

**Open Joint-Stock Company
The Agency for Housing Mortgage
Lending**

Interim condensed consolidated financial statements

For the six months ended 30 June 2011

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Report on review of the interim condensed consolidated financial statements

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of OJSC "The Agency for Housing Mortgage Lending" and its subsidiaries (together, the "Group") as of 30 June 2011, comprising the interim condensed consolidated statement of financial position as at 30 June 2011, and the related interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and of cash flows for the six months then ended, and selected explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express opinion conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLC

30 August 2011

**Interim condensed consolidated statement of comprehensive income
for the six months ended 30 June 2011**
(In thousands of Russian Roubles)

	<i>Six months ended 30 June 2011 (unaudited)</i>	<i>Six months ended 30 June 2010 (unaudited)</i>
	<i>Notes</i>	
Interest income		
- mortgage loans	8,160,951	6,157,610
- due from credit institutions	1,774,022	2,395,922
- securities	222,043	287,331
- stabilization loans issued	174,358	145,629
- loans issued to banks	137,776	11,355
	10,469,150	8,997,847
Interest expense		
- bonds issued	(4,185,807)	(2,628,416)
- bank loans	(159,829)	(109,433)
	(4,345,636)	(2,737,849)
Net interest income	6,123,514	6,259,998
(Allowance) reversal of allowance for mortgage loan impairment	(90,025)	906,425
(Allowance) reversal of allowance for stabilization loan impairment	(124,638)	85,133
Allowance for loans issued to banks	(4,781)	-
Net interest income after allowance for impairment	5,904,070	7,251,556
Fee and commission expense	(1,012,500)	(804,137)
Loss on initial recognition of mortgage and stabilization loans issued	4 (140,118)	(897,298)
Other impairment and allowance	(6,986)	47
Other income	150,917	249,094
Operating income	4,895,383	5,799,262
General and administrative expenses	(1,078,893)	(813,348)
Profit before tax	3,816,490	4,985,914
Income tax expense	(395,236)	(860,891)
Net profit	3,421,254	4,125,023
Other comprehensive income		
Unrealized gains from investment securities available-for-sale, net of tax	1,656	-
Other comprehensive income for the period, net of tax	1,656	-
Total comprehensive income for the period	3,422,910	4,125,023
Attributable to:		
- shareholders of the Group	3,422,911	4,125,016
- non-controlling interests	(1)	7

The consolidated financial statements presented as set out on pages 5 – 19 were approved for issue on 30 August 2011.



Semenyaka A.N.
General Director



Abrosimova Yu.G.
Chief Accountant

The accompanying notes on pages 5 to 19 are an integral part of these interim condensed consolidated financial statements.

**Interim condensed consolidated statement of financial position
as at 30 June 2011**

(In thousands of Russian Roubles)

	Notes	30 June 2011 (unaudited)	31 December 2010
Assets			
Cash and cash equivalents		12,087,863	9,464,820
Securities designated at fair value through profit or loss	11	338,019	–
Due from credit institutions		48,171,812	44,219,712
Mortgage loans	6	141,830,934	131,905,203
Stabilization loans issued	7	1,187,977	1,197,678
Loans issued to banks	8	4,272,894	3,295,626
Investment securities:			
- available-for-sale	9	1,133,990	1,363,998
- held-to-maturity	10	3,424,920	3,425,812
Property held for sale	5	968,504	602,296
Property, equipment and intangible assets		190,594	223,090
Current income tax assets		49,272	–
Deferred income tax assets		2,151,654	1,570,974
Other assets		310,462	189,119
Total assets		216,118,895	197,458,328
Liabilities			
Bonds issued	12	100,868,725	84,075,257
Bank loans	13	1,044,844	2,092,309
Other borrowed funds	14	2,772,844	2,762,550
Current income tax liabilities		782	62,102
Other liabilities		1,150,918	1,608,238
Total liabilities		105,838,113	90,600,456
Equity			
Share capital	15	95,859,543	95,859,543
Revaluation reserve for investment securities available for sale		(83)	(1,739)
Retained earnings		14,420,757	10,999,502
Total equity attributable to equity holder of the parent		110,280,217	106,857,306
Non-controlling interests		565	566
Total equity		110,280,782	106,857,872
Total liabilities and equity		216,118,895	197,458,328

The accompanying notes on pages 5 to 19 are an integral part of these interim condensed consolidated financial statements.

