

Open Joint-Stock Company  
The Agency for Housing Mortgage Lending

Financial Statements  
for the Year Ended 31 December 2005

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**ZAO KPMG**  
11 Gogolevsky Boulevard  
Moscow 119019  
Russia

Tel. +7 (495) 937 4477  
Fax +7 (495) 937 4400/99  
www.kpmg.ru

## Independent Auditors' Report

To the Supervisory Board of Open Joint-Stock  
Company "The Agency for Housing Mortgage  
Lending"

We have audited the accompanying balance sheets of Open Joint-Stock Company "The Agency for Housing Mortgage Lending" (the "Company") as of 31 December 2005 and 2004 and the related statements of income, changes in shareholder's equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.


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

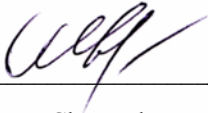
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2005 and 2004, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

ZAO KPMG  
19 December 2006

|   | Notes | <b>2005</b><br><b>RUR'000</b> | <b>2004</b><br><b>RUR'000</b> |
|---|-------|-------------------------------|-------------------------------|
| Interest income   | 4     | 1 122 543                     | 394 225                       |
| Interest expense  | 4     | (681 911)                     | (229 978)                     |
| <b>Net interest income</b>                                |       | <b>440 632</b>                | <b>164 247</b>                |
| Mortgage loan impairment                                  | 9     | (10 500)                      | -                             |
| <b>Net interest income after mortgage loan impairment</b> |       | <b>430 132</b>                | <b>164 247</b>                |
| Commission expense  | 5     | (174 172)                     | (53 671)                      |
| Net other income less expenses                            | 6     | 346                           | 1 058                         |
| <b>Operating income</b>                                   |       | <b>256 306</b>                | <b>111 634</b>                |
| General administrative expenses                           | 7     | (162 758)                     | (104 469)                     |
| <b>Profit before tax</b>                                  |       | <b>93 548</b>                 | <b>7 165</b>                  |
| Income tax expense  | 8     | (24 561)                      | (5 011)                       |
| <b>Net profit</b>   |       | <b>68 987</b>                 | <b>2 154</b>                  |

The financial statements as set out on pages 4 to 31 were approved for issue on 19 December 2006.

  
\_\_\_\_\_  
Alexandr N. Semenyaka  
Chief Executive Officer

  
\_\_\_\_\_  
Lubov B. Chernyshova  
Chief Accountant

|   | Notes | <b>2005</b><br><b>RUR'000</b> | <b>2004</b><br><b>RUR'000</b> |
|---|-------|-------------------------------|-------------------------------|
| <b>ASSETS</b>   |       |                               |                               |
| Cash and cash equivalents                               | 19    | 1 338 457                     | 765 646                       |
| Promissory notes available for sale                     |       | 655 092                       | 398 493                       |
| Receivables from service agents                         |       | 263 582                       | 89 416                        |
| Mortgage loans  |       |                               |                               |
| - owned by the Agency                                   | 9     | 9 778 780                     | 4 387 236                     |
| - transferred but not derecognized                      | 9     | 982 189                       | 55 099                        |
| Property and equipment                                  | 11    | 39 851                        | 16 912                        |
| Other assets  | 10    | 31 099                        | 13 159                        |
| Current income tax asset                                |       | 6 348                         | 963                           |
| Deferred tax asset                                      | 8     | 15 448                        | 15 990                        |
| <b>Total assets</b>                                     |       | <b>13 110 846</b>             | <b>5 742 914</b>              |
| <b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>             |       |                               |                               |
| Bonds issued  | 12    | 10 573 966                    | 4 941 056                     |
| Liabilities secured by mortgage loans                   | 9     | 982 189                       | 55 099                        |
| Deferred tax liability                                  | 8     | 1 427                         | 1 435                         |
| Other liabilities                                       | 13    | 54 682                        | 13 805                        |
| <b>Total liabilities</b>                                |       | <b>11 612 264</b>             | <b>5 011 395</b>              |
| <b>Shareholder's equity</b>                             |       |                               |                               |
| Share capital   | 14    | 959 543                       | 959 543                       |
| Additional share capital in the process of registration | 14    | 700 000                       | -                             |
| Retained losses   |       | (160 961)                     | (228 024)                     |
| <b>Total shareholder's equity</b>                       |       | <b>1 498 582</b>              | <b>731 519</b>                |
| <b>Total liabilities and shareholder's equity</b>       |       | <b>13 110 846</b>             | <b>5 742 914</b>              |

*OJSC AHML*  
*Statement of Cash Flows*  
*for the year ended 31 December 2005*

|  | Notes | <b>2005</b><br><b>RUR'000</b> | <b>2004</b><br><b>RUR'000</b> |
|--|-------|-------------------------------|-------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                    |       |                               |                               |
| Interest received  |       | 1 047 705                     | 380 402                       |
| Interest paid  |       | (617 001)                     | (126 488)                     |
| Commissions paid   |       | (174 172)                     | (53 671)                      |
| Net other income less expenses                                 |       | 357                           | 1 249                         |
| General administrative expenses                                |       | (158 428)                     | (101 600)                     |
| <b>(Increase)/decrease in operating assets</b>                 |       |                               |                               |
| Promissory notes available for sale                            |       | (256 293)                     | 285 039                       |
| Securities held for trading                                    |       | -                             | 68 928                        |
| Receivables from service agents                                |       | (98 991)                      | (34 245)                      |
| Mortgage loans   |       | (6 329 509)                   | (3 731 459)                   |
| Other assets   |       | (18 098)                      | (6 994)                       |
| <b>Increase/(decrease) in operating liabilities</b>            |       |                               |                               |
| Other liabilities  |       | 43 502                        | 9 138                         |
| <b>Net cash used in operating activities before taxes paid</b> |       | <b>(6 560 928)</b>            | <b>(3 309 701)</b>            |
| Income taxes paid  |       | (29 415)                      | (6 634)                       |
| <b>Cash flows used in operating activities</b>                 |       | <b>(6 590 343)</b>            | <b>(3 316 335)</b>            |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                    |       |                               |                               |
| Net purchases of property and equipment                        |       | (30 012)                      | (11 533)                      |
| <b>Cash flows used in investing activities</b>                 |       | <b>(30 012)</b>               | <b>(11 533)</b>               |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                    |       |                               |                               |
| Bonds issued   |       | 5 584 044                     | 3 729 076                     |
| Bonds repaid   |       | (16 044)                      | (27 028)                      |
| Shares issued but not registered                               | 14    | 700 000                       | -                             |
| Liabilities secured by mortgage loans                          |       | 927 090                       | 55 099                        |
| Dividends paid   |       | (1 924)                       | (10 120)                      |
| <b>Cash flows from financing activities</b>                    |       | <b>7 193 166</b>              | <b>3 747 027</b>              |
| <b>Net increase in cash and cash equivalents</b>               |       | <b>572 811</b>                | <b>419 159</b>                |
| Cash and cash equivalents at the beginning of the year         |       | 765 646                       | 346 487                       |
| <b>Cash and cash equivalents at the end of the year</b>        | 19    | <b>1 338 457</b>              | <b>765 646</b>                |

The statement of cash flows is to be read in conjunction with the Notes to, and forming part of, the financial statements.

