

Open joint-stock company
The Agency for Housing Mortgage Lending

Consolidated Financial Statements
for the Year Ended 31 December 2006

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Independent Auditors' Report

To the Supervisory Board
Open joint-stock company "The Agency for Housing Mortgage Lending" (OJSC "AHML")

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Open joint-stock company "The Agency for Housing Mortgage Lending" (the "Agency") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of 31 December 2006, and the consolidated income statement, consolidated statement of changes in shareholder's equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


ZAO KPMG

ZAO KPMG
18 June 2007

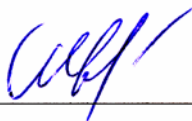
OJSC "AHML"
Consolidated Income Statement for the Year Ended 31 December 2006

	Notes	2006 RUR'000	2005 RUR'000
Interest income	4	2 727 434	1 122 543
Interest expense	4	(1 523 452)	(681 911)
Net interest income		1 203 982	440 632
Impairment losses	9	(81 602)	(10 500)
Net interest income after impairment losses		1 122 380	430 132
Commission expense	5	(377 882)	(174 172)
Net other income	6	17 822	346
Operating income		762 320	256 306
General administrative expenses	7	(311 886)	(162 758)
Profit before tax		450 434	93 548
Income tax expense	8	(108 805)	(24 561)
Net profit		341 629	68 987

The consolidated financial statements as set out on pages 4 to 30 were approved for issue on 18 June 2007.



Alexandr N. Semenyaka
Chief Executive Officer



Lubov B. Chernyshova
Chief Accountant

	Notes	2006 RUR'000	2005 RUR'000
ASSETS			
Cash and cash equivalents	20	333 370	1 338 457
Investments in promissory notes available for sale		651	655 092
Receivables from service agents		649 168	263 582
Mortgage loans			
- owned by the Agency	9	28 012 405	9 778 780
- sold but not derecognized	9	3 530 113	982 189
- pledged as collateral	9	3 363 515	-
Other assets	10	104 588	31 099
Property and equipment	11	64 778	39 851
Current income tax asset		4 422	6 348
Deferred tax asset	8	23 509	14 021
Total assets		36 086 519	13 109 419
LIABILITIES AND SHAREHOLDER'S EQUITY			
Bonds issued	12	19 741 397	10 573 966
Financing secured by mortgage loans	9	3 539 429	982 189
Bank loans	13	7 132 161	-
Other liabilities	14	140 643	54 682
Total liabilities		30 553 630	11 610 837
Shareholder's equity			
Share capital	15	5 359 543	959 543
Additional share capital in the process of registration	15	-	700 000
Retained earnings/(accumulated losses)		173 346	(160 961)
Total shareholder's equity		5 532 889	1 498 582
Total liabilities and shareholder's equity		36 086 519	13 109 419

OJSC "AHML"
Consolidated Statement of Cash Flows
for the Year Ended 31 December 2006

	Notes	2006 RUR'000	2005 RUR'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		2 568 042	1 047 705
Interest paid		(1 356 021)	(617 001)
Commissions paid		(377 882)	(174 172)
Net other income less expenses		17 815	357
General administrative expenses		(295 048)	(158 428)
		556 906	98 461
(Increase)/decrease in operating assets			
Investments in promissory notes available for sale		652 109	(256 293)
Receivables from service agents		(223 860)	(98 991)
Mortgage loans		(24 226 666)	(6 329 509)
Other assets		(45 238)	(18 098)
Increase/(decrease) in operating liabilities			
Other liabilities		87 434	43 502
Net cash used in operating activities before taxes paid		(23 199 315)	(6 560 928)
Income taxes paid		(116 745)	(29 415)
Cash flows used in operating activities		(23 316 060)	(6 590 343)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net purchases of property and equipment		(42 136)	(30 012)
Cash flows used in investing activities		(42 136)	(30 012)
CASH FLOWS FROM FINANCING ACTIVITIES			
Bonds issued		8 971 032	5 568 000
Net bank loans received		7 132 159	-
Shares issued		3 700 000	700 000
Financing secured by mortgage loans		2 557 240	927 090
Dividends paid		(7 322)	(1 924)
Cash flows from financing activities		22 353 109	7 193 166
Net (decrease)/increase in cash and cash equivalents		(1 005 087)	572 811
Cash and cash equivalents at the beginning of the year		1 338 457	765 646
Cash and cash equivalents at the end of the year	20	333 370	1 338 457

