBR took steps to combat the turmoil of the banking sector. The rate of mandatory reserves that banks were required to deposit with the CBR was temporarily reduced from 7 per cent. to 3.5 per cent. To implement these measures, the CBR permitted banks to immediately reduce their mandatory reserves. Accordingly, banks' borrowing costs have been reduced. In addition, legislation has been passed to combat the crisis and to minimize potential losses of private depositors. In accordance with the recent amendments to the CBR Law, the CBR will make payments to the private depositors of insolvent Russian banks if such banks have not been admitted to the deposit insurance system prior to their bankruptcy. The CBR will also be able to impose, for the term of one year, a limit on the interest rates on deposits paid by banks to private depositors. In addition, banks will be required to disclose certain information related to the interest rates on deposits, banks' liabilities in respect of deposits and amounts of cash withdrawals by private depositors. It is anticipated that the CBR will issue regulations with respect to particular disclosure requirements.

### **Banking Sector**

The Russian banking sector is characterised by a high level of concentration of capital. As of 1 March 2005, approximately 74.1 per cent. of the banking sector's total assets were held by 50 of the largest Russian banks. Sberbank remains the largest bank in Russia in terms of assets, volume of banking operations, client base and branch network.

State owned banks continue to play a vital role in the development of the Russian banking sector. In 2002 Russia's 23 state owned banks (with a 50 per cent. +1 shares stake held by the state) had a 37.5 per cent. share in the total assets, 39.2 per cent. share in the total loan portfolio, 72.1 per cent. share in the total retail deposits of the Russian banking sector. State owned banks offering retail banking services include Sberbank and Vneshtorgbank. Other state owned banks focus primarily on operations with budgetary funds and participate in the realisation of governmental programmes (e.g., Rosselkhozbank (Russian Agricultural Bank), Roseximbank (Russian Export Import Bank)).

Although it is not possible for foreign banks to directly conduct business on the Russian financial market, many major foreign banks have subsidiary banks in the Russian Federation. The aggregate level of participation of foreign capital within the Russian banking system is determined by federal law as proposed by the Government in conjunction with the CBR. At the moment, however, such law has not been yet adopted. As of 1 January 2005, 42 banks controlled by foreign groups through the holding of more than 50 per cent. of their shares were operating in the Russian Federation, of which three banks are ranked top 30 by the value of their assets. Foreign controlled banks focus primarily on cash and settlement services to non-residents and interbank operations. Although foreign controlled banks, such as International Moscow Bank, Raiffeisenbank Austria, Citibank, Société Générale and Delta Bank, are starting to offer retail banking services and increase loan portfolios in the real sectors of the economy, their role in the Russian banking sector remains limited.

### **Retail Banking**

Sberbank remains the leader in retail banking operations with approximately a 65 per cent. share of total retail deposits. The collapse of large privately owned banks with large distribution networks, such as SBS Agro and Incombank, considerably undermined the credibility of consumer banking among retail

depositors. State owned Sberbank remains a dominant player in the sector benefiting an indirect state guarantee for deposits placed with it and the size of its branch network, which is the largest one in Russia.

The retail loan market remains underdeveloped and banks have only recently begun to develop mortgage and credit card products, whilst point-of-sale consumer finance has only been available since 2000.

### **Role of the CBR**

The CBR is in many respects the successor to Gosbank, the former state bank of the Soviet Union, and operates under the CBR Law.

According to the CBR Law, neither the state nor the CBR are liable for the other's obligations, unless it has accepted such liability under an agreement or such liability is imposed by Russian legislation. The assets of the CBR are under federal ownership. According to the latest available data, as of 1 March 2005, the CBR assets amounted to RUR 4,435,865 million (approximately U.S.\$160,109 million at then current exchange rate) and its gold and currency reserves as of 29 April 2005 (held together with the Ministry of Finance) amounted to U.S.\$144.1 billion.

The CBR is legally and financially independent of the Russian Government. The management of the CBR consists of the Chairman, the Board of Directors and the National Banking Council, a body executing primarily supervisory functions (e.g., determining the CBR's maximum capital expenditures, allocation of CBR's profits, appointment of the CBR's auditors and approval of the CBR's accounting rules and procedures). The Chairman of the CBR is appointed for a four year term by the State Duma of the Russian Federation (lower chamber of the Russian Parliament) upon nomination by the President of the Russian Federation. The same procedure applies to the Chairman's removal. The Chairman of the CBR participates in meetings of the Russian Government. Of the 12 members of the National Banking Council, the Federation Council (upper chamber of the Russian Parliament) appoints two from among its members, the State Duma appoints three from among its members, the President of the Russian Federation and the Russian Government each appoint three members. The Chairman of the CBR is ex officio member of the National Banking Council.