*OJSC AHML*  
*Statement of Changes in Shareholder's Equity*  
*for the year ended 31 December 2005*

|                                    | <b>Share capital<br/>RUR'000</b> | <b>Additional share<br/>capital in the<br/>process of<br/>registration<br/>RUR'000</b> | <b>Retained<br/>losses<br/>RUR'000</b> | <b>Total<br/>RUR'000</b> |
|------------------------------------|----------------------------------|--|--|--------------------------|
| <b>Balance at 1 January 2004</b>   | <b>959 543</b>                   | -  | <b>(220 058)</b>                       | <b>739 485</b>           |
| Net profit for the period          | -                                | -  | 2 154                                  | 2 154                    |
| Dividends                          | -                                | -  | (10 120)                               | (10 120)                 |
| <b>Balance at 31 December 2004</b> | <b>959 543</b>                   | -  | <b>(228 024)</b>                       | <b>731 519</b>           |
| Net profit for the period          | -                                | -  | 68 987                                 | 68 987                   |
| Shares issued but not registered   | -                                | 700 000  | -                                      | 700 000                  |
| Dividends                          | -                                | -  | (1 924)                                | (1 924)                  |
| <b>Balance at 31 December 2005</b> | <b>959 543</b>                   | <b>700 000</b>   | <b>(160 961)</b>                       | <b>1 498 582</b>         |

## **1 Background**

### ***Principal Activities***

The principal activity of Open Joint-Stock Company “The Agency for Housing Mortgage Lending” (the “Agency”) is the wholesale purchases of mortgage loans. The Agency purchases pools of mortgage loans from originators and other entities operating throughout the Russia. The administration of mortgage loans is performed by authorized independent financial institutions (the “service agents”) the majority of which are also originators of mortgage loans.

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.

The major source of funding for the Agency is bonds issued. As at 31 December 2005, all of the bonds issued by the Agency are guaranteed by the Federal Government of the Russian Federation.

All revenues of the Agency are derived from operations in Russia.

As at 31 December 2005 the Agency has 130 employees (31 December 2004: 90 employees).

The Agency was registered in the Russian Federation on 5 September 1997.

The Agency’s legal address is 69 Bldg. B, Novocheremushkinskaya st., Moscow, 117418, Russia.

### ***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 Agency. The future business environment may differ from management’s assessment.

## **2 Basis of Preparation**

### ***Statement of compliance***

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These are the Agency’s first financial statements prepared in accordance with IFRS and IFRS 1 “First Time Adoption of International Financial Reporting Standards” has been applied. An explanation of how the transition to IFRS has affected the reported financial position and financial performance of the Agency is provided in Note 23.

### ***Basis of measurement***

The 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 Agency’s functional currency to be RUR as it reflects the economic substance of the underlying events and circumstances of the Agency. RUR is also the Agency’s presentation currency for the purposes of these 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 financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the Note 9 in respect of mortgage loan impairment estimates and the application of asset de-recognition rules.

### **3 Significant Accounting Policies**

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

#### ***Foreign currency transactions***

Transactions in foreign currencies are translated to the functional currency 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 the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognized in the income statement. As at 31 December 2005, the official foreign exchange rates established by the Central Bank of the Russian Federation used for translation of balances in foreign currencies were 28.7825 RUR/USD and 34.185 RUR/EUR (31 December 2004: 27.7487 RUR/USD and 37.8104 RUR/EUR).

#### ***Cash and cash equivalents***

Cash and cash equivalents are items which can be converted into cash within three months. Cash and cash equivalents comprise petty cash, current accounts with banks and short-term deposits with banks.

#### ***Financial instruments***

##### *Classification*

*Financial instruments at fair value through profit or loss* are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- upon initial recognition, designated by the entity as at fair value through the profit or loss.

*Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Agency intends to sell immediately or in the near term,
- those that the Agency at initial recognition designates as at fair value through profit or loss, or
- those which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

As at 31 December 2005, the Agency classifies all mortgage loans purchased as loans and receivables.

*Held-to-maturity investments* are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Agency has the positive intention and ability to hold to maturity, other than those that:

- the Agency at initial recognition designates as at fair value through profit or loss;
- those that the Agency designates as available for sale; or
- those that meet the definition of loans and receivables.

*Available for sale assets* are those financial assets that have been designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

*Recognition*

Financial assets and liabilities are recognized in the balance sheet when the Agency becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

*Measurement*

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method;
- held-to-maturity investments which are measured at amortized cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost. Amortized cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

*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.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Agency 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.

*Gains and losses on subsequent measurement*

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in the income statement;
- a gain or loss on an available for sale financial asset is recognized directly in equity through the statement of changes in shareholder's equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in the income statement. Interest income in relation to an available for sale financial asset is recognized as earned in the income statement calculated using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in the income statement when the financial asset or liability is derecognized or impaired, and through the amortization process.

*Derecognition*

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or when the Agency transfers substantially all of the risks and rewards of ownership of the financial asset.

If the Agency neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, a financial asset is derecognized if the Agency has not retained control of the financial asset.

Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities.

A financial liability is derecognized when it is extinguished.

***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 recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

***Property and equipment***

*Owned assets*

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

*Leased assets*

Leases under which the Agency assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired under a finance lease agreement is stated at the 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 and impairment losses.

Payments under operating leases where the Agency does not assume substantially all the risks and rewards of ownership are expensed over the term of the lease.

*Depreciation*

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

|                       |               |
|-----------------------|---------------|
| Equipment             | 4 to 10 years |
| Fixtures and fittings | 4 to 10 years |
| Other                 | 3 to 10 years |

*Intangible assets*

Intangible assets, which are acquired by the Agency, are stated at cost less accumulated amortization and impairment losses.

*Amortization*

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

|                   |               |
|-------------------|---------------|
| Computer software | 3 to 10 years |
|-------------------|---------------|

## ***Impairment***

### ***Financial assets carried at amortized cost***

Financial assets carried at amortized cost consist principally of loans and other receivables (“loans and receivables”). The Agency reviews its loans and receivables, to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has an impact on the estimated future cash flows of the loan that can be reliably estimated.

The Agency assesses whether objective evidence of impairment exists individually for each loan or receivable that is individually significant and individually or on a collective basis for a loan or receivable which is not individually significant.

If the Agency determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable’s original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is no available historical data relating to similar borrowers. In such cases, the Agency uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in the income statement and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

### ***Non financial assets***

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell 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. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in the income statement and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

## ***Provisions***

A provision is recognised in the balance sheet when the Agency has a legal or other 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.

***Share capital***

***Share capital***

Share capital comprises the nominal amount of the Agency's shares fully paid by the shareholders and officially registered, adjusted for the effect of hyperinflation.

***Dividends***

The ability of the Agency to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

***Interest income and expenses and fee and commission income and expenses***

With the exception of financial instruments held for trading, interest income and expense are recognized in the income statement using the effective interest method. Interest income on financial instruments held for trading comprises coupon interest only. Accrued discount and premium on financial instruments held for trading is recognized in net gains from financial instruments held for trading.

Fee and commission income and expense is recognized when the corresponding service is provided.

***Net income from financial instruments held for trading***

Net income from financial instruments held for trading includes gains and losses arising from disposals and changes in the fair value of financial instruments held for trading.

***Taxation***

Income tax comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense 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. Temporary differences related to assets or liabilities that affect neither accounting nor taxable profit are not provided for. The amount of deferred tax provided is based on the expected manner of realization 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 recognized 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 utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

***Segment reporting***

Substantially all of the Agency's activities relate to transactions with mortgage loans. Substantially all operations of the Agency are performed in Russia. The Agency does not have distinguishable components which are engaged in providing products or services, which are subject to risks and rewards that are different from those of other components. Therefore the Agency does not provide information by segments.