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

OJSC "AHML"
Consolidated Statement of Changes in Shareholder's Equity
for the Year Ended 31 December 2006

	Share capital RUR'000	Additional share capital in the process of registration RUR'000	Retained earnings/ (accumulated losses) RUR'000	Total RUR'000
Balance at 31 December 2004	959 543	-	(228 024)	731 519
Net profit for the year	-	-	68 987	68 987
Shares issued but not registered	-	700 000	-	700 000
Dividends declared	-	-	(1 924)	(1 924)
Balance at 31 December 2005	959 543	700 000	(160 961)	1 498 582
Net profit for the year	-	-	341 629	341 629
Registration of shares issued in 2005	700 000	(700 000)	-	-
Shares issued and registered in 2006	3 700 000	-	-	3 700 000
Dividends declared	-	-	(7 322)	(7 322)
Balance at 31 December 2006	5 359 543	-	173 346	5 532 889

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

1 Background

Principal activities

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

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

These consolidated financial statements of the Agency for the year ended 31 December 2006 comprise financial statements of the Agency and Closed Joint Stock Company "First Mortgage Agent of AHML", a consolidated special purpose entity, (together referred to as the "Group").

The major source of funding for the Group is bonds issued. As of 31 December 2006 and 31 December 2005, all of the bonds issued by the Group are guaranteed by the Federal Government of the Russian Federation.

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. All revenues of the Group are derived from operations in the Russian Federation. As of 31 December 2006, the Group has 205 employees (as of 31 December 2005: 130).

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

2 Basis of Preparation

Statement of compliance

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

Basis of measurement

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

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUR"). Management have determined the Group's functional currency to be RUR as it reflects the economic substance of the underlying events and circumstances of the Group. RUR is also the Group's presentation currency for the purposes of these consolidated 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 consolidated 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 consolidated financial statements. The accounting policies have been consistently applied. Changes in IFRS are described at the end of this note.

Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises controlled by the Agency. Control exists when the Agency has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Special purpose entities (SPE) are entities that are created to accomplish a narrow and well defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. The financial statements of special purpose entities are included in the Group's consolidated financial statements where the substance of the relationship is that the Group controls the special purpose entity.

The Agency has a special purpose entity Closed Joint Stock Company "First Mortgage Agent of AHML", established for the purpose of the issue of mortgage-backed securities. The Agency does not have any direct or indirect shareholdings in this entity. However, the SPE is established under terms that impose strict limits on the decision-making powers of the SPE's management over the operations of the SPE. In addition, the benefits related to its operations and net assets are presently attributable to the Agency via a number of agreements. The financial statements of the SPE are included in these consolidated financial statements from the date of establishment of the SPE.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Minority interest

Minority interest is that part of the profit or loss and net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the Agency.

Minority interest is presented in the consolidated balance sheet within equity, separately from the equity attributable to equity holders of the Agency. Minority interest in the profit or loss of the Agency is separately disclosed in the consolidated income statement.

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 consolidated 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 consolidated income statement. As at 31 December 2006, the official foreign exchange rates established by the Central Bank of the Russian Federation used for translation of balances in foreign currencies were 26.3311 RUR/USD and 34.6965 RUR/EUR (as at 31 December 2005: 28.7825 RUR/USD and 34.185 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;
- upon initial recognition, designated by the entity as at fair value through the profit or loss.

The Group designates financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed and evaluated on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as financial assets held for trading. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a financial liability held for trading.

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

As at 31 December 2006 and 2005, the Group 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 Group has the positive intention and ability to hold to maturity, other than those that:

- the Group at initial recognition designates as at fair value through profit or loss;
- those that the Group 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 consolidated balance sheet when the Group 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 Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

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 consolidated income statement;
- a gain or loss on an available for sale financial asset is recognized directly in equity through the consolidated 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 consolidated income statement. Interest income in relation to an available for sale financial asset is recognized as earned in the consolidated 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 consolidated 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 Group transfers substantially all of the risks and rewards of ownership of the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, a financial asset is derecognized if the Group 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 consolidated 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 Group 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 Group 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 consolidated 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 Group, are stated at cost less accumulated amortization and impairment losses.

