

Open joint-stock company
The Agency for Housing Mortgage Lending

Condensed Consolidated Interim
Financial Statements
for the Six Months Ended 30 June 2008

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Independent Auditors' Report

To the Supervisory Board
Open Joint-Stock Company "The Agency for Housing Mortgage Lending" (OJSC "AHML")

Report on Review of the Consolidated Interim Financial Information

Introduction

We have reviewed the accompanying condensed consolidated interim balance sheet of OJSC "The Agency for Housing Mortgage Lending" and its subsidiary (the "Group") as at 30 June 2008, and the related condensed consolidated interim statements of income, changes in shareholders' equity and cash flows for the six-month period then ended (the "consolidated interim financial information"). Management is responsible for the preparation and presentation of this consolidated interim financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the consolidated interim financial information of the Group as at 30 June 2008 and for the six-month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.


ZAO KPMG
11 September 2008

	Note	Six months ended 30 June 2008 RUR'000 (unaudited)	Six months ended 30 June 2007 RUR'000 (unaudited)
Interest income		4 458 987	2 942 352
Interest expense		(2 799 986)	(1 702 536)
Net interest income		1 659 001	1 239 816
Impairment losses	4	(213 557)	(97 309)
Provision for financial guarantees provided		4 958	-
Net interest income after impairment losses		1 450 402	1 142 507
Commission expense		(457 805)	(352 109)
Net other income		67 283	11 669
		1 059 880	802 067
General administrative expenses		(422 637)	(308 749)
Profit before tax		637 243	493 318
Income tax expense		(153 197)	(105 949)
Net profit		484 046	387 369

The condensed consolidated interim financial statements as set out on pages 4 to 14 were approved for issue on 11 September 2008.



Alexandr N. Semenyaka
Chief Executive Officer



Lubov B. Chernyshova
Chief Accountant

	Notes	30 June 2008 RUR'000 (unaudited)	31 December 2007 RUR'000
ASSETS			
Cash and cash equivalents		3 718 373	3 742 735
Receivables from service agents		435 712	861 395
Mortgage loans	4		
- owned by the Agency		54 892 517	45 630 843
- sold but not derecognised		2 925 045	3 182 946
- pledged as collateral		11 552 896	12 726 926
Other assets		135 828	110 933
Property and equipment		218 743	149 403
Current income tax asset		-	36 312
Total assets		73 879 114	66 441 493
LIABILITIES AND SHAREHOLDER'S EQUITY			
Bonds issued	5	46 301 040	33 203 500
Financing secured by mortgage loans		2 947 847	3 189 111
Bank loans		13 162 567	19 110 989
Deferred tax liability		87 541	93 617
Current income tax liability		24 460	-
Other liabilities		389 664	362 327
Total liabilities		62 913 119	55 959 544
Shareholder's equity			
Share capital		9 359 543	9 359 543
Share premium		500 000	500 000
Retained earnings		1 106 452	622 406
Total shareholder's equity		10 965 995	10 481 949
Total liabilities and shareholder's equity		73 879 114	66 441 493

OJSC "AHML"
Condensed Consolidated Interim Statement of Cash Flows
for the Six Months Ended 30 June 2008

	Six months ended 30 June 2008 RUR'000 (unaudited)	Six months ended 30 June 2007 RUR'000 (unaudited)
Cash flows used in operating activities	(1 969 165)	(16 961 154)
Cash flows used in investing activities	(54 912)	(16 543)
Cash flows from financing activities	1 999 715	18 069 964
Net (decrease)/increase in cash and cash equivalents	(24 362)	1 092 267
Cash and cash equivalents at beginning of the period	3 742 735	333 370
Cash and cash equivalents at end of the period	3 718 373	1 425 637

OJSC "AHML"
Condensed Consolidated Interim Statement of Changes in Shareholder's Equity
for the Six Months Ended 30 June 2008

	Share capital RUR'000	Share premium RUR'000	Retained earnings RUR'000	Total RUR'000
Balance at 1 January 2007	5 359 543	-	173 346	5 532 889
Net profit for the period (unaudited)	-	-	387 369	387 369
Balance at 30 June 2007 (unaudited)	5 359 543	-	560 715	5 920 258
Balance at 1 January 2008	9 359 543	500 000	622 406	10 481 949
Net profit for the period (unaudited)	-	-	484 046	484 046
Balance at 30 June 2008 (unaudited)	9 359 543	500 000	1 106 452	10 965 995

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

1 Background

Principal activities

The principal activity of Open joint-stock company "The Agency for Housing Mortgage Lending" (OJSC "AHML" or the "Agency") is the wholesale purchase of mortgage loans. The Agency purchases pools of mortgage loans from originators operating throughout the Russian Federation. The administration of mortgage loans is performed by authorized independent financial institutions ("the service agents").