***Inflation accounting***

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation have been made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of the Agency's assets, liabilities and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

***New Standards and Interpretations not yet adopted***

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2005, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Agency's operations. The Agency plans to adopt these pronouncements when they become effective. The Agency has not yet fully analysed the likely impact of these new standards on its financial statements.

- IFRS 7 “Financial Instruments: Disclosures”, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Agency's financial instruments.
- Amendment to IAS 1 “Presentation of Financial Statements – Capital Disclosures”, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Agency's capital.
- Amendment to IAS 39 “Financial Instruments: Recognition and Measurement – The Fair Value Option”, which is effective for annual periods beginning on or after 1 January 2006. The amendment restricts the designation of financial instruments as at fair value through profit or loss.
- Amendment to IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 4 “Insurance Contracts – Financial Guarantee Contracts”, which is effective for annual periods beginning on or after 1 January 2006. The amendment requires guarantees that are not insurance contracts to be measured at fair value upon initial recognition.
- IFRIC 9 “Reassessment of embedded derivatives”, which is effective for annual periods beginning on or after 1 November 2006, clarifies that an embedded derivative shall be assessed for separation from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a significant change in the terms of the contract, i.e. in the terms of either the host contract or the embedded derivative or both.
- IFRIC 10 “Interim Financial Reporting and Impairment”, which is effective for annual periods beginning on or after 1 November 2006, clarifies that impairment loss recognised in a previous interim period in respect of an investment in an equity instrument or a financial asset carried at cost should not be reversed.

**4 Net Interest Income and Interest Expense**

|                                       | <b>2005<br/>RUR'000</b> | <b>2004<br/>RUR'000</b> |
|---------------------------------------|-------------------------|-------------------------|
| <b>Interest income</b>                |                         |                         |
| Mortgage loans                        | 1 099 798               | 322 452                 |
| Promissory notes available for sale   | 22 745                  | 71 773                  |
|                                       | <b>1 122 543</b>        | <b>394 225</b>          |
| <b>Interest expense</b>               |                         |                         |
| Bonds issued                          | (563 860)               | (225 658)               |
| Loans from banks                      | (88 472)                | (3 828)                 |
| Liabilities secured by mortgage loans | (29 096)                | (36)                    |
| Finance leases                        | (483)                   | (456)                   |
|                                       | <b>(681 911)</b>        | <b>(229 978)</b>        |
|                                       | <b>440 632</b>          | <b>164 247</b>          |

Included in interest income for the year ended 31 December 2004 is interest income of RUR 35 125 thousand (31 December 2004: RUR 45 thousand) received from mortgage loans which have been transferred by the Agency to a third party in a transfer that does not qualify for derecognition.

Included in interest expense for the year ended 31 December 2004 is interest expense of RUR 29 096 thousand (31 December 2004: RUR 36 thousand) for liabilities secured by mortgage loans recognized as a result of this transfer. Refer to Note 9.

## 5 Commission Expense

|                               | <b>2005</b><br><b>RUR'000</b> | <b>2004</b><br><b>RUR'000</b> |
|-------------------------------|-------------------------------|-------------------------------|
| Service fee to service agents | 145 128                       | 42 250                        |
| Service fee to custody banks  | 25 274                        | 9 146                         |
| Other                         | 3 770                         | 2 275                         |
|                               | <b>174 172</b>                | <b>53 671</b>                 |

## 6 Net Other Income Less Expenses

|   | <b>2005</b><br><b>RUR'000</b> | <b>2004</b><br><b>RUR'000</b> |
|---|-------------------------------|-------------------------------|
| Non-operating income                                | 423                           | -                             |
| Foreign exchange gain/loss                          | 14                            | (66)                          |
| Loss on sale of fixed assets                        | (92)                          | (124)                         |
| Gain on sale of securities held for trading         | -                             | 1 203                         |
| Loss on sale of promissory notes available for sale | -                             | (11)                          |
| Other operating income                              | 1                             | 56                            |
|   | <b>346</b>                    | <b>1 058</b>                  |

## 7 General Administrative Expenses

|  | <b>2005</b><br><b>RUR'000</b> | <b>2004</b><br><b>RUR'000</b> |
|--|-------------------------------|-------------------------------|
| Employee compensation                  | (107 766)                     | (69 072)                      |
| Professional services                  | (15 097)                      | (3 778)                       |
| Occupancy                              | (13 038)                      | (12 174)                      |
| Depreciation and amortization          | (7 007)                       | (2 866)                       |
| Repair and maintenance                 | (4 740)                       | (9 725)                       |
| Communication and information services | (3 978)                       | (3 820)                       |
| Taxes other than income tax            | (3 324)                       | (770)                         |
| Other                                  | (7 808)                       | (2 264)                       |
|  | <b>(162 758)</b>              | <b>(104 469)</b>              |

## 8 Income Tax Expense

|                                 | <b>2005</b><br><b>RUR'000</b> | <b>2004</b><br><b>RUR'000</b> |
|---------------------------------|-------------------------------|-------------------------------|
| Current income tax expense      | (24 027)                      | (162)                         |
| Deferred income tax             | (534)                         | (4 849)                       |
| <b>Total income tax expense</b> | <b>(24 561)</b>               | <b>(5 011)</b>                |

The Agency's applicable tax rate for current and deferred tax is 24% (2004: 24%).

**Reconciliation of effective tax rate:**

|                                       | <b>2005<br/>RUR'000</b> | <b>2004<br/>RUR'000</b> |
|---------------------------------------|-------------------------|-------------------------|
| Income before tax                     | 93 548                  | 7 165                   |
| Income tax at the applicable tax rate | (22 452)                | (1 720)                 |
| Non-deductible costs                  | (2 109)                 | (3 380)                 |
| Income taxed at lower tax rates       | -                       | 89                      |
|                                       | <b>(24 561)</b>         | <b>(5 011)</b>          |

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to a net deferred tax asset as of 31 December 2005 (31 December 2004: net deferred tax asset).

**Movement in temporary differences during the year ended 31 December 2005:**

| <b>RUR'000</b>                        | <b>1 January 2005</b> | <b>Recognized in the<br/>income statement</b> | <b>31 December 2005</b> |
|---------------------------------------|-----------------------|---|-------------------------|
| Promissory notes available for sale   | 484                   | 44  | 528                     |
| Other assets                          | (2 645)               | (2 319)                                       | (4 964)                 |
| Tax losses carried forward            | (2 500)               | 2 425   | (75)                    |
| Property and equipment                | 850                   | 1   | 851                     |
| Intangible assets                     | 101                   | (53)  | 48                      |
| Impairment allowance                  | -                     | (2 520)                                       | (2 520)                 |
| Bonds issued                          | (10 572)              | 2 985   | (7 587)                 |
| Finance lease liabilities             | (205)                 | 53  | (152)                   |
| Other                                 | (68)                  | (82)  | (150)                   |
| <b>Deferred tax liability/(asset)</b> | <b>(14 555)</b>       | <b>534</b>                                    | <b>(14 021)</b>         |

**Movement in temporary differences during the year ended 31 December 2004:**

| <b>RUR'000</b>                        | <b>1 January 2004</b> | <b>Recognized in the<br/>income statement</b> | <b>31 December 2004</b> |
|---------------------------------------|-----------------------|---|-------------------------|
| Promissory notes available for sale   | (54)                  | 538   | 484                     |
| Securities held for trading           | (353)                 | 353   | -                       |
| Other assets                          | (4 157)               | 1 512   | (2 645)                 |
| Tax losses carried forward            | (2 259)               | (241)   | (2 500)                 |
| Property and equipment                | 709                   | 141   | 850                     |
| Intangible assets                     | 36                    | 65  | 101                     |
| Bonds issued                          | (13 326)              | 2 754   | (10 572)                |
| Finance lease liabilities             | -                     | (205)   | (205)                   |
| Other                                 | -                     | (68)  | (68)                    |
| <b>Deferred tax liability/(asset)</b> | <b>(19 404)</b>       | <b>4 849</b>                                  | <b>(14 555)</b>         |

The above deductible temporary differences do not expire under current tax legislation.