Amortization

Amortization is charged to the consolidated 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
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Impairment

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables ("loans and receivables"). The Group 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 Group 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 Group 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 Group 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 consolidated 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 recognized 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 consolidated 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 recognized in the consolidated balance sheet when the Group 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.

Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognized initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognized less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees are recognized when losses are considered probable and can be measured reliably.

Financial guarantee liabilities are included within other liabilities.

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 consolidated 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 income from financial instruments held for trading.

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

Net income from securities held for trading

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

Taxation

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated 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

The majority of Group's activities relates to transactions with mortgage loans. Substantially all operations of the Group are performed in Russia. The Group 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 Group does not provide information for 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 Group'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.

Changes in accounting policies

During the year 2006 the Group changed its accounting policies as a result of new or revised Standards that are relevant to its operations and effective for periods beginning on or after 1 January 2006.

As at 1 January 2006, the Group adopted the amendment to International Financial Reporting Standard IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 4 "Insurance Contracts" – "Financial Guarantee Contracts". Upon application of this amendment, a financial guarantee issued is recognized initially at its fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognized less cumulative amortisation or the amount of provision for losses under the guarantee.

As at 1 January 2006, the Group adopted the amendment to International Financial Reporting Standard IAS 39 "Financial Instruments: Recognition and Measurement" – "The Fair Value Option". Upon application of this amendment, the Group may designate a financial instrument at fair value through profit or loss only if certain conditions are met. The Group did not have financial instruments which were designated as at fair value through profit and loss as at 31 December 2005.

There was no impact on the consolidated financial statements from the adoption of any of the above-mentioned standards.

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 2006, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group has not yet fully analysed the likely impact of these new standards on its consolidated 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 Group'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 Group's capital.
- IFRS 8 "Operating Segments", which is effective for annual periods beginning on or after 1 January 2009, specifies how an entity should report information about its operating segments and sets out requirements for related disclosures about products and services, geographical areas and major customers.

4 Net Interest Income and Interest Expense

	2006 RUR'000	2005 RUR'000
Interest income		
Mortgage loans	2 670 706	1 099 798
Investments in promissory notes available for sale	7 528	22 745
Bank deposits	49 200	-
	2 727 434	1 122 543
Interest expense		
Bonds issued	(1 085 519)	(563 860)
Financing secured by mortgage loans	(350 725)	(29 096)
Bank loans	(86 810)	(88 472)
Finance leases	(398)	(483)
	(1 523 452)	(681 911)
	1 203 982	440 632

Included in interest income for the year ended 31 December 2006 is interest income of RUR 389 800 thousand (2005: RUR 35 125 thousand) received from mortgage loans which have been transferred by the Group to a third party in a transfer that does not qualify for derecognition.

Included in interest expense for the year ended 31 December 2006 is interest expense of RUR 350 725 thousand (2005: RUR 29 096 thousand) for financing secured by mortgage loans recognized as a result of this transfer.

Included in interest income for the year ended 31 December 2006 is interest income of RUR 40 439 thousand (2005: nil) received from mortgage loans pledged as collateral. Refer to Note 9.

5 Commission Expense

	2006 RUR'000	2005 RUR'000
Service fees to service agents	(285 677)	(145 128)
Service fees to custody banks	(90 224)	(25 274)
Other	(1 981)	(3 770)
	(377 882)	(174 172)

6 Net Other Income

	2006 RUR'000	2005 RUR'000
Income from servicing of mortgage loans transferred	9 840	-
Income from consulting services	6 019	-
Net other income	1 963	346
	17 822	346

7 General Administrative Expenses

	2006	2005
	RUR'000	RUR'000
Employee compensation	(189 151)	(107 766)
Professional services	(33 521)	(15 097)
Communication and information services	(22 718)	(3 978)
Occupancy	(18 856)	(13 038)
Depreciation and amortization	(17 107)	(7 007)
Repair and maintenance	(5 835)	(4 740)
Taxes other than income tax	(543)	(3 324)
Other	(24 155)	(7 808)
	(311 886)	(162 758)

8 Income Tax Expense

	2006	2005
	RUR'000	RUR'000
Current income tax expense	(118 293)	(24 027)
Deferred income tax	9 488	(534)
Total income tax expense	(108 805)	(24 561)

The Group's applicable tax rate for current and deferred tax in 2006 is 24% (2005: 24%).