**Interim condensed consolidated statement of cash flows
for the six months ended 30 June 2011**

(In thousands of Russian Roubles)

Notes	Six months ended 30 June 2011 (unaudited)	Six months ended 30 June 2010 (unaudited)
Cash flows from operating activities		
Interest received	10,639,394	8,690,105
Interest paid	(4,529,558)	(3,793,115)
Fees and commissions paid	(1,012,500)	(804,138)
Other income received	73,972	364,494
General and administrative expenses paid	(1,098,846)	(755,275)
Cash flows from operating activities before changes in operating assets and liabilities	4,072,462	3,702,071
<i>Net (increase)/decrease in operating assets</i>		
Due from credit institutions	(3,617,270)	6,535,802
Securities designated at fair value through profit or loss	(335,540)	-
Mortgage loans	(10,920,212)	(17,561,481)
Stabilization loans issued	(158,113)	(1,308,490)
Loans issued to banks	(976,655)	(359,906)
Property held for sale	77,027	-
Other assets	(106,502)	(129,300)
<i>Net increase/(decrease) in operating liabilities</i>		
Other liabilities	(526,697)	742,406
Net cash from operating activities before income tax	(12,491,500)	(8,378,898)
Income tax paid	(1,086,508)	(1,061,955)
Net cash used in operating activities	(13,578,008)	(9,440,853)
Cash flows from investing activities		
Sale/(purchase) of available-for-sale investments	230,926	(1,491,807)
Purchase of property, equipment and intangible assets	(30,348)	(44,226)
Sale of property, equipment and intangible assets	7,723	-
Net cash from/(used in) investing activities	208,301	(1,536,033)
Cash flows from financing activities		
Bonds issued	18,533,686	10,774,148
Bonds repaid	(1,506,604)	(1,686,789)
Bank loans repaid	(1,034,332)	(520,000)
Net cash from financing activities	15,992,750	8,567,359
Net increase in cash and cash equivalents	2,623,043	(2,409,527)
Cash and cash equivalents, as at the beginning of the year	9,464,820	14,951,472
Cash and cash equivalents, as at the end of the period	12,087,863	12,541,945

The accompanying notes on pages 5 to 19 are an integral part of these interim condensed consolidated financial statements.

**Interim condensed consolidated statement of changes in equity
for the six months ended 30 June 2011**

(In thousands of Russian Roubles)

	<i>Share capital RUR'000</i>	<i>Revaluation reserve for investment securities available for sale</i>	<i>Retained earnings RUR'000</i>	<i>Total RUR'000</i>	<i>Non-controlling interests RUR'000</i>	<i>Total equity RUR'000</i>
Balance as at 31 December 2009	95,859,543	–	4,147,954	100,007,497	5	100,007,502
Comprehensive income for the period	–	–	4,125,016	4,125,016	7	4,125,023
Establishing a subsidiary	–	–	–	–	550	550
Balance as at 30 June 2010	95,859,543	–	8,272,970	104,132,513	562	104,133,075
Balance as at 31 December 2010	95,859,543	(1,739)	10,999,502	106,857,306	566	106,857,872
Comprehensive income for the period	–	1,656	3,421,255	3,422,911	(1)	3,422,910
Balance as at 30 June 2011	95,859,543	(83)	14,420,757	110,280,217	565	110,280,782

The accompanying notes on pages 5 to 19 are an integral part of these interim condensed consolidated financial statements.

1 Introduction

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 and issuance of mortgage securities. 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 provides methodological and technical support to the participants in the Russian mortgage market.

The Agency also performs other activities aimed to develop the mortgage market in Russia. Such activities include issuance of guarantees to banks originating mortgage loans and issuance of financing to the banks, which lend funds to the construction companies. In February 2009, OJSC "The Agency for Restructuring of Housing Mortgage Lending" (OJSC "ARHML"), a subsidiary of the Agency, was registered to carry out mortgage loan restructuring activities. The Agency contributed RUR 5,000,000 thousand to the share capital of OJSC "ARHML". In January 2010, OJSC "Insurance Company AHML" ("Insurance Company "AHML"), a subsidiary of the Agency, was registered, in the share capital of which the Group, the Association of Russian Banks and Non-commercial Partnership "National Insurance Guild" contributed RUR 1,500,000 thousand, RUR 500 thousand and RUR 50 thousand, respectively. Insurance Company AHML is specialized in reinsurance of risks of the insurance companies under mortgage insurance agreements entered into with direct insurers.