Pursuant to the CBR Law and the Banking Law and the New Currency Law, the CBR is authorised to issue and implement binding regulations with respect to banking and currency operations.

Under current legislation, the CBR performs the following main functions:

#### ***Issue of Money and Regulation of its Circulation***

The CBR has the exclusive authority to issue money in the Russian Federation and organises its circulation. The CBR established the procedure for conduction of settlements.

#### ***Financing/Monetary Policy***

The CBR may re-finance banks by extending short term loans at discount rates to private banks. The CBR also establishes reserve and capital adequacy and various ratio requirements for banks. The CBR implements monetary policy by determining refinance interest rates, conducting currency interventions and issuing securities. The CBR is prohibited from extending loans to the Russian government for the purpose of financing budget deficit.

#### ***Registration and Licensing***

The CBR registers commercial banks and their issues of securities, issues and may suspend or revoke, banking licences.

#### ***Supervision and Control***

The CBR oversees banks' compliance with ratio and reserve requirements, imposes sanctions for violations thereof, establishes reporting requirements and accounting rules and procedures for banks, oversees banks' operations and transactions, appoints temporary administrations to banks, regulates the acquisition and/or trust management of shareholding in banks exceeding 5 per cent. and assess the financial standing of banks and that of their owners.

#### ***Transactions with Banks***

The CBR extends loans to banks, maintains correspondent Rouble accounts with other banks, provides cash and settlement services to banks, issues guarantees to banks, trades sovereign debt

securities and securities issued by the CBR, trades bullion and precious stones, purchases and sells foreign currency and foreign currency denominated payment documents issued by Russian and foreign banks. Save for limited instances provided in the CBR Law, the CBR is prohibited to participate in the charter capital of banks and other commercial entities.

### ***Federal Budget Implementation and External Debt Servicing***

The CBR acts as placement agent for sovereign debt issued by the Ministry of Finance, administers federal budget accounts and acts as service agent with respect to domestic treasury securities of the Russian Federation.

### ***Exchange Control***

In accordance with new currency legislation the CBR has retained its substantial powers with respect to regulation of foreign currency operations. Though the licence regime for performance of currency operation connected with movement of capital had been abolished, the CBR has powers to influence the foreign currency market by way of introducing reserve requirements in respect of certain currency operations specified in the new legislation.

### ***Regulation of the Russian Banking Sector***

Banking activity in the Russian Federation is broadly governed by the CBR Law, the Banking Law, CBR's regulations and, to a limited extent, by the New Currency Law. While the CBR is the primary regulator of the banking sector, other state authorities also exercise regulatory and supervisory functions over banks. The Federal Service for Financial Markets issues licences to banks to act as professional participants on the Russian securities market (e.g., brokerage/dealer and custody activities). Tax authorities supervise tax assessments of banks.

Set out below are some of the principal features of the regulatory regime applicable to banks in the Russian Federation:

### ***Licensing***

A credit organisation must be licensed by the CBR in order to conduct “**banking activities**” as defined in the Banking Law. The credit organisation must be incorporated in the Russian Federation. Licence applicants must submit to the CBR a feasibility report, detailed information on senior management and their compliance with qualification requirements, documents certifying the source of funds contributed to the charter capital of the credit organisation.

Under the Banking Law, credit organisations may be incorporated either as joint stock or limited liability companies or companies with additional liability. The latter form, however, is not common in Russian banking practice, as it envisages joint liability of the company's owners in respect of the company's obligations.

The CBR may refuse to issue a banking licence in the event of (i) non-compliance of application documents with Russian law requirements, (ii) unsatisfactory financial standing of owners of the credit organisation, (iii) non-compliance of chief executive officer and chief accountant of the credit organisation with qualification requirements and (iv) unsatisfactory business reputation of members of the board of directors of the credit organisation.

### ***Capital Requirements***

The CBR establishes the minimal amount of charter capital for banks. Pursuant to the Directive of the CBR No. 1346u dated 1 December 2003, the minimal amount of charter capital for both newly established as well as foreign controlled banks is EUR 5 million.