Reconciliation of effective tax rate:

	2006	2005
	RUR'000	RUR'000
Income before tax	450 434	93 548
Income tax at the applicable tax rate	(108 104)	(22 452)
Non-deductible costs	(4 412)	(2 109)
Income taxed at lower tax rates	3 711	-
	(108 805)	(24 561)

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 2006 and 31 December 2005.

Movement in temporary differences during the year ended 31 December 2006:

RUR'000	1 January 2006	Recognized in income	31 December 2006
Investments in promissory notes available for sale	528	(603)	(75)
Receivables from service agents	-	5 994	5 994
Other assets	(4 964)	4 800	(164)
Tax losses carried forward	(75)	75	-
Property and equipment	899	(1 174)	(275)
Impairment allowance	(2 520)	(19 583)	(22 103)
Bonds issued	(7 587)	3 223	(4 364)
Bank loans	-	(2 062)	(2 062)
Other	(302)	(158)	(460)
Deferred tax liability/(asset)	(14 021)	(9 488)	(23 509)

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

RUR'000	1 January 2005	Recognized in income	31 December 2005
Investments in 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	951	(52)	899
Impairment allowance	-	(2 520)	(2 520)
Bonds issued	(10 572)	2 985	(7 587)
Other	(273)	(29)	(302)
Deferred tax liability/(asset)	(14 555)	534	(14 021)

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 23, 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 Group has assessed its portfolio of mortgage loans for impairment on a collective basis as at 31 December 2006 and recognized an impairment loss of RUR 92 102 thousand, as at 31 December 2006. Mortgage loans in these consolidated financial statements are shown net of impairment loss allowance.

	2006 RUR'000	2005 RUR'000
Gross mortgage loans	34 998 135	10 771 469
Impairment allowance	(92 102)	(10 500)
Net mortgage loans	34 906 033	10 760 969

Analysis of movements in the mortgage loans impairment:

	2006 RUR'000	2005 RUR'000
Balance as at 1 January	10 500	-
Impairment loss	81 602	10 500
Balance as at 31 December	92 102	10 500

As at 31 December 2006, the Group has mortgage loans with a total gross amount of RUR 261 000 thousand, for which one or more monthly installment payments were overdue. The ageing analysis of overdue mortgage loans as at 31 December 2006 is presented below:

	2006 RUR '000
Overdue less than 90 days	117 571
Overdue for 90-180 days	112 166
Overdue for more than 180 days	31 263
Total	261 000

Management used its judgment to estimate the amount of impairment losses incurred as at 31 December 2006. Management estimated the amount of impairment losses incurred as at 31 December 2006 as the difference between the present value of estimated future cash flows expected from foreclosure of collateral discounted at the mortgage loan's original effective interest rate and the carrying amount of the mortgage loan based on the probability that loan with overdue payments will not be brought current and will be collected through foreclosure. The following key assumptions were used in assessing the impairment losses:

- Management have assumed a delay of 12 months in obtaining proceeds from the foreclosure of collateral, which is not compensated by related interest income.
- Management has assumed a discount of 25% to the originally appraised value if the property pledged is sold through the court procedure.

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

Loans transferred to third parties or pledged

Mortgage loans transferred but not derecognized

Included in mortgage loans, as at 31 December 2006, are loans of RUR 3 539 429 thousand loans (31 December 2005: RUR 982 189 thousand) which were transferred by the Group to third parties, against which impairment allowance of RUR 9 316 thousand (31 December 2005: nil) was recognized. 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 the Group has not transferred the majority of risks associated with mortgage loans transferred and that the transfer therefore does not qualify for derecognition. A corresponding liability of RUR 3 539 429 thousand (31 December 2005: RUR 982 189 thousand) to the purchasers in respect of the transfer has been recognized in these financial statements as financing secured by mortgage loans.

Interest income of RUR 389 800 thousand received for mortgage loans transferred is included within interest income for the year ended 31 December 2006 (31 December 2005: RUR 35 125 thousand). Interest expense of RUR 350 725 thousand paid to a transferee is included within interest expense for the year ended 31 December 2006 (31 December 2005: RUR 29 096 thousand). Refer to Note 4.

Mortgage loans sold and derecognized

As at 31 December 2006, the outstanding balance of mortgage loans sold and which qualify for derecognition under IFRS, for which the Agency has an obligation to repurchase defaulted mortgage loans is RUR 331 540 thousand (31 December 2005: RUR 442 258 thousand).