The Agency's share capital is wholly owned by the Russian Federation represented by the Federal Agency for Federal Property Management acting as a representative of the Government of the Russian Federation.

These consolidated financial statements for the six months ended 30 June 2011 comprise the financial statements of the Agency, OJSC "ARHML", OJSC Insurance Company AHML, as well as financial statements of CJSC "First Mortgage Agent of AHML", CJSC "Second Mortgage Agent of AHML", CJSC "Mortgage Agent of AHML 2008-1", CJSC "Mortgage Agent of AHML 2010 - 1" and CJSC "Mortgage Agent of AHML 2011 - 2" (together referred to as the "Group").

The major sources of the Group's funding are corporate and mortgage bonds issued and contributions to the share capital. As of 30 June 2011, 88% of the corporate and mortgage bonds issued by the Group are guaranteed by the Government of the Russian Federation (31 December 2010: 83%).

The Agency was registered in the Russian Federation on 5 September 1997. The Agency's legal address is 69 bld. B, Novocheremushkinskaya st., Moscow, 117418, Russia.

The Group operates in Russia. The revenues are derived from operations in the Russian Federation. Non-current assets are located in the Russian Federation. The Group has no large customers, the revenues from the operations with which exceed 10% of total revenues from operations with external customers.

As of 30 June 2011, the Group has 714 employees (31 December 2010: 689 employees).

Russian business environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The global financial crisis has affected the Russian economy. While there are signs of economic recovery, the persisting uncertainty over the future economic growth, access to capital and cost of capital could affect the Group's financial position, results of operations and business prospects.

Also, economic recession has affected the ability of the Group's borrowers to repay the amounts due to the Group and the value of collateral held against loans and other liabilities. To the extent that information is available, the Group has reflected revised estimates of expected future cash flows in its impairment assessment.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

2 Basis of preparation

General

These interim condensed consolidated financial statements for the six months ended 30 June 2011 have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and shall be considered in conjunction with the Group's financial statements for the year ended 31 December 2010.

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010, except for the adoption of new standards and interpretations as of 1 January 2011, noted below:

Changes in accounting policies

IAS 24 "Related Party Disclosures" (revised)

The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011. The disclosure of transactions with related parties in accordance with the revised IAS 24 is presented in Note 16.

Amendments to IAS 32 "Financial instruments: Presentation - Classification of Rights Issues"

In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. These amendments did not affect the Group's consolidated financial statements.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

IFRIC Interpretation 19 was issued in November 2009 and became effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. This interpretation had no impact on the Group's consolidated financial statements.

Improvements to IFRS

In May 2010, the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard. Amendments included in May 2010 "Improvements to IFRS" had an impact on the accounting policies, financial position or performance of the Group, as described below.

- ▶ IFRS 3 *Business Combinations*: limits the scope of the measurement choices to non-controlling interests. Only the components of non-controlling interests that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets.
- ▶ IFRS 7 *Financial Instruments: Disclosures*: introduces the amendments to quantitative and credit risk disclosures. The additional requirements will be taken into account in the preparation of the annual financial statements.
- ▶ IAS 34 *Interim Financial Reporting*: adds disclosure requirements about the circumstances affecting fair values and classification of financial instruments, about transfers of financial instruments between levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. The Group neither transferred financial instruments between levels of fair value hierarchy nor changed the classification of financial assets in the reporting period. Changes in contingent liabilities are disclosed in Note 17.
- ▶ Amendments to IFRS 1, IAS 1, IAS 27 and IFRIC 13 had no impact on the accounting policies, financial position or performance of the Group.

2 Basis of preparation (continued)

Changes in accounting judgments and estimates

As of 30 June 2011, the Group recognized deferred tax assets in the amount of RUR 509,606 thousand in relation to OJSC "ARHML". In accordance with the Group's estimates, as of the reporting date it is more likely than not that the subsidiary will generate sufficient taxable income against which such tax asset will be realized. In 2011, the Group's management decided to change the strategy and objectives of OJSC "ARHML"; under the newly developed five-year plan for 2011-2015, cumulative taxable income for the forecast period will be sufficient to recognize the deferred tax asset. As of 31 December 2010, the Group did not recognize the tax asset in the amount of RUR 335,892 thousand (30 June 2010: RUR 290,580 thousand) in relation to the Group's subsidiary OJSC "ARHML", since it was not more likely than not that the subsidiary would generate sufficient taxable income against which the deferred tax assets could be realized.