## 9 Mortgage Loans

### *Mortgage loan maturity*

The maturity of the mortgage loans portfolio is presented in Note 22, which shows the remaining period from the reporting date to the contractual maturity of the mortgage loans comprising the mortgage loans portfolio. Actual repayment dates can differ from contractual dates.

### *Mortgage loan impairment*

The Agency has assessed its portfolio of mortgage loans for impairment on a collective basis as at 31 December 2005 and 2004 and recognized an impairment allowance of RUR 10 500 thousand, as at 31 December 2005 (31 December 2004: nil). Mortgage loans in these financial statements are shown net of this impairment allowance.

All mortgage loans are secured by a pledge of the underlying residential real estate. Management estimates that for the majority of mortgage loans the fair value of collateral exceeds the carrying value of the mortgage loans, as at 31 December 2005 and 2004.

As at 31 December 2005 and 2004, the Agency has the option to sell defaulted mortgage loans to service agents. However under the terms of this option the Agency retained the obligation to reimburse to service agents up to 50% of losses from non-recovered mortgages.

As at 31 December 2005, the Agency has sold 44 defaulted mortgage loans with a total carrying value of RUR 30 346 thousand to service agents under the above option. During 2006, the Agency sold to service agents 23 defaulted mortgage loans with a total carrying value of RUR 16 726 thousand for which, as Management estimates, the impairment triggering event occurred in 2005. The majority of these mortgage loans, as at the date of issue of these financial statements, remain unpaid.

As mortgage lending is relatively new to Russia, the Agency and the industry have limited historical experience in this type of lending on which to base the assessment of impairment. Management uses its judgment to estimate the amount of mortgage loan impairment allowance as at 31 December 2005 and 2004. Changes in these estimates could effect the mortgage loan impairment allowance.

### *Significant credit exposures*

As at 31 December 2005 and 2004, the Agency has no borrowers or groups of related borrowers, whose mortgage loan balances exceed more than 10% of total mortgage loans.

As at 31 December 2005 one service agency is servicing a pool of mortgage loans with an aggregate amount of RUR 1 590 745 thousand, which exceeds 10% of total mortgage loans.

### *Geographical analysis of the mortgage loans portfolio*

All mortgage loans are due from individual borrowers which are residents of the Russian Federation. Geographical analysis of mortgage loans by regions within the Russian Federation is provided below.

Geographical analysis of the mortgage loans portfolio as at 31 December 2005:

| RUR'000                   | Owned by the<br>Agency | Transferred<br>but not<br>derecognised | Total mortgage<br>loans |
|---------------------------|------------------------|--|-------------------------|
| Far-East Federal region   | 388 636                | -                                      | 388 636                 |
| Volga Federal region      | 3 883 868              | 407 490                                | 4 291 358               |
| North-West Federal region | 932 152                | 26 656                                 | 958 808                 |
| Siberia Federal region    | 2 447 818              | 360 109                                | 2 807 927               |
| Ural Federal region       | 688 688                | 106 812                                | 795 500                 |
| Central Federal region    | 1 111 224              | 31 588                                 | 1 142 812               |
| South Federal region      | 326 394                | 49 534                                 | 375 928                 |
|                           | <b>9 778 780</b>       | <b>982 189</b>                         | <b>10 760 969</b>       |

Geographical analysis of the mortgage loans portfolio as at 31 December 2004:

| <b>RUR'000</b>            | Owned by the<br>Agency | Transferred<br>but not<br>derecognised | Total mortgage<br>loans |
|---------------------------|------------------------|--|-------------------------|
| Far-East Federal region   | 171 321                | -                                      | 171 321                 |
| Volga Federal region      | 2 054 478              | -                                      | 2 054 478               |
| North-West Federal region | 348 751                | -                                      | 348 751                 |
| Siberia Federal region    | 1 112 930              | -                                      | 1 112 930               |
| Ural Federal region       | 238 238                | -                                      | 238 238                 |
| Central Federal region    | 363 187                | 55 099                                 | 418 286                 |
| South Federal region      | 98 331                 | -                                      | 98 331                  |
|                           | <b>4 387 236</b>       | <b>55 099</b>                          | <b>4 442 335</b>        |

***Mortgage loans transferred or sold to third parties***

*Mortgage loans transferred but not derecognized*

Included in mortgage loans, as at 31 December 2005, are loans of RUR 982 189 thousand (31 December 2004: RUR 55 099 thousand) loans which were transferred by the Agency to third parties. According to the terms of the transfer, the Agency continues to service the mortgage loans transferred and it has an obligation to re-purchase back the mortgage loans in case of default and in certain other cases. Management estimated that, as at the reporting date, the Agency has not transferred the majority of risks associated with mortgage loans transferred and that the transfer therefore does not qualify for derecognition. As a result, the mortgage loans transferred have been retained within mortgage loans recognized in these financial statements.

A corresponding liability of RUR 982 189 thousand (31 December 2004: RUR 55 099 thousand) to the transferee in respect of the loans transferred has been recognized in these financial statements as liabilities secured by mortgage loans.

Interest income of RUR 35 125 thousand received for mortgage loans transferred is included within interest income for the year ended 31 December 2005 (31 December 2004: RUR 45 thousand). Interest expense of RUR 29 096 thousand paid to the transferee is included within interest income for the year ended 31 December 2005 (31 December 2004: RUR 36 thousand). Refer to Note 4.

*Mortgage loans sold and derecognized*

As at 31 December 2005, the outstanding balance of mortgage loans sold and derecognized, and for which the Agency has an obligation to repurchase defaulted mortgage loans is RUR 442 258 thousand (31 December 2004: nil).

**10 Other Assets**

|                                | <b>2005<br/>RUR'000</b> | <b>2004<br/>RUR'000</b> |
|--------------------------------|-------------------------|-------------------------|
| Prepayments                    | 28 401                  | 12 885                  |
| Overdue receivable from a bank | 20 000                  | 20 000                  |
| Other                          | 2 698                   | 274                     |
|                                | <b>51 099</b>           | <b>33 159</b>           |
| Impairment allowance           | (20 000)                | (20 000)                |
|                                | <b>31 099</b>           | <b>13 159</b>           |

## 11 Property and Equipment

The roll-forward of property and equipment from 31 December 2004 to 31 December 2005:

RUR'000

|                           | Equipment       | Furniture      | Leased assets | Software       | Total           |
|---------------------------|-----------------|----------------|---------------|----------------|-----------------|
| <b>Cost</b>               |                 |                |               |                |                 |
| <b>1 January 2005</b>     | <b>18 595</b>   | <b>3 536</b>   | <b>1 846</b>  | <b>566</b>     | <b>24 543</b>   |
| Additions                 | 12 600          | 534            | 826           | 16 052         | 30 012          |
| Disposals                 | (174)           | (166)          | -             | -              | (340)           |
| <b>31 December 2005</b>   | <b>31 021</b>   | <b>3 904</b>   | <b>2 672</b>  | <b>16 618</b>  | <b>54 215</b>   |
| <b>Depreciation</b>       |                 |                |               |                |                 |
| <b>1 January 2005</b>     | <b>(5 540)</b>  | <b>(1 693)</b> | <b>(185)</b>  | <b>(213)</b>   | <b>(7 631)</b>  |
| Depreciation charge       | (4 624)         | (385)          | (452)         | (1 546)        | (7 007)         |
| Disposals                 | 108             | 166            | -             | -              | 274             |
| <b>31 December 2005</b>   | <b>(10 056)</b> | <b>(1 912)</b> | <b>(637)</b>  | <b>(1 759)</b> | <b>(14 364)</b> |
| <b>Net carrying value</b> |                 |                |               |                |                 |
| <b>31 December 2005</b>   | <b>20 965</b>   | <b>1 992</b>   | <b>2 035</b>  | <b>14 859</b>  | <b>39 851</b>   |

The roll-forward of property and equipment from 31 December 2003 to 31 December 2004:

RUR'000

|                           | Equipment      | Furniture      | Leased assets | Software     | Total          |
|---------------------------|----------------|----------------|---------------|--------------|----------------|
| <b>Cost</b>               |                |                |               |              |                |
| <b>1 January 2004</b>     | <b>10 028</b>  | <b>2 883</b>   | <b>1 324</b>  | <b>262</b>   | <b>14 497</b>  |
| Additions                 | 8 880          | 1 220          | 1 846         | 310          | 12 256         |
| Disposals                 | (313)          | (567)          | (1 324)       | (6)          | (2 210)        |
| <b>31 December 2004</b>   | <b>18 595</b>  | <b>3 536</b>   | <b>1 846</b>  | <b>566</b>   | <b>24 543</b>  |
| <b>Depreciation</b>       |                |                |               |              |                |
| <b>1 January 2004</b>     | <b>(3 539)</b> | <b>(1 983)</b> | <b>(463)</b>  | <b>(143)</b> | <b>(6 128)</b> |
| Depreciation charge       | (2 143)        | (275)          | (372)         | (76)         | (2 866)        |
| Disposals                 | 142            | 565            | 650           | 6            | 1 363          |
| <b>31 December 2004</b>   | <b>(5 540)</b> | <b>(1 693)</b> | <b>(185)</b>  | <b>(213)</b> | <b>(7 631)</b> |
| <b>Net carrying value</b> |                |                |               |              |                |
| <b>31 December 2004</b>   | <b>13 055</b>  | <b>1 843</b>   | <b>1 661</b>  | <b>353</b>   | <b>16 912</b>  |

## 12 Bonds Issued

Bonds issued by the Agency as at 31 December 2005 comprise:

| Issue number | Maturity        | Coupon rate and period     | Effective interest rate | Nominal<br>RUR'000 | Carrying value<br>RUR'000 |
|--------------|-----------------|----------------------------|-------------------------|--------------------|---------------------------|
| A1           | 1 December 2008 | 11.00%, paid semi-annually | 9.87%                   | 1 070 000          | 1 115 801                 |
| A2           | 1 February 2010 | 11.00%, paid semi-annually | 11.53%                  | 1 500 000          | 1 557 890                 |
| A3           | 15 October 2010 | 9.40%, paid quarterly      | 9.93%                   | 2 250 000          | 2 279 460                 |
| A4           | 1 February 2012 | 8.70%, paid quarterly      | 9.14%                   | 900 000            | 905 976                   |
| A5           | 15 October 2012 | 7.35%, paid quarterly      | 7.66%                   | 2 200 000          | 2 203 354                 |
| A6           | 15 July 2014    | 7.40%, paid quarterly      | 7.70%                   | 2 500 000          | 2 511 485                 |
|              |                 |                            |                         | <b>10 420 000</b>  | <b>10 573 966</b>         |

Bonds issued by the Agency as at 31 December 2004 comprise:

| Issue number | Maturity        | Coupon rate and period     | Effective interest rate | Nominal<br>RUR'000 | Carrying value<br>RUR'000 |
|--------------|-----------------|----------------------------|-------------------------|--------------------|---------------------------|
| A1           | 1 December 2008 | 11.00%, paid semi-annually | 9.87%                   | 1 070 000          | 1 126 114                 |
| A2           | 1 February 2010 | 11.00%, paid semi-annually | 11.53%                  | 1 500 000          | 1 555 966                 |
| A3           | 15 October 2010 | 9.40%, paid quarterly      | 9.93%                   | 2 250 000          | 2 258 976                 |
|              |                 |                            |                         | <b>4 820 000</b>   | <b>4 941 056</b>          |

All of the bonds issued carry a fixed coupon rate.

All of the bonds are fully guaranteed by the Federal Government of the Russian Federation.

## 13 Other Liabilities

|   | 2005<br>RUR'000 | 2004<br>RUR'000 |
|---|-----------------|-----------------|
| Payables under mortgage loans transferred | 27 596          | 890             |
| Liabilities to service agents             | 19 799          | 6 971           |
| Advances received                         | 3 648           | 529             |
| Tax payables                              | 856             | 741             |
| Other                                     | 2 783           | 4 674           |
|   | <b>54 682</b>   | <b>13 805</b>   |

## 14 Share Capital

### *Share capital*

The share capital of the Agency as at 31 December 2005 comprised 276 000 ordinary issued and registered shares (31 December 2004: 276 000 ordinary issued and registered shares). All ordinary shares have a nominal value of 2 500 RUR.

During the year ended 31 December 2005 the sole shareholder of the Agency decided to increase the share capital of the Agency through the issue of 280 000 additional ordinary shares with a total nominal amount of RUR 700 000 thousand. The shares were fully paid by the sole shareholder as at 31 December 2005. The share issue has not been registered as at 31 December 2005. Shares issued but not registered are recorded as additional share capital in the process of registration within shareholder's equity.

The structure of the registered share capital is as follows:

| RUR'000                        | 2005<br>RUR'000 | 2004<br>RUR'000 |
|--------------------------------|-----------------|-----------------|
| Share capital at nominal value | 690 000         | 690 000         |
| Inflation adjustment           | 269 543         | 269 543         |
|                                | <b>959 543</b>  | <b>959 543</b>  |

All issued and registered ordinary shares provide equal voting and other rights.

### *Retained earnings and dividends*

The holders of ordinary shares are entitled to receive dividends as declared.

In accordance with the current dividend policy of the Agency approved by the sole shareholder, current year profit which is determined in accordance with legislation of the Russian Federation only may be distributed as dividends. The dividend policy may be changed by the sole shareholder. In accordance with the legislation of the Russian Federation dividends payable are limited by the amount of retained earnings of the Agency, which are determined in accordance with legislation of the Russian Federation. As of the balance sheet date, amounts available for distribution were RUR 104 910 thousand (31 December 2004: RUR 36 879 thousand).

During the year ended 31 December 2005 the Agency declared and paid dividends of RUR 6.97 per ordinary share, totaling RUR 1 924 thousand (31 December 2004: RUR 36.67 per ordinary share, totaling RUR 10 120 thousand).

## 15 Financial Risk Management

Management of risk is fundamental to the business of the Agency and is an essential element of the Agency's operations. The major risks faced by the Agency are those related to credit risk, liquidity risk, market risk, which includes price, fair value interest rate and currency risks, and operational risk. 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 the Agency. The Agency has developed policies and procedures for the management of credit exposures in respect of individual mortgage loans and in respect of service agents which provide mortgage loan administration services to the Agency. The policies and procedures for credit risk management include guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Agency's credit risk. The Agency's credit policies are reviewed and approved by the Management Board.