Loans pledged as collateral

Included in mortgage loans, as at 31 December 2006, are loans of RUR 3 363 515 thousand (31 December 2005: nil) which were transferred by the Agency to Closed Joint Stock Company "First Mortgage Agent of AHML", a consolidated special purpose entity. These mortgage loans are included in the Group's balance sheet.

The mortgage loans transferred by the Agency to Closed Joint Stock Company "First Mortgage Agent of AHML" are pledged as collateral for the mortgage-backed securities which were issued by the Closed Joint Stock Company "First Mortgage Agent of AHML" in May 2007. Refer to Note 24.

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 2006:

RUR '000	Owned by the Agency	Sold but not derecognized	Pledged as collateral	Total mortgage loans
Volga Federal region	7 318 498	922 275	878 749	9 119 522
Far-East Federal region	6 614 094	833 506	794 170	8 241 770
Central Federal region	4 859 618	612 407	583 506	6 055 531
South Federal region	4 461 935	562 291	535 754	5 559 980
Siberia Federal region	3 489 361	439 728	418 976	4 348 065
Ural Federal region	802 274	101 102	96 331	999 707
North-West Federal region	466 625	58 804	56 029	581 458
	28 012 405	3 530 113	3 363 515	34 906 033

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

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

Significant mortgage loans exposures

As at 31 December 2006 and 2005, the Group has no borrowers or groups of related borrowers, whose mortgage loan balances exceed more than 10% of total mortgage loans.

As at 31 December 2006 there are no service agents which are servicing a pool of mortgage loans with an aggregate amount which exceeds 10% of total mortgage loans. As at 31 December 2005 one service agency was servicing a pool of mortgage loans with an aggregate amount of RUR 1 590 745 thousand, which exceeded 10% of total mortgage loans.

10 Other Assets

	2006 RUR'000	2005 RUR'000
Prepayments	102 413	28 401
Overdue receivable from a bank	-	20 000
Other	2 175	2 698
	<hr/> 104 588	<hr/> 51 099
Impairment allowance	-	(20 000)
Total other assets	<hr/> 104 588 <hr/>	<hr/> 31 099 <hr/>

Overdue receivable from a bank was written off against impairment allowance during the year ended 31 December 2006.

11 Property and Equipment

The roll-forward of property and equipment from 1 January 2006 to 31 December 2006:

RUR'000	Equipment	Furniture	Leased assets	Software	Total
Cost					
1 January 2006	31 021	3 904	2 672	16 618	54 215
Additions	24 388	880	1 678	15 200	42 146
Disposals	(115)	-	-	-	(115)
31 December 2006	<hr/> 55 294 <hr/>	<hr/> 4 784 <hr/>	<hr/> 4 350 <hr/>	<hr/> 31 818 <hr/>	<hr/> 96 246 <hr/>
Depreciation					
1 January 2006	(10 056)	(1 912)	(637)	(1 759)	(14 364)
Depreciation charge	(7 609)	(565)	(702)	(8 231)	(17 107)
Disposals	3	-	-	-	3
31 December 2006	<hr/> (17 662) <hr/>	<hr/> (2 477) <hr/>	<hr/> (1 339) <hr/>	<hr/> (9 990) <hr/>	<hr/> (31 468) <hr/>
Net carrying value					
31 December 2006	<hr/> 37 632 <hr/>	<hr/> 2 307 <hr/>	<hr/> 3 011 <hr/>	<hr/> 21 828 <hr/>	<hr/> 64 778 <hr/>

The roll-forward of property and equipment from 1 January 2005 to 31 December 2005:

RUR'000	Equipment	Furniture	Leased assets	Software	Total
Cost					
1 January 2005	18 595	3 536	1 846	566	24 543
Additions	12 600	534	826	16 052	30 012
Disposals	(174)	(166)	-	-	(340)
31 December 2005	<hr/> 31 021 <hr/>	<hr/> 3 904 <hr/>	<hr/> 2 672 <hr/>	<hr/> 16 618 <hr/>	<hr/> 54 215 <hr/>
Depreciation					
1 January 2005	(5 540)	(1 693)	(185)	(213)	(7 631)
Depreciation charge	(4 624)	(385)	(452)	(1 546)	(7 007)
Disposals	108	166	-	-	274
31 December 2005	<hr/> (10 056) <hr/>	<hr/> (1 912) <hr/>	<hr/> (637) <hr/>	<hr/> (1 759) <hr/>	<hr/> (14 364) <hr/>
Net carrying value					
31 December 2005	<hr/> 20 965 <hr/>	<hr/> 1 992 <hr/>	<hr/> 2 035 <hr/>	<hr/> 14 859 <hr/>	<hr/> 39 851 <hr/>