### ***Capital Adequacy***

On 16 January 2004 the CBR adopted a new Regulation No. 110-I “On Mandatory Ratios of Banks” (“**Regulation No. 110-I**”) which superseded the CBR Instruction No. 1 “On the Procedure for Regulating the Activities of Credit Organisations”, approved by the Order of the CBR No. 02-430 dated 1 October 1997, as amended (“**Instruction No. 1**”). Whereas Regulation No. 110-I introduced a number of material changes into the system of mandatory ratios the value of the capital adequacy ratio, which is a relation

of own capital to assets and certain off-balance-sheet items, determined on a risk-weighted basis, has remained unchanged at the rate of at least 10 per cent. for banks with amount of own capital no less than EUR 5 million and at least 11 per cent. for banks with amount of own capital less than EUR 5 million.

The own capital of a bank consists of core capital and additional capital. Core capital includes, among other items, charter capital, share premium, retained earnings and certain reserves funds. Additional capital includes, among other items, assets revaluation reserves, general loan loss reserves, subordinated debt. To assess the capital adequacy of banks under the risk-based capital guidelines, a bank's own capital is related to the aggregate risk of its assets and off-balance sheet exposure, which are weighted according to five broad risk categories.

Russian banking legislation requires that banks with amount of charter capital exceeding the amount of own capital adjust their charter capital accordingly. Non-adjustment of the charter capital to amount of own funds may constitute grounds for the revocation of the bank's licence.

### ***Compulsory Reserve Requirements***

Pursuant to the CBR Law, the Board of Directors of the CBR may establish compulsory reserve requirements for banks. Compulsory reserve requirements must not exceed 20 per cent. of the bank's liabilities and may vary for different categories of banks.

Banks are currently required to post compulsory reserves to be held on non-interest bearing accounts with the CBR in the amount equal to 3.5 per cent. in respect of funds in Roubles and foreign currency attracted from legal entities and individuals and 2 per cent. in respect of short-term funds in Roubles and foreign currency attracted from non-resident banks.

From July 2004, the mandatory reserves are calculated by banks in accordance with the CBR Regulation No. 255-P of 29 March 2004 (the "**Reserves Regulation**"), which changes the methods of reserves calculation. The Reserves Regulation does not require creation of reserves for certain long-term borrowings. However, it requires posting of reserves for short-term obligations to non-resident banks. In addition, credit organisations with good reserves and credit history are allowed posting of reserves in accordance with certain calculated averages.

In the event of non-compliance with the compulsory reserve requirements the CBR may impose a fine on the bank and directly debit the bank's correspondent account with the CBR in respect of the insufficient reserve amounts. The CBR and its regional bodies have a right to conduct unscheduled audits on credit organisations to check their compliance with the reserve rules.

Amounts deposited with the CBR in compliance with compulsory reserve requirements are not subject to arrest or other legal process under the bank's obligations. After revocation of the banking licence such amounts are included in the pool of assets available for distribution amongst the bank's creditors in the order established by Russian legislation.

### ***Provisioning and Loss Allowances***

The CBR put in place certain rules concerning creation of allowances for loan losses for loans extended by banks. The CBR's Regulation No. 254-P dated 26 March 2004 requires the banks to adopt procedures for calculation and posting of allowances for loan losses and continuously monitor the financial position of the banks' borrowers.

This regulation has introduced a number of new provisioning rules. In particular, it requires credit organisations to rank their loans into five categories instead of four, as prescribed by the earlier regulation and the range of loans that must be provided for has been extended to include rights assigned under contracts, mortgages acquired in the secondary markets, claims relating to purchase of financial assets with deferred payment, rights under repo contracts (if such repo contracts are concluded in respect of unlisted securities) and some other operations. The regulation established that loans classified as Category I loans (standard loans) need not be provided for. Additionally, credit organisations will be required to classify their loan security into two groups on the basis of its quality. The regulation provides for a somewhat simplified procedure with respect to writing off bad debts, especially minor debts, as compared with the procedure that was previously in place.

Allowances for loan losses are calculated at the end of each calendar month in Roubles, and then adjusted each month. Such allowances are only used to cover losses relating to the principal amount of the loans made by banks and/or amounts of promissory notes that exclude the relevant interest and

discount. The CBR and its regional units have the right to audit the banks' compliance with the requirements relating to allowances for loan losses and check the correct calculation of such allowances in order to balance the need to create allowances on the one hand and ensure the correct preparation of the banks' financial statements for tax purposes on the other.