The Agency only purchases mortgage loans provided to finance purchase of residential real estate. All mortgage loans are secured by pledge of the underlying residential real estate. The value of collateral is confirmed by an independent valuation performed by a licensed independent appraiser.

The Agency establishes the maximum loan limit for each region within the Russian Federation. As at 31 December 2005, the maximum loan limit is RUR 16.2 million for Moscow, Moscow Region and St. Petersburg and from RUR 4.0 million to RUR 9.3 million for other regions in the Russian Federation.

The Agency established the maximum ratio of the loan amount to the estimated fair value of the collateral at 70% at the date of purchase of the mortgage loan by the Agency. The Agency has also established the minimum ratio of the loan amount to the estimated fair value of the collateral at 30% at the date of purchase of the mortgage loan by the Agency.

All borrowers are required to obtain life and disability insurance coverage. All properties pledged as collateral are covered by property insurance.

The Agency establishes requirements for the borrower's financial position and sets limits on the size of the loan and monthly repayment amount depending on the borrower's financial position.

The Agency monitors the timeliness of mortgage loans repayments and identifies overdue individual mortgage loans on a monthly basis. The Agency has established collection policies and procedures in respect of overdue and defaulted mortgage loans. As at 31 December 2005 and 2004, the Agency has the option to sell defaulted mortgage loans to service agents. However under the terms of this option the Agency retained the obligation to reimburse to service agents for up to 50% of losses on non-recovered mortgages.

### ***Liquidity risk***

Liquidity risk exists when the maturities of assets and liabilities do not match. The Agency maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Agency's liquidity policy is reviewed and approved by the Management Board. For further information on the Agency's exposure to liquidity risk as at 31 December 2005 and 2004 refer to Note 22.

### ***Market risk***

#### **Price risk**

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Agency takes a long or short position in a financial instrument.

#### **Fair value interest rate risk**

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rate. Fair value interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period. For further information on the Agency's exposure to fair value interest rate risk, as at 31 December 2005 and 2004, refer to Notes 21 and 22.

#### **Currency risk**

Substantially all of assets, liabilities, income and expenses of the Agency are denominated in Russian Rubles. Substantially all of transactions of the Agency are conducted in Russian Rubles. All mortgage loans are denominated and repaid in Russian Rubles. Therefore Management believes that, as at 31 December 2005 and 2004, the Agency is not exposed to significant currency risk.

The Agency manages its market risk by setting open position limits in relation to financial instruments, which are monitored on a regular basis and reviewed and approved by the Management Board.

### ***Operational risk***

Operational risk is the risk of loss arising from fraud, unauthorized activities, error, omission, inefficiency or systems failure. It arises from all the Agency's activities and is a risk faced by all business organizations. Operational risk includes legal risk.

The Agency's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Agency's reputation with overall cost effectiveness.

## 16 Operating and Finance Leases

Non-cancelable operating lease rentals are payable as follows:

|                            | <b>2005<br/>RUR'000</b> | <b>2004<br/>RUR'000</b> |
|----------------------------|-------------------------|-------------------------|
| Less than one year         | 11 877                  | 11 451                  |
| Between one and five years | 17 657                  | 28 473                  |
|                            | <b>29 534</b>           | <b>39 924</b>           |

The Agency leases a number of premises and equipment under operating lease. The leases typically are for the period of one to five years, with an option to renew the lease.

During the year ended 31 December 2005 RUR 13 038 thousand was recognized as an expense in the income statement in respect of operating leases (31 December 2004: RUR 12 174 thousand).

Finance lease obligations as at 31 December 2005 are payable as follows:

| <b>RUR'000</b>             | <b>Gross<br/>finance lease<br/>obligations</b> | <b>Finance<br/>charge</b> | <b>Net finance<br/>lease<br/>obligations</b> |
|----------------------------|--|---------------------------|--|
| Less than one year         | 645  | 161                       | 484  |
| Between one and five years | 168  | 21                        | 148  |
|                            | <b>813</b>                                     | <b>182</b>                | <b>632</b>                                   |

Finance lease obligations as at 31 December 2004 are payable as follows:

| <b>RUR'000</b>             | <b>Gross<br/>finance lease<br/>obligations</b> | <b>Finance<br/>charge</b> | <b>Net finance<br/>lease<br/>obligations</b> |
|----------------------------|--|---------------------------|--|
| Less than one year         | 987  | 343                       | 644  |
| Between one and five years | 243  | 31                        | 212  |
|                            | <b>1 230</b>                                   | <b>374</b>                | <b>856</b>                                   |

Net finance lease obligations of RUR 632 thousand are included in other liabilities, as at 31 December 2005 (31 December 2004: RUR 856 thousand). Included in interest expense for the year ended 31 December 2005 is RUR 483 thousand of interest expense in respect of finance leases (31 December 2004: RUR 456 thousand).

## 17 Contingencies

### *Insurance*

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Agency does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Agency property or relating to the Agency's operations. Until the Agency obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Agency's operations and financial position.

### *Litigation*

Agency management is unaware of any significant actual, pending or threatened claims against the Agency.

### **Taxation contingencies**

The taxation system in the Russian Federation is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

### **18 Related Party Transactions**

During the year ended 31 December 2005 total remuneration of the members of the Management Board and the Supervisory Board of the Agency, including salary, bonuses and other discretionary compensations, amounts to RUR 11 112 thousand (31 December 2004: RUR 2 904 thousand).

The Agency does not provide post-employment benefit plans or other types of long-term remuneration to the members of the Management Board and the Supervisory Board.

Transactions with other related parties comprise mainly transactions with federal state-owned companies, which are under common control with the Agency.

The following table provides information on operations with promissory notes available for sale issued by Russian state-owned banks:

|   | <b>2005</b><br><b>RUR'000</b> | <b>2004</b><br><b>RUR'000</b> |
|---|-------------------------------|-------------------------------|
| <b>Carrying value as at 1 January</b>             | -                             | 224 190                       |
| Promissory notes purchased during the year        | 651 766                       | 178 388                       |
| Interest income on promissory notes               | 2 222                         | 13 859                        |
| Promissory notes redeemed or sold during the year | -                             | (416 437)                     |
| <b>Carrying value as at 31 December</b>           | <b>653 988</b>                | <b>-</b>                      |

The following table provides information on loans received from Russian state-owned banks:

|   | <b>2005</b><br><b>RUR'000</b> | <b>2004</b><br><b>RUR'000</b> |
|---|-------------------------------|-------------------------------|
| <b>Carrying value as at 1 January</b>   | -                             | -                             |
| Loans obtained during the year          | 1 400 000                     | 711 600                       |
| Interest expense                        | 35 937                        | 3 757                         |
| Loans repaid during the year            | (1 435 937)                   | (715 357)                     |
| <b>Carrying value as at 31 December</b> | <b>-</b>                      | <b>-</b>                      |

During the year ended 31 December 2005, bonds issued by the Agency with a nominal value of RUR 3 333 007 thousand have been purchased by Russian state-owned banks at their initial offerings (31 December 2004: RUR 1 058 007 thousand). During the year ended 31 December 2005 the Agency paid commissions to Russian state-owned banks of RUR 10 731 thousand (31 December 2004: RUR 1 175 thousand) for services related to issues of Agency's bonds. These expenses have been deferred and are being amortized over the life of the bonds.

All bonds issued by the Agency with a total carrying value of RUR 10 573 966 thousand (31 December 2004: RUR 4 941 050 thousand) are fully guaranteed by the Federal Government of the Russian Federation.