The Agency also provides methodological and technical support to the participants of the Russian mortgage lending market. The Agency is wholly owned by the Federal Agency for Federal Property Management acting on behalf of the Federal Government of the Russian Federation.

These condensed consolidated interim financial statements of the Agency for the six months ended 30 June 2008 comprise financial statements of the Agency, and consolidated special purpose entities: Closed Joint Stock Company "First Mortgage Agent of AHML", and Closed Joint Stock Company "Second Mortgage Agent of AHML" (together referred to as the "Group").

The Group operates in industry where significant seasonal or cyclical variations in operating income are not experienced during the financial year.

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 condensed consolidated interim financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Agency and the Group. The future business environment may differ from management's assessment.

2 Basis of Preparation

Statement of compliance

The condensed consolidated interim financial statements of the Group have been prepared in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting". They do not include all of the information required for full financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2007, as these condensed consolidated interim financial statements provide an update of previously reported financial information.

Basis of measurement

The condensed consolidated interim financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and financial instruments available for sale are stated at fair value.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUR"). Management have determined the Group's functional currency to be RUR as it reflects the economic substance of the underlying events and circumstances of the Group. RUR is also the Group's presentation currency for the purposes of these condensed consolidated interim financial statements. Financial information presented in RUR has been rounded to the nearest thousand.

Use of estimates and judgments

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these condensed consolidated interim financial statements in conformity with IFRS. Actual results could differ from those estimates.

In preparing these condensed consolidated interim financial statements the significant judgements made by Management in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial statements of the Group for the year ended 31 December 2007.

3 Significant Accounting Policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are consistent with those applied by the Group in the consolidated financial statements for the year ended 31 December 2007.

4 Mortgage Loans

Mortgage loan impairment

The Group has assessed its portfolio of mortgage loans for impairment on a collective basis as at 30 June 2008 and 31 December 2007 and recognized an impairment loss of RUR 889 340 thousand (31 December 2007: RUR 675 783 thousand). Mortgage loans in these condensed consolidated interim financial statements are shown net of impairment loss allowance.

	30 June 2008	31 December 2007
	RUR'000	RUR'000
Gross mortgage loans	70 259 798	62 216 498
Impairment allowance	(889 340)	(675 783)
Net mortgage loans	69 370 458	61 540 715

Analysis of movements in the mortgage loans impairment:

	Six months ended	Six months ended
	30 June 2008	30 June 2007
	RUR'000	RUR'000
Balance as at 1 January	675 783	92 102
Impairment loss	213 557	97 309
Balance as at 30 June	889 340	189 411

As at 30 June 2008, the Group has mortgage loans with a total gross amount of RUR 4 032 652 thousand (31 December 2007: RUR 2 715 578 thousand), for which one or more monthly installment payments were overdue.

The ageing analysis of overdue mortgage loans as at 30 June 2008 is presented below:

	30 June 2008	31 December 2007
	RUR'000	RUR'000
Overdue less than 90 days	1 302 857	1 082 532
Overdue for 90-180 days	797 707	798 409
Overdue for more than 180 days	1 932 088	834 637
Net mortgage loans overdue	4 032 652	2 715 578

Management used its judgment to estimate the amount of impairment losses incurred as at 30 June 2008. Management estimated the amount of impairment losses incurred as at 30 June 2008 as the difference between the present value of estimated future cash flows expected from foreclosure of collateral discounted at the mortgage loan's original effective interest rate and the carrying amount of the mortgage loan based on the probability that loan with overdue payments will not be brought current and will be collected through foreclosure. The following key assumptions were used in assessing the impairment losses:

- Management has assumed historic data on migration of losses serves as appropriate basis for estimation of impairment losses.
- Management has assumed a delay of 12 months in obtaining proceeds from the foreclosure of collateral, which is not compensated by related interest income.
- Management has assumed a discount of 25% to the originally appraised value if the property pledged is sold through the court procedure.