12 Bonds Issued

Bonds issued by the Group as at 31 December 2006 comprise:

Issue number	Maturity	Coupon rate and period	Effective interest rate	Nominal RUR'000	Carrying value RUR'000
A1	1 December 2008	11.00%, paid semi-annually	9.87%	1 070 000	1 104 470
A2	1 February 2010	11.00%, paid semi-annually	11.53%	1 500 000	1 560 036
A3	15 October 2010	9.40%, paid quarterly	9.93%	2 250 000	2 282 067
A4	1 February 2012	8.70%, paid quarterly	9.14%	900 000	907 007
A5	15 July 2011 - 40% of the issue 15 October 2012 - 60% of the issue	7.35%, paid quarterly	7.66%	2 200 000	2 222 112
A6	15 July 2011 - 20% of the issue 15 July 2013 - 40% of the issue 15 July 2014 - 40% of the issue	7.40%, paid quarterly	7.70%	2 500 000	2 528 153
A7	15 October 2013 -50% of the issue 15 July 2015 - 25% of the issue 15 July 2016 - 25% of issue	7.68%, paid quarterly	7.95%	4 000 000	4 061 337
A8	15 June 2012 - 40% of the issue 15 March 2014 - 30% of the issue 15 June 2017 - 15% of the issue 15 June 2018 - 15% of the issue. The Group has a right for early redemption of the bonds on 15 March 2014	7.63%, paid quarterly	7.91%	5 000 000	5 076 215
				19 420 000	19 741 397

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

Issue number	Maturity	Coupon rate and period	Effective interest rate	Nominal RUR'000	Carrying value 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 July 2011 - 40% of the issue 15 October 2012 - 60% of the issue	7.35%, paid quarterly	7.66%	2 200 000	2 203 354
A6	15 July 2011 - 20% of the issue 15 July 2013 - 40% of the issue 15 July 2014 - 40% of the issue	7.40%, paid quarterly	7.70%	2 500 000	2 511 485
				10 420 000	10 573 966

All of the bonds issued carry a fixed coupon rate.

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

13 Bank Loans

	2006 RUR'000	2005 RUR'000
Principal amount	7 102 000	-
Interest accrued	30 161	-
	7 132 161	-

Bank loans, as at 31 December 2006, comprise fixed rates loans from three banks making within one year, each of which exceeded 10% of total bank loans.

14 Other Liabilities

	2006 RUR'000	2005 RUR'000
Liabilities under mortgage loans transferred	78 055	27 596
Liabilities to service agents	53 140	19 799
Tax payables	1 462	856
Other	7 986	6 431
	140 643	54 682

15 Share Capital

Share capital

The share capital of the Agency as at 31 December 2006 comprised 2 036 000 ordinary issued, fully paid and registered shares (31 December 2005: 276 000 ordinary issued, fully paid and registered shares). All ordinary shares have a nominal value of 2 500 RUR.

During the year ended 31 December 2005 the Agency issued additional shares of RUR 700 000 thousand that were paid, but not registered as of 31 December 2005. This share issue was registered in 2006. During the year ended 31 December 2006 additional shares of RUR 3 700 000 thousand were issued and registered.

The structure of the registered share capital is as follows:

RUR'000	2006 RUR'000	2005 RUR'000
Share capital at nominal value	5 090 000	690 000
Inflation adjustment	269 543	269 543
	5 359 543	959 543

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, the 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 at 31 December 2006, reserves available for distribution were RUR 426 100 thousand (31 December 2005: RUR 104 910 thousand).

During the year ended 31 December 2006 the Agency declared and paid dividends totaling RUR 7 322 thousand (2005: RUR 1 924 thousand).

16 Financial Risk Management

Management of risk is fundamental to the business of the Group and is an essential element of the Group's operations. The major risks faced by the Group 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 Group. The Group 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 Group. 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 credit risk of the Agency and the Group. The Agency's and the Group's credit policies are reviewed and approved by the Management Board of the Agency.