Included in general administrative expenses are rent expenses of RUR 11 674 thousand paid to a state-owned entity (31 December 2004: RUR 10 911 thousand).

## 19 Cash and Cash Equivalents

Cash and cash equivalents comprise:

|                                | 2005<br>RUR'000  | 2004<br>RUR'000 |
|--------------------------------|------------------|-----------------|
| Petty cash                     | 4                | 3               |
| Current accounts with banks    | 40 975           | 26 428          |
| Short-term deposits with banks | 1 297 478        | 739 215         |
|                                | <b>1 338 457</b> | <b>765 646</b>  |

## 20 Fair Value of Financial Instruments

The Agency has performed an assessment of the fair value of its financial instruments, as required by IAS 32 "Financial Instruments: Disclosure and Presentation".

The estimated fair value of bonds issued is their quoted price.

The estimated fair value of all other financial assets and liabilities is calculated using the discounted cash flow technique based on estimated future cash flows and discount rates for similar instruments at the balance sheet date. 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 for a similar financial instrument at the balance sheet date.

The following table summarises the fair values of other financial assets and liabilities for which the carrying value does not represent an approximation of their fair value.

|                                       | 2005                  |                           | 2004                  |                           |
|---------------------------------------|-----------------------|---------------------------|-----------------------|---------------------------|
|                                       | Fair Value<br>RUR'000 | Carrying Value<br>RUR'000 | Fair Value<br>RUR'000 | Carrying Value<br>RUR'000 |
| <b>Assets</b>                         |                       |                           |                       |                           |
| Mortgage loans                        | 11 106 331            | 10 770 969                | 4 442 336             | 4 442 335                 |
| <b>Liabilities</b>                    |                       |                           |                       |                           |
| Bonds issued                          | 10 969 278            | 10 573 966                | 4 938 267             | 4 941 056                 |
| Liabilities secured by mortgage loans | 1 027 748             | 982 189                   | 55 099                | 55 099                    |

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

## 21 Average Effective Interest Rates

The table below shows the Agency's interest bearing assets and liabilities, as at 31 December 2005 and 2004, and their corresponding average effective interest rates as at that dates. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

|                                       | 2005                         |  | 2004                         |  |
|---------------------------------------|------------------------------|--|------------------------------|--|
|                                       | Carrying<br>value<br>RUR'000 | Average<br>effective<br>interest<br>rate | Carrying<br>value<br>RUR'000 | Average<br>effective<br>interest<br>rate |
| <b>Interest Bearing Assets</b>        |                              |  |                              |  |
| Short-term deposits with banks        | 1 297 478                    | 5.65%                                    | 739 215                      | 7.50%                                    |
| Promissory notes available for sale   | 655 092                      | 7.80%                                    | 398 493                      | 9.60%                                    |
| Mortgage loans                        |                              |  |                              |  |
| - owned by the Agency                 | 9 778 780                    | 14.85%                                   | 4 387 236                    | 15.00%                                   |
| - transferred but not derecognized    | 982 189                      | 14.98%                                   | 55 099                       | 15.00%                                   |
| <b>Interest Bearing Liabilities</b>   |                              |  |                              |  |
| Bonds issued                          | 10 573 966                   | 9.30%                                    | 4 941 056                    | 10.44%                                   |
| Liabilities secured by mortgage loans | 982 189                      | 12.88%                                   | 55 099                       | 12.00%                                   |

## 22 Maturity Analysis

The following table shows the assets and liabilities by remaining contractual maturity dates as at 31 December 2005. Due to the fact that substantially all the financial instruments of the Agency are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate re-pricing dates.

| <b>RUR'000</b>                             | <b>Less than 1<br/>month</b> | <b>1-3 months</b> | <b>3-12 months</b> | <b>1 years to 5<br/>years</b> | <b>More than 5<br/>years</b> | <b>No maturity</b> | <b>Total</b>        |
|--|------------------------------|-------------------|--------------------|-------------------------------|------------------------------|--------------------|---------------------|
| <b>Assets</b>                              |                              |                   |                    |                               |                              |                    |                     |
| Cash                                       | 683 096                      | 655 361           | -                  | -                             | -                            | -                  | 1 338 457           |
| Promissory notes available for sale        | -                            | 653 988           | 211                | 893                           | -                            | -                  | 655 092             |
| Receivables from service agents            | 263 582                      | -                 | -                  | -                             | -                            | -                  | 263 582             |
| Mortgage loans                             | 32 138                       | 65 187            | 303 564            | 1 487 490                     | 8 872 590                    | -                  | 10 760 969          |
| Property and equipment                     | -                            | -                 | -                  | -                             | -                            | 39 851             | 39 851              |
| Other assets                               | 15 550                       | 6 220             | 4 685              | 4 644                         | -                            | -                  | 31 099              |
| Current tax prepayments                    | -                            | -                 | -                  | -                             | -                            | 6 348              | 6 348               |
| Deferred tax asset                         | -                            | -                 | -                  | -                             | -                            | 15 448             | 15 448              |
| <b>Total assets</b>                        | <b>994 366</b>               | <b>1 380 756</b>  | <b>308 460</b>     | <b>1 493 027</b>              | <b>8 872 590</b>             | <b>61 647</b>      | <b>13 110 846</b>   |
| <b>Liabilities</b>                         |                              |                   |                    |                               |                              |                    |                     |
| Bonds issued                               | -                            | -                 | (19 844)           | (4 933 308)                   | (5 620 814)                  | -                  | (10 573 966)        |
| Liabilities secured by mortgage loans      | (2 277)                      | (4 639)           | (22 170)           | (124 468)                     | (828 635)                    | -                  | (982 189)           |
| Deffered tax liability                     | -                            | -                 | -                  | -                             | -                            | (1 427)            | (1 427)             |
| Other liabilities                          | (27 341)                     | (10 936)          | (8 202)            | (8 203)                       | -                            | -                  | (54 682)            |
| <b>Total liabilities</b>                   | <b>(29 618)</b>              | <b>(15 575)</b>   | <b>(50 216)</b>    | <b>(5 065 979)</b>            | <b>(6 449 449)</b>           | <b>(1 427)</b>     | <b>(11 612 264)</b> |
| <b>Net position as at 31 December 2005</b> | <b>964 748</b>               | <b>1 365 181</b>  | <b>258 244</b>     | <b>(3 572 952)</b>            | <b>2 423 141</b>             | <b>60 220</b>      | <b>1 498 582</b>    |

Management estimates based on past experience that the actual repayment period for mortgage loans is likely to be shorter than contractually agreed. Prepayment rates generally increase when interest rates fall and decrease when interest rates rise, but changes in prepayment rates are difficult to predict. Prepayment rates also may be affected by conditions in the housing and financial markets, as well as by general economic conditions.