The CBR also established rules concerning creation of allowances for possible losses, other than loan losses, which may include losses from investments in securities, funds held in correspondent accounts of other banks, contingent liabilities, forward and other transactions. The CBR Instruction No. 232-P of 9 July 2003 requires banks to rank such assets and operations into five risk groups reflecting the following situations (i) no real or potential threat of losses; (ii) moderate potential threat of losses; (iii) serious potential or moderate real threat of losses; (iv) simultaneous potential and moderate real threat of losses or material real threat of losses; and (v) value of particular type of asset or operation is going to be lost completely. Banks are then required to provide allowances for each type of asset or operation in the amounts corresponding to the amounts of possible losses but within the following framework established by the CBR for each risk group indicated above, respectively: (i) 0 per cent.; (ii) 1 per cent. to 20 per cent.; (iii) 21 per cent. to 50 per cent.; (iv) 51 per cent. to 100 per cent.; and (v) 100 per cent. Banks must report to the CBR on the amounts of created non-loan allowances monthly within ten days following the reporting month. The CBR and its regional units are responsible for monitoring the compliance of banks with these rules.

### ***Liquidity Ratios***

The Regulation No. 110-I establishes liquidity ratios for banks which include the immediate liquidity ratio, current liquidity ratio, long-term liquidity ratio, general liquidity ratio and liquidity ratio in relation to operations with precious metals. The level of liquidity of different types of assets is established by the CBR.

The *immediate liquidity ratio* is calculated as a relation of the high liquid assets of the bank to its total obligations under accounts on demand and must be not less than 15 per cent.

The *current liquidity ratio* is calculated as a relation of the liquid assets of the bank to its total obligations under accounts on demand and with a term not exceeding 30 days and must be not less than 50 per cent.

The *long-term liquidity ratio* is calculated as a relation of the total indebtedness toward the bank over one year to its own capital and obligations of the bank under deposits, loans received and other debt obligations with maturity over one year and must not exceed 120 per cent.

### ***Credit limits***

Banks must comply with credit limits established by the CBR and other Russian banking legislation. Pursuant to Regulation No. 110-I, a bank is not permitted to have exposures exceeding the following:

- to any single borrower or a group of related borrowers, in excess of 25 per cent. of its own capital;
- to shareholders (participants) of the bank on an aggregate basis, in excess of 50 per cent. of its own capital; and
- to insiders (persons capable of influencing the decisions of the bank on granting a loan) on an aggregate basis in excess of 3 per cent. of its capital.

The Regulation No. 110-I had abolished the following ratios: maximum exposure to a creditor, maximum exposure to a shareholder, maximum exposure to an insider, maximum aggregate individuals' deposits, maximum aggregate liabilities in respect of non-resident bank and other non-resident financial institutions, credit limits in respect of financing of equity in other companies over of own capital, credit limit in respect of own promissory notes liabilities and liquidity ratio in respect of precious stones operations.

### ***Regulation of Currency Exposure***

In its Instruction No. 41 of 22 May 1996, the CBR established rules regarding exposure of banks to foreign currency and precious metals (collectively, "**currency exposure**"), as well as controls over such exposure. Currency exposure is calculated with respect to net amounts of balance sheet positions, spot market positions, forward positions, option positions and positions under guarantees. Open currency position is calculated as the sum of all these net amounts. Such exposure is calculated for each currency and each precious metal, and then recalculated into Roubles in accordance with the official exchange rates and CBR's prices for precious metals.



The CBR established that at the end of each operational day the total amount of all long or short currency positions shall not exceed 20 per cent. of the bank's own funds. At the same time, at the end of each operational day the long or short position with respect to one particular currency or precious metal shall not exceed 10 per cent. of the bank's own funds.

Banks with own funds not exceeding EUR 6 million are required to report to the CBR about their currency exposure once a week with breakdowns for each day. Banks with own funds equal to or exceeding EUR 6 million are required to report about their currency exposure daily on the day following the reporting day.

### ***Reporting Requirements***

Banks must regularly submit balance sheets and other financial statements that reflect their financial position to the CBR. Financial statements must be disclosed to public by the bank on a quarterly and yearly basis. Annual financial statements must be published only after their certification by an independent auditor. Quarterly financial statements may be published without their certification by an independent auditor.