As mortgage lending is relatively new to Russia, the Group and the industry have limited historical experience in this type of lending on which to base the assessment of impairment. Changes in these estimates could effect the loan impairment allowance.

Loans transferred to third parties or pledged

Mortgage loans transferred but not derecognized

Included in mortgage loans, as at 30 June 2008, are loans of RUR 2 947 847 thousand (31 December 2007: RUR 3 189 111 thousand) which were transferred by the Group to third parties, against which an impairment allowance of RUR 22 802 thousand (31 December 2007: RUR 6 165 thousand) was recognized. According to the terms of the transfer, the Agency continues to service the mortgage loans transferred and it has an obligation to repurchase back the mortgage loans in case of default and in certain other cases. Management estimated that the Group has not transferred the majority of risks associated with mortgage loans transferred and that the transfer therefore does not qualify for derecognition. A corresponding liability of RUR 2 947 847 thousand (31 December 2007: RUR 3 189 111 thousand) to the purchasers in respect of the transfer has been recognized in these condensed consolidated interim financial statements as financing secured by mortgage loans.

Interest income of RUR 236 222 thousand received for mortgage loans transferred is included within interest income for the six months ended 30 June 2008 (six months ended 30 June 2007: RUR 278 005 thousand). Interest expense of RUR 210 015 thousand paid to a transferee is included within interest expense for the six months ended 30 June 2008 (six months ended 30 June 2007: RUR 248 200 thousand).

Mortgage loans sold and derecognized

As at 30 June 2008, the outstanding balance of mortgage loans sold and which qualify for derecognition under IFRS, for which the Agency has an obligation to repurchase defaulted mortgage loans, is RUR 3 660 884 thousand (31 December 2007: RUR 4 086 159 thousand). As at 30 June 2008, the Group recognized a provision for the liability to repurchase defaulted sold mortgage loans transferred of RUR 5 801 thousand (31 December 2007: RUR 10 759 thousand).

Loans pledged as collateral

Included in mortgage loans, as at 30 June 2008, are loans of RUR 2 238 643 thousand (31 December 2007: RUR 2 579 415 thousand) which were transferred by the Agency to Closed Joint Stock Company "First Mortgage Agent of AHML", a consolidated special purpose entity, against which an impairment allowance of RUR 4 458 thousand (31 December 2007: RUR 5 375 thousand) was recognized. These mortgage loans are included in the Group's consolidated balance sheet. The mortgage loans transferred by the Agency to Closed Joint Stock Company "First Mortgage Agent of AHML" are pledged as collateral for mortgage-backed securities which were issued by Closed Joint Stock Company "First Mortgage Agent of AHML".

Included in mortgage loans, as at 30 June 2008, are loans of RUR 9 337 055 thousand (31 December 2007: RUR 10 163 495 thousand) which were transferred by the Agency to Closed Joint Stock Company "Second Mortgage Agent of AHML", a consolidated special purpose entity, against which impairment allowance of RUR 18 344 thousand (31 December 2007: RUR 10 609 thousand) was recognized. These mortgage loans are included in the Group's consolidated balance sheet. The mortgage loans transferred by the Agency to Closed Joint Stock Company "Second Mortgage Agent of AHML" are pledged as collateral for mortgage-backed securities which were issued by Closed Joint Stock Company "Second Mortgage Agent of AHML".