The Agency only purchases mortgage loans provided to finance purchase or construction 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 2006, 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 90% 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 minimum requirements for the borrower's financial position and sets limits on the size of the loan and monthly repayment amount depending on 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, the Agency had 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.

During the year ended 31 December 2006, the Agency changed the terms of service agreements with service agents. As at 31 December 2006, the Agency does not have the right to sell defaulted mortgage loans to service agents.

Liquidity risk

Liquidity risk exists when the maturities of assets and liabilities do not match. The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Group's liquidity policy is reviewed and approved by the Management Board of the Agency. For further information on the Group's exposure to liquidity risk as at 31 December 2006 refer to Note 23.

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 Group 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 Group's exposure to fair value interest rate risk, as at 31 December 2006, refer to Notes 22 and 23.

Currency risk

The majority of assets, liabilities, income and expenses of the Group are denominated in Russian Rubles. Therefore Management believes that, as at 31 December 2006 and as at 31 December 2005, the Group is not exposed to significant currency risk.

The Group 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 of the Agency.

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 Group's activities and is a risk faced by all business organizations. Operational risk includes legal risk.

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

17 Operating and Finance Leases

Leases as lessee

Non-cancelable operating lease rentals are payable as follows:

	2006 RUR'000	2005 RUR'000
Less than one year	12 704	11 877
Between one and five years	7 335	17 657
	20 039	29 534

The Group leases a number of premises and equipment under operating leases. 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 2006 RUR 18 856 thousand was recognized as an expense in the consolidated income statement in respect of operating leases (2005: RUR 13 038 thousand).

Finance lease obligations as at 31 December 2006 are payable as follows:

RUR'000	Gross finance lease obligations	Finance charge	Net finance lease obligations
Less than one year	1 183	399	784
Between one and five years	420	64	356
	1 603	463	1 140

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

RUR'000	Gross finance lease obligations	Finance charge	Net finance lease obligations
Less than one year	645	161	484
Between one and five years	168	20	148
	813	181	632

Net finance lease obligations of RUR 1 140 thousand are included in other liabilities, as at 31 December 2006 (31 December 2005: RUR 632 thousand). Included in interest expense for the year ended 31 December 2006 is RUR 398 thousand of interest expense in respect of finance leases (31 December 2005: RUR 483 thousand).

18 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 Group 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 Group property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Litigation

Group's 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 consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

19 Related Party Transactions

During the year ended 31 December 2006 total remuneration of the members of the Management Board and the Board of Directors of the Agency, including salary, bonuses and other discretionary compensations, amounts to RUR 14 225 thousand (2005: RUR 11 112 thousand).

The Group does not provide post-employment benefit plans or other types of long-term remuneration to the members of the Board of Directors and the Management 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:

	2006 RUR'000	2005 RUR'000
Carrying value as at 1 January	653 988	-
Promissory notes purchased during the year	-	651 766
Interest income on promissory notes	7 529	2 222
Promissory notes redeemed or sold during the year	(660 866)	-
Carrying value as at 31 December	651	653 988

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

	2006 RUR'000	2005 RUR'000
Carrying value as at 1 January	-	-
Loans obtained during the year	5 632 500	1 400 000
Interest expense	22 827	35 937
Loans repaid during the year	(3 746 511)	(1 435 937)
Carrying value as at 31 December	1 908 816	-

During the year ended 31 December 2006, the Group paid commissions to Russian state-owned banks of RUR 14 745 thousand (2005: RUR 10 731 thousand) for services related to issues of Group's bonds. These expenses have been deferred and are being amortized over the life of the bonds.

All bonds issued by the Group with a total carrying value of RUR 19 741 397 thousand (31 December 2005: RUR 10 573 966 thousand) are fully guaranteed by the Federal Government of the Russian Federation. Refer to Note 12.

Included in general administrative expenses are rent expenses of RUR 12 209 thousand paid to a state-owned entity (31 December 2005: RUR 11 674 thousand).

20 Cash and Cash Equivalents

Cash and cash equivalents comprise:

	2006 RUR'000	2005 RUR'000
Petty cash	-	4
Current accounts with banks	159 811	40 975
Short-term deposits with banks	173 559	1 297 478
	333 370	1 338 457

21 Fair Value of Financial Instruments

The Group has performed an assessment 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. As at 31 December 2006 the estimated fair value of bonds issued are RUR 20 173 111 thousand.

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 consolidated balance sheet date.