Banking groups (i.e., alliances of banks in which one bank directly or indirectly controls decisions of the management bodies of other banks within the alliance) and consolidated groups (i.e., alliances of legal entities in which one bank, directly or indirectly, controls decisions of the management bodies of other commercial non-banking companies within such alliances) must regularly submit to the CBR the groups consolidated accounts.

The CBR may at any time conduct full or selective audits of any banks filings and may inspect all of its books and records. The CBR, however, is prohibited to conduct a secondary audit of matters covered by the previous audit within a single reporting period, save for limited circumstance provided in the CBR Law.

### ***Accounting Practices***

The CBR establishes a standard format for presentation of financial and statistical data and recording banking transactions. Also the CBR establishes accounting rules and procedures for banks. The Banking Law requires that the annual balance sheets and other financial statements of banks be certified by an auditor licensed by the CBR.

As of 1 January 2004, all credit organisations in the Russian Federation must prepare their financial statements according to both Russian accounting standards and IFRS.

### ***Banking Reform***

The 1998 financial crisis revealed the lack of proper management controls and risk management systems in the Russian banking sector and strengthened public anxiety regarding the integrity of the banking system, with misleading advertisements, money laundering, corruption and criminal contacts all being major concerns.

At the end of 2001, the Russian Government and the CBR issued a joint declaration setting out the strategy for banking reform in the Russian Federation and calling for certain legislative steps and structural changes in the next five years.

Among other measures aimed at increasing the stability of the Russian banking sector, the strategy envisages (i) an increase in capital adequacy requirements, (ii) the introduction of amendments to the Russian Civil Code allowing the early withdrawal of funds held on deposit accounts opened for a certain term, (iii) the acceptance of IFRS by all Russian banks and (iv) the gradual implementation of a mandatory system of securing private depositors' funds in the banks.

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

From now on, banks issued with a retail banking licence will be entered into the register of the Agency for Insurance of Deposits. Banks that hold a valid retail banking licence will need to apply to the

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

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

### **Insolvency Regime**

Apart from the administrative proceedings which may be implemented by the CBR (as discussed below), banks are subject to special bank insolvency rules set out in the Bank Insolvency Law. Pursuant to the Bank Insolvency Law, bankruptcy proceedings against a bank may not be initiated prior to the revocation of its banking licence. If a bankruptcy petition is filed with a court and the banking licence of the allegedly insolvent bank is not revoked the court must request the CBR for an opinion on whether there are grounds for revocation of the bank's banking licence. If the CBR issues a negative opinion or fails to respond, the bankruptcy petition must be dismissed. In the latter case, the CBR is liable for any losses a creditor will incur in the result of non-revocation of the banking licence.

Pursuant to the Banking Law, a licence of the credit organisation may be revoked, if (i) it is established that the information upon which the licence has been issued is untrue and misleading, (ii) the credit organisation delays its operation for one year from the issue of the banking licence, (iii) it is established that information that is subject to disclosure by bank is significantly untrue and misleading, (iv) the credit organisation fails to submit to the CBR the monthly report within 15 days, (v) the bank conducts banking operations without an appropriate licence, (vi) the bank's activities do not comply with Russian legislation on banking activities, (vii) the bank does not fulfil court decisions on the collection of funds from its client accounts, (viii) the revocation of the banking licence is requested by the temporary administration appointed to the bank in cases provided by the Bank Insolvency Law, (ix) the bank fails to submit updated information required to be reflected in the state register of legal entities and (x) the credit organisation managing the security under mortgage-backed securities fails to comply with requirements of Russian legislation on mortgage-backed securities.

Under the Banking Law the CBR must revoke a banking licence of a bank, if (i) its capital adequacy ratio falls below 2 per cent., (ii) if the amount of bank's own capital is less than the bank's minimal charter capital requirement established by the CBR, (iii) the bank fails to adjust its charter capital to own capital according to requirements of the CBR within 45 days of the CBR's notification and (iv) the bank fails to satisfy the claims of its creditors or make mandatory payments (e.g., taxes and duties) in the aggregate amount of RUR 100,000 within 14 days of their maturity.

Upon revocation of the banking licence, the CBR must appoint to the bank a temporary administration. The temporary administration oversees the operations, identifies debtors of the bank and collects its assets. The temporary administration performs its functions until appointment of the liquidator or the bankruptcy manager but no more than 6 months.