5 Bonds Issued

Bonds issued by the Group as at 30 June 2008 comprise:

<u>Issue number</u>	<u>Maturity</u>	<u>Coupon rate and period</u>	<u>Effective interest rate</u>	<u>Nominal RUR'000</u>	<u>Carrying value RUR'000</u>
A1	1 December 2008	11.0%, paid semi-annually	9.87%	1 070 000	1 085 048
A2	1 February 2010	11.0%, paid semi-annually	11.53%	1 500 000	1 562 824
A3	15 April 2008 – 30% of the issue; 15 April 2009 – 30% of the issue; 15 October 2010 – 40% of the issue	9.4%, paid quarterly	9.96%	1 575 000	1 600 801
A4	1 February 2012	8.7%, paid quarterly	9.15%	900 000	908 589
A5	15 July 2011 - 40% of the issue; 15 October 2012 - 60% of the issue	7.35%, paid quarterly	7.69%	2 200 000	2 224 599
A6	15 July 2011 - 20% of the issue; 15 July 2013 - 40% of the issue; 15 July 2014 - 40% of the issue	7.4%, paid quarterly	7.70%	2 500 000	2 529 671
A7	15 October 2013 - 50% of the issue; 15 July 2015 - 25% of the issue; 15 July 2016 - 25% of the issue	7.68%, paid quarterly	7.95%	4 000 000	4 054 494
A8	15 June 2012 - 40% of the issue; 15 March 2014 - 30% of the issue; 15 June 2017 - 15% of the issue; 15 June 2018 - 15% of the issue. The Group has a right to redeem the bonds on 15 March 2014	7.63%, paid quarterly	7.91%	5 000 000	5 003 372
A9	15 February 2013 - 40% of the issue; 15 February 2015 - 20% of the issue; 15 February 2016 - 20% of the issue; 15 February 2017 - 20% of the issue. The Group has a right to redeem the bonds on 15 February 2015	7.49%, paid quarterly	7.76%	5 000 000	5 033 218
A10	15 November 2014 - 50% of the issue; 15 November 2016 - 25% of the issue; 15 November 2018 - 25% of the issue. The Group has a right to redeem the bonds on 15 November 2016	8.05%, paid semi-annually	8.26%	6 000 000	6 044 797
A11	15 September 2015 - 30% of the issue; 15 September 2016 - 20% of the issue; 15 September 2017 - 20% of the issue; 15 September 2018 - 10% of the issue; 15 September 2019 - 10% of the issue; 15 September 2020 - 10% of the issue	8.2%, paid quarterly	8.50%	10 000 000	10 008 811

Bonds issued by the Group as at 30 June 2008 comprise (Continued):

<u>Issue number</u>	<u>Maturity</u>	<u>Coupon rate and period</u>	<u>Effective interest rate</u>	<u>Nominal RUR'000</u>	<u>Carrying value RUR'000</u>
FMA tranche "A"	Pass-through redemption. Final contractual maturity - 15 February 2039	6.94%, paid quarterly	8.50%	1 929 602	1 868 491
FMA tranche "B"	Pass-through redemption. Final contractual maturity - 15 February 2039	9.5%, paid quarterly	10.66%	264 000	256 017
SMA tranche "A"	Pass-through redemption. Final contractual maturity - 15 March 2040	8.5%, paid quarterly	8.56%	4 052 801	4 120 308
				<u>45 991 403</u>	<u>46 301 040</u>

All of the bonds issued carry a fixed coupon rate.

The bonds of A1, A2, A3 issues are fully guaranteed by the Federal Government of the Russian Federation. The bonds of A4, A5, A6, A7, A8, A9, A10 and A11 issues are guaranteed by the Federal Government of the Russian Federation up to their principal amounts.

In February 2008, the Group issued mortgage-backed securities with a total nominal value of RUR 10 727 617 thousand secured by a pool of mortgage loans. These mortgage-backed securities were issued by Closed Joint Stock Company "Second Mortgage Agent of AHML" (SMA AHML), a consolidated special purpose entity. A portion of the tranche "A" with a nominal value of RUR 4 650 000 thousand was sold to third parties. The remaining portion of the tranche "A" with a nominal value of RUR 4 790 000 thousand, tranche "B" and tranche "C" (subordinated tranche) with a total nominal value of RUR 1 287 617 thousand were retained by the Group and therefore they are not included in these consolidated interim financial statements. Mortgage-backed securities are subject to pass-through redemption as the underlying mortgage loans are being repaid, and they may be repaid before contractual repayment dates in case of earlier repayment of underlying mortgage loans. A final repayment date of mortgage-backed securities is March 2040. Bondholders of tranche A bonds can early redeem their bonds on 30 July 2009. As at 30 June 2008, the carrying value of mortgage loans pledged as collateral under mortgage-backed securities is RUR 9 318 711 thousand.