The following table shows the assets and liabilities by remaining contractual maturity dates as at 31 December 2004:

| <b>RUR'000</b>                             | <b>Less than 1<br/>month</b> | <b>1-3 months</b> | <b>3-12 months</b> | <b>1 years to 5<br/>years</b> | <b>More than 5<br/>years</b> | <b>No maturity</b> | <b>Total</b>       |
|--|------------------------------|-------------------|--------------------|-------------------------------|------------------------------|--------------------|--------------------|
| <b>Assets</b>                              |                              |                   |                    |                               |                              |                    |                    |
| Cash                                       | 438 631                      | 327 015           | -                  | -                             | -                            | -                  | 765 646            |
| Promissory notes available for sale        | -                            | 157 599           | 239 919            | 975                           | -                            | -                  | 398 493            |
| Receivables from service agents            | 89 416                       | -                 | -                  | -                             | -                            | -                  | 89 416             |
| Mortgage loans                             | 12 580                       | 25 539            | 122 110            | 602 380                       | 3 679 726                    | -                  | 4 442 335          |
| Property and equipment                     | -                            | -                 | -                  | -                             | -                            | 16 912             | 16 912             |
| Other assets                               | 6 580                        | 2 632             | 1 994              | 1 953                         | -                            | -                  | 13 159             |
| Current tax prepayments                    | -                            | -                 | -                  | -                             | -                            | 963                | 963                |
| Deferred tax asset                         | -                            | -                 | -                  | -                             | -                            | 15 990             | 15 990             |
| <b>Total assets</b>                        | <b>547 207</b>               | <b>512 785</b>    | <b>364 023</b>     | <b>605 308</b>                | <b>3 679 726</b>             | <b>33 865</b>      | <b>5 742 914</b>   |
| <b>Liabilities</b>                         |                              |                   |                    |                               |                              |                    |                    |
| Bonds issued                               | -                            | -                 | (18 913)           | (1 107 201)                   | (3 814 942)                  | -                  | (4 941 056)        |
| Liabilities secured by mortgage loans      | (103)                        | (210)             | (1 014)            | (5 979)                       | (47 793)                     | -                  | (55 099)           |
| Deferred tax liability                     | -                            | -                 | -                  | -                             | -                            | (1 435)            | (1 435)            |
| Other liabilities                          | (6 903)                      | (2 761)           | (2 091)            | (2 050)                       | -                            | -                  | (13 805)           |
| <b>Total liabilities</b>                   | <b>(7 006)</b>               | <b>(2 971)</b>    | <b>(22 018)</b>    | <b>(1 115 230)</b>            | <b>(3 862 735)</b>           | <b>(1 435)</b>     | <b>(5 011 395)</b> |
| <b>Net position as at 31 December 2004</b> | <b>540 201</b>               | <b>509 814</b>    | <b>342 005</b>     | <b>(509 922)</b>              | <b>(183 009)</b>             | <b>32 430</b>      | <b>731 519</b>     |

## 23 Explanation of Transition to IFRS

As stated in Note 2, these are the Agency's first financial statements prepared in accordance with IFRS.

The accounting policies set out in Note 3 have been applied in preparing the financial statements for the year ended 31 December 2004 and 31 December 2005, and in the preparation of an opening IFRS balance sheet as at 1 January 2004 (the Agency's date of transition to IFRS).

In preparing its opening IFRS balance sheet as at 1 January 2004 and its first financial statements prepared in accordance with IFRS for the year ended 31 December 2005, the Agency has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (Russian GAAP) as explained in the tables below:

### *Reconciliation of shareholder's equity*

|   | Notes | <b>31 December<br/>2005<br/>RUR'000</b> | <b>1 January<br/>2004<br/>RUR'000</b> |
|---|-------|---|---------------------------------------|
| <b>Shareholder's equity under Russian GAAP</b>              |       | <b>804 750</b>                          | <b>746 548</b>                        |
| Differences in the carrying value of property and equipment | (a)   | 1 566                                   | 2 395                                 |
| Accrued interest income                                     | (b)   | 2 560                                   | 4 254                                 |
| Accrued interest expense                                    | (b)   | 684                                     | (1 031)                               |
| Impairment allowance  | (c)   | (30 500)                                | (17 051)                              |
| Deferred tax  | (d)   | 5 986                                   | 5 249                                 |
| Finance lease obligations                                   | (e)   | 720                                     | 593                                   |
| Deferred expenses   | (f)   | 12 779                                  | -                                     |
| Additional share capital in the process of registration     | (g)   | 700 000                                 | -                                     |
| Fair value adjustment of securities held for trading        |       | -                                       | (1 472)                               |
| Other   |       | 37                                      | -                                     |
| <b>Shareholder's equity under IFRS</b>                      |       | <b>1 498 582</b>                        | <b>739 485</b>                        |

**Reconciliation of profit**

|  | Notes | <b>31 December 2005<br/>RUR'000</b> |
|--|-------|-------------------------------------|
| <b>Net profit under Russian GAAP for the year ended 31 December 2005</b> |       | <b>73 236</b>                       |
| Depreciation and amortization  | (a)   | (384)                               |
| Accrued interest income  | (b)   | 57                                  |
| Accrued interest expense   | (b)   | 1 366                               |
| Impairment allowance expense   | (c)   | (20 500)                            |
| Deferred tax expenses  | (d)   | 2 172                               |
| Finance lease expenses   | (e)   | 597                                 |
| Deferred expenses  | (f)   | 12 779                              |
| Bonuses paid   |       | (1 924)                             |
| Other  |       | 1 588                               |
| <b>Net profit under IFRS for the year ended 31 December 2005</b>         |       | <b>68 987</b>                       |

**(a) Difference in the carrying value of property and equipment**

Under Russian GAAP, fixed assets cost and the related accumulated depreciation are not adjusted for hyperinflation. For the purpose of these IFRS financial statements fixed assets costs have been restated to account for changes in the general purchasing power of the Russian Rouble in accordance with IAS 29 “Financial Reporting in Hyperinflationary Economies”. Accordingly, the accumulated depreciation expense has been calculated on hyperinflated cost of fixed assets.

**(b) Accrued interest income and expense**

Under Russian GAAP, interest income and expenses are recognized using nominal interest rates. Under IFRS, these items are recognized using the effective interest method.

**(c) Impairment allowance**

Under Russian GAAP, impairment allowance for mortgage loans is not required to be recognized. Under IFRS, impairment allowance for mortgage loans has been recorded in accordance with the requirements of IAS 39 “Financial Instruments: Recognition and Measurement”.

**(d) Deferred taxation**

The difference between the carrying values of assets and liabilities under IFRS and Russian GAAP result in associated deferred tax differences.

**(e) Finance leases**

Under Russian GAAP, all leases are required to be recognized as operating leases. Under IFRS, certain leases have been classified as financial leases and have been recognized accordingly.

**(f) Deferred expenses**

Certain items recognized as expenses under Russian GAAP are recognized as deferred expenses under IFRS.

**(g) Additional share capital in the process of registration**

Under Russian GAAP, contribution to share capital made by the sole shareholder is not recognized as share capital until the registration of the share issue is completed and the charter documents are amended. Under IFRS, additional share capital in the process of registration was recognized within equity.

## 24 Subsequent Events

In February 2006, the share issue with a total nominal value of RUR 700 000 thousand was officially registered. Refer to Note 14.

In April 2006, the Agency issued an additional share issue with a total nominal value of RUR 3 700 000 thousand. The share issue was fully paid by the sole shareholder and officially registered in August 2006. The nominal amount of the share capital of the Agency after the issue of additional shares total to RUR 5 090 000 thousand.

In October 2006, the Agency issued bonds with a total nominal value of RUR 9 000 000 thousand:

| <b>Issue number</b> | <b>Maturity</b> | <b>Coupon rate and period</b> | <b>Nominal<br/>RUR'000</b> |
|---------------------|-----------------|-------------------------------|----------------------------|
| A7                  | 15 July 2016    | 7.68%, paid quarterly         | 4 000 000                  |
| A8                  | 15 June 2018    | 7.63%, paid quarterly         | 5 000 000                  |

In 2006, the Agency changed standard terms of service agreements with the service agents. Under the amended service agreement terms, the Agency no longer has the right to sell back defaulted mortgage loans to service agents. This amendment was associated with a corresponding reduction in the level of service fees paid by the Agency to service agents.