However, under the Bank Insolvency Law, a temporary administration may be appointed to the bank prior to the revocation of its banking licence if (i) the bank fails to satisfy claims of creditors or make mandatory payments (e.g., taxes and duties) within seven days from the date of their maturity due to the absence or lack of funds on its correspondent accounts, (ii) the amount of own capital of the bank falls more than 30 per cent. below the maximum amount of own capital of the bank during the last 12 months with simultaneous violation of one of the capital adequacy or related requirements, (iii) the bank violates the current liquidity ratio on more than 20 per cent. during the last month; (iv) the bank does not fulfil the requirement of the CBR to change the management of the bank or to undertake financial recovery measures or a reorganisation in instances provided in the Bank Insolvency Law and (v) there are grounds for revocation of the banking licence of the bank as provided in the Banking Law. Upon appointment of the temporary administration the authority of the bank's management may be limited or suspended. In the event the bank's management authorities are suspended the



temporary administration performs the bank's management functions. During the term of its appointment, the temporary administration analyses the bank's financial standing, establishes whether there are grounds for revocation of the banking licence of the bank, participates in the development of measures for the financial recovery of the bank, oversees the bank's operations and issues approvals on the conduction of operations with assets valued at more than 1 per cent. of the total balance sheet value of the bank's assets.

Pursuant to the Bank Insolvency Law, the temporary administration may request that the CBR imposes a moratorium on the performance of monetary obligations of the bank. Such moratorium would cover all monetary obligations that arose prior to the appointment of the temporary administration regardless of the maturity date of such obligations.

The temporary administration may also repudiate contracts of the bank that has not been fulfilled and the fulfilment of which, in the opinion of the temporary administration, will lead to losses in comparison with performance of similar transactions or would impede the recovery of the bank's financial standing.

Furthermore, under the Bank Insolvency Law, the temporary administration may file claims for the invalidation of certain transactions of the bank.

#### *Interested Party Transactions*

For the purposes of the Bank Insolvency Law, an interested party transaction is a transaction with a person that is under common control with, controlled by or controlling the bank and in the result of performance of which the bank or any creditor sustained or may sustain damages.

#### *Transactions at Under Value*

For the purposes of the Bank Insolvency Law, a transaction at under value is a transaction the value or other terms and conditions of which are significantly worse than the value or terms and conditions of similar transaction entered into under comparable circumstances.

Where the temporary administration is appointed prior to revocation of the bank's licence, the authority of the temporary administration would terminate upon liquidation of the grounds for appointment of the temporary administration envisaged in the Bank Insolvency Law. Otherwise, the head of the temporary administration must request the CBR to revoke the bank's banking licence.

Upon revocation of the banking licence, performance of the bank's obligations in any form is prohibited. The bank must be liquidated either through general proceedings or bankruptcy proceedings. The bank is subject to bankruptcy proceedings if the bank is unable to perform its obligation in the aggregate of RUR 100,000 within 14 days as they fall due or the assets of the bank are insufficient to satisfy claims of its creditors. A creditor's claim is admitted if it is established by a court decision and the creditor submits documents confirming that the debtor failed to fulfil the court decision within a month from submission of the court decision to the bailiff's office.

The court should consider the insolvency claims on the merits within 2 months from the date of admission the application and decide on whether to declare the bank insolvent and commence the liquidation proceedings.

Under Russian insolvency legislation, if the bank is declared bankrupt the claims of its creditors are satisfied in the following order of priority:

*First order of priority* — (i) claims in tort, (ii) claims of retail depositors and individuals holding current accounts with the bank, (iii) claims of the Agency for Insurance of Deposits in respect of bank deposits and bank accounts transferred to it pursuant to the Retail Deposits Insurance Law and (iv) claims of the CBR transferred to it pursuant to applicable legislation in the event that the CBR was required to repay amounts of deposits by individuals with banks that were declared insolvent and did not participate in the Russian mandatory deposits' insurance system.

*Second order of priority* — claims under employment contracts and other social benefits and copyright claims;

*Third order of priority* — claims of other creditors including claims of retail depositors with respect to loss profits and financial penalties. Claims of creditors secured by pledge are satisfied from the sale proceeds of the pledged property prior to claims of all other creditors, save for claims of creditors of the first and second orders of priority.

Claims of creditors under subordinated loans, deposits and bonds are satisfied after the satisfaction of all other claims. Claims of each category of creditors must be satisfied in full before claims of the next category are considered.

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