In May 2007, the Group issued mortgage-backed securities with a total nominal value of RUR 3 294 794 thousand secured by a pool of mortgage loans. These mortgage-backed securities were issued by Closed Joint Stock Company "First Mortgage Agent of AHML" (FMA AHML), a consolidated special purpose entity. Tranche "A" and tranche "B" with a total nominal value of RUR 2 193 602 thousand were sold to third parties, and tranche "C" (subordinated tranche) with a nominal value of RUR 130 794 thousand was retained by the Group and therefore it is not included in these consolidated interim financial statements. Mortgage-backed securities are subject to pass-through redemption as the underlying mortgage loans are being repaid, and they may be repaid before contractual repayment dates in case of earlier repayment of underlying mortgage loans. A final repayment date of mortgage-backed securities is February 2039. As at 31 December 2007 the mortgage-backed securities were secured by a pool of mortgage loans with a carrying value of RUR 2 234 185 thousand.

Bonds issued by the Group as at 31 December 2007 comprise:

Issue number	Maturity	Coupon rate and period	Effective interest rate	Nominal RUR'000	Carrying value RUR'000
A1	1 December 2008	11.0%, paid semi-annually	9.87%	1 070 000	1 092 021
A2	1 February 2010	11.0%, paid semi-annually	11.53%	1 500 000	1 562 430
A3	15 April 2008 – 30% of the issue; 15 April 2009 – 30% of the issue; 15 October 2010 – 40% of the issue	9.4%, paid quarterly	9.96%	2 250 000	2 284 932
A4	1 February 2012	8.7%, paid quarterly	9.15%	900 000	907 803
A5	15 July 2011 - 40% of the issue; 15 October 2012 - 60% of the issue	7.35%, paid quarterly	7.69%	2 200 000	2 224 031
A6	15 July 2011 - 20% of the issue; 15 July 2013 - 40% of the issue; 15 July 2014 - 40% of the issue	7.4%, paid quarterly	7.70%	2 500 000	2 529 537
A7	15 October 2013 - 50% of the issue; 15 July 2015 - 25% of the issue; 15 July 2016 - 25% of the issue	7.68%, paid quarterly	7.95%	4 000 000	4 054 779
A8	15 June 2012 - 40% of the issue; 15 March 2014 - 30% of the issue; 15 June 2017 - 15% of the issue; 15 June 2018 - 15% of the issue. The Group has a right to redeem the bonds on 15 March 2014	7.63%, paid quarterly	7.91%	5 000 000	5 003 614
A9	15 February 2013 - 40% of the issue; 15 February 2015 - 20% of the issue; 15 February 2016 - 20% of the issue; 15 February 2017 - 20% of the issue. The Group has a right to redeem the bonds on 15 February 2015	7.49%, paid quarterly	7.76%	5 000 000	5 032 394
A10	15 November 2014 - 50% of the issue; 15 November 2016 - 25% of the issue; 15 November 2018 - 25% of the issue. The Group has a right to redeem the bonds on 15 November 2016	8.05%, paid semi-annually	8.26%	6 000 000	5 984 645
FMA tranche "A"	Pass-through redemption. Final contractual maturity - 15 February 2039	6.94%, paid quarterly	8.50%	2 347 579	2 271 706
FMA tranche "B"	Pass-through redemption. Final contractual maturity - 15 February 2039	9.5%, paid quarterly	10.66%	264 000	255 608
				33 031 579	33 203 500

6 Ratio of Total Shareholder's Equity to Total Assets

The following table shows the ratio of the Group's total shareholder's equity to the Group's total assets as at 30 June 2008:

	30 June 2008 (unaudited)	31 December 2007
Share capital, RUR'000	9 359 543	9 359 543
Share premium, RUR'000	500 000	500 000
Retained earnings, RUR'000	1 106 452	622 406
Total shareholder's equity	10 965 995	10 481 949
Total assets, RUR'000	73 879 114	66 441 493
Total shareholder's equity expressed as percentage of assets, %	14.8%	15.8%