Based on the assessment made, the Group's Management has concluded that fair values of the Group's other financial instruments are not materially different from their carrying values, as at 31 December 2006.

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.

22 Average Effective Interest Rates

The table below shows the Group's interest bearing assets and liabilities, as at 31 December 2006 and 31 December 2005, 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.

	2006		2005	
	Carrying value RUR'000	Average effective interest rate	Carrying value RUR'000	Average effective interest rate
Interest Bearing Assets				
Current accounts with banks	159 811	0.0 - 4.5%	40 975	1.5 - 3.50%
Short-term deposits with banks	173 559	5.71%	1 297 478	5.65%
Investments in promissory notes available for sale	651	9.2%	655 092	7.80%
Mortgage loans				
- owned by the Agency	28 012 405	13.50%	9 778 780	14.85%
- sold but not derecognized	3 530 113	13.50%	982 189	14.98%
- pledged as collateral	3 363 515	13.50%	-	-
Interest Bearing Liabilities				
Bonds issued	19 741 397	8.96%	10 573 966	9.30%
Financing secured by mortgage loans	3 539 429	13.50%	982 189	12.88%
Bank loans	7 132 161	8.48%	-	-

23 Maturity Analysis

The following table shows the assets and liabilities by remaining contractual maturity dates as at 31 December 2006. Due to the fact that substantially all the financial instruments of the Group are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate re-pricing dates.

RUR'000	Less than 1 month	1-3 months	3-12 months	1 years to 5 years	More than 5 years	No maturity	Total
Assets							
Cash	333 370	-	-	-	-	-	333 370
Investments in promissory notes available for sale	651	-	-	-	-	-	651
Receivables from service agents	649 168	-	-	-	-	-	649 168
Mortgage loans	78 518	159 653	763 591	4 667 349	29 236 922	-	34 906 033
Property and equipment	-	-	-	-	-	64 778	64 778
Other assets	24 136	34 588	3 171	41 977	-	716	104 588
Current income tax asset	-	-	4 422	-	-	-	4 422
Deferred tax asset	-	-	-	-	-	23 509	23 509
Total assets	1 085 843	194 241	771 184	4 709 326	29 236 922	89 003	36 086 519
Liabilities							
Bonds issued	118 805	174 536	82 763	6 203 636	13 161 657	-	19 741 397
Financing secured by mortgage loans	7 962	16 189	77 427	473 263	2 964 588	-	3 539 429
Bank loans	-	7 132 161	-	-	-	-	7 132 161
Other liabilities	134 223	5 934	486	-	-	-	140 643
Total liabilities	260 990	7 328 820	160 676	6 676 899	16 126 245	-	30 553 630
Net position as at 31 December 2006	824 853	(7 134 579)	610 508	(1 967 573)	13 110 677	89 003	5 532 889
Net position as at 31 December 2005	964 748	1 365 181	258 244	(3 572 952)	2 423 141	60 220	1 498 582

24 Subsequent Events

In February 2007 the Group issued bonds with a total nominal value of RUR 5 000 000 thousand with an annual coupon rate of 7.49% paid quarterly. 40% of the bonds mature on 15 February 2013, 20% of the bonds mature on 15 February 2015, 20% of the bonds mature on 15 February 2016 and 20% of the bonds mature on 15 February 2017.

The Group has a right for early redemption of the bonds on 15 February 2015. The bonds are guaranteed by the Federal Government of the Russian Federation up to their principal amounts.

In May 2007, the Group issued mortgage-backed securities with a total nominal value of RUR 3 294 800 thousand secured by a pool of mortgage loans with a carrying value of RUR 3 363 515 thousand. Two tranches of these securities were sold to third parties, and the third (subordinated) tranche was retained by the Group. Bonds included in tranche A with a total nominal value of RUR 2 900 000 thousand mature on 15 February 2039 and carry the annual coupon rate of 6.94 % paid quarterly. Bonds included in tranche B with a total nominal value of RUR 264 000 thousand mature on 15 February 2039 and carry the annual coupon rate of 9.5 % paid quarterly. Bonds included in tranche C with a total nominal value of RUR 130 800 thousand mature on 15 February 2039 and carry a variable coupon rate. Bonds included in tranche C were purchased by the Agency. The mortgage-backed securities may be repaid before contractual repayment dates in case of earlier repayment of underlying mortgage loans.