3 Segment information

For the management purposes the Group has three operating segments:

Purchase of mortgage loans	Purchase of the pools of mortgage loans from primary lenders, mortgage maintenance
Restructuring of mortgage loans	Provision of stabilization loans, purchase of restructured non-performing loans from a lender and performing secondary restructuring
Mortgage insurance	Reinsurance of risks of the insurance companies under mortgage insurance agreements entered into with direct insurers.

The operating segments were not combined for the purpose of creating the above reporting operating segments.

Management monitors the operating results of each segment separately to make decisions on allocation of resources and to access operating performance. The segment operating performance is assessed based on the profit before tax. Income taxes are considered as related to the whole Group and are not allocated to the operating segments.

Revenue and profit information for the operating segments of the Group for the six-month periods ended 30 June 2011 and 2010, respectively, is presented below:

<i>Six months ended 30 June 2011 (unaudited)</i>	<i>Purchase of mortgage loans RUR'000</i>	<i>Restructuring of mortgage loans, RUR'000</i>	<i>Mortgage insurance, RUR'000</i>	<i>Unallocated, RUR'000</i>	<i>Elimination of intersegment operations</i>	<i>Total, RUR'000</i>
External interest income	10,072,489	337,588	59,073	–	–	10,469,150
Interest income from other segments	54,086	70,743	–	–	(124,829)	–
External interest expense	(4,343,054)	(2,582)	–	–	–	(4,345,636)
Interest expense from other segments	(70,743)	(54,086)	–	–	124,829	–
Net interest income	5,712,778	351,663	59,073	–	–	6,123,514
Allowance for mortgage/ stabilization loans impairment	(27,865)	(191,579)	–	–	–	(219,444)
Net interest income after allowance for impairment	5,684,913	160,084	59,073	–	–	5,904,070
Fee and commission expense	(962,223)	(49,766)	(511)	–	–	(1,012,500)
Loss on initial recognition of mortgage and stabilization loans issued	–	(140,118)	–	–	–	(140,118)
Other impairment and allowance	(6,986)	–	–	–	–	(6,986)
Other income	46,905	100,519	3,511	–	(18)	150,917
Operating income	4,762,609	70,719	62,073	–	(18)	4,895,383
General and administrative expenses	(835,956)	(184,299)	(58,656)	–	18	(1,078,893)
Segment profit before tax	3,926,653	(113,580)	3,417	–	–	3,816,490
Income tax charge	–	–	–	(395,236)	–	(395,236)
Net income	3,926,653	(113,580)	3,417	(395,236)	–	3,421,254

3 Segment information (continued)

<i>Six months ended 30 June 2010 (unaudited)</i>	<i>Purchase of mortgage loans RUR'000</i>	<i>Restructuring of mortgage loans, RUR'000</i>	<i>Mortgage insurance, RUR'000</i>	<i>Unallocated, RUR'000</i>	<i>Elimination of intersegment operations</i>	<i>Total, RUR'000</i>
External revenues						
Interest income	8,701,687	259,322	36,838	–	–	8,997,847
Interest income from other segments	–	120,101	–	–	(120,101)	–
Interest expense	(2,735,849)	(2,000)	–	–	–	(2,737,849)
Interest expense from other segments	(120,101)	–	–	–	120,101	–
Net interest income	5,845,737	377,423	36,838	–	–	6,259,998
Reversal of allowance for mortgage/stabilization loans impairment	860,507	131,051	–	–	–	991,558
Net interest income after allowance for impairment	6,706,244	508,474	36,838	–	–	7,251,556
Fee and commission expense	(765,661)	(38,476)	–	–	–	(804,137)
Loss on initial recognition of mortgage and stabilization loans issued	–	(897,298)	–	–	–	(897,298)
Other impairment and allowance	47	–	–	–	–	47
Other income	248,732	362	–	–	–	249,094
Operating income	6,189,362	(426,938)	36,838	–	–	5,799,262
General and administrative expenses	(695,552)	(108,369)	(9,427)	–	–	(813,348)
Segment profit before tax	5,493,810	(535,307)	27,411	–	–	4,985,914
Income tax charge	–	–	–	(860,891)	–	(860,891)
Net income	5,493,810	(535,307)	27,411	(860,891)	–	4,125,023

Assets of the Group's operating segments are presented in the table below:

	<i>Purchase of mortgage loans RUR'000</i>	<i>Restructuring of mortgage loans, RUR'000</i>	<i>Mortgage insurance, RUR'000</i>	<i>Elimination of intersegment operations</i>	<i>Total, RUR'000</i>
Segment assets					
As at 30 June 2011 (unaudited)	220,702,387	7,456,379	1,558,697	(13,598,568)	216,118,895
As at 31 December 2010	200,095,690	6,445,982	1,543,724	(10,627,068)	197,458,328

4 Loss on initial recognition of mortgage and stabilization loans

As of 30 June 2011, the loss on initial recognition of mortgage and stabilization loans issued included the following:

	<i>Six months ended 30 June 2011 (unaudited)</i>	<i>Six months ended 30 June 2010 (unaudited)</i>
Loss on initial recognition of mortgage loans (Note 6)	79,432	315,693
Loss on initial recognition of stabilization loans (Note 7)	60,686	581,605
Total	140,118	897,298

5 Property held for sale

Property held for sale repossessed by the Group following legal proceedings for recovery of amounts past due under mortgage loans is classified as inventory in accordance with IAS 2 and is measured at the lower of cost and net realizable value as of 30 June 2011. The cost of the property held for sale is RUR 977,808 thousand (31 December 2010: RUR 602,296 thousand). As of 30 June 2011, the Group wrote down the cost of property held for sale in the amount of RUR 9,304 thousand (31 December 2010: nil) due to a decrease in net realizable value measured at the reporting date.

6 Mortgage loans

Mortgage loans include the following:

	30 June 2011 (unaudited) RUR'000	31 December 2010 RUR'000
Restructured mortgage loans	2,360,591	2,276,391
Mortgage loans	145,344,430	135,454,570
Total mortgage loans	147,705,021	137,730,961
Impairment allowance	(5,874,087)	(5,825,758)
Net mortgage loans	141,830,934	131,905,203

Restructured mortgage loans comprise restructured mortgage loans owned by the Group and restructured mortgage loans repurchased by the Group.

Mortgage loan impairment

The Group assessed its portfolio of mortgage loans for impairment on a collective basis as at 30 June 2011 and recognized an impairment allowance of RUR 5,874,087 thousand (31 December 2010: RUR 5,825,758 thousand).

	Mortgage loans RUR'000	Restructured mortgage loans RUR'000	Total RUR'000
Balance as at 1 January 2010	(7,290,360)	(272,752)	(7,563,112)
Reversal for the period	860,507	45,918	906,425
Balance as at 30 June 2010	(6,429,853)	(226,834)	(6,656,687)
Balance as at 1 January 2011	(5,710,218)	(115,540)	(5,825,758)
Charge for the period	44,084	(134,109)	(90,025)
Amounts written off	41,696	-	41,696
Total balance as at 30 June 2011	(5,624,438)	(249,649)	(5,874,087)

Concentration of mortgage loans

As of 30 June 2011 and 31 December 2010, the Group did not have borrowers or groups of related borrowers whose debt exceeds 10% of the total mortgage loans payable. As of 30 June 2011 and 31 December 2010, no service agent provided support for mortgage loans exceeding 10% of the total mortgage loans payable.

Group's own restructured mortgage loans

As of 30 June and 2011, the Group's own restructured mortgage loans totaled RUR 1,162,767 thousand (31 December 2010: RUR 423,542 thousand); the Group made an allowance for impairment of such assets of RUR 189,682 thousand (31 December 2010: RUR 49,362 thousand).

Restructured mortgage loans purchased by the Group

As a part of program for government support of the borrowers, at the end of 2009 the Group started to repurchase from the creditor restructured non-performing mortgage loans for the purposes of secondary restructuring with a discount in exchange for own bonds issued by the Group or at nominal value with payments made by installments.

As of 30 June 2011, the Group repurchased restructured non-performing mortgage loans of RUR 1,197,824 thousand (31 December 2010: RUR 1,852,849 thousand), which were recognized at fair value as of the date of recognition of the financial assets. As of 30 June 2011, the Group created an allowance for impairment totaling RUR 59,967 thousand (31 December 2010: 66,178 thousand) for the specified mortgage loans in the amount of RUR 1,002,520 thousand (31 December 2010: RUR 481,486 thousand).

In the second half of 2010, the Group started purchasing restructured mortgage loans at nominal value with payments made by installments. In accordance with the installment agreement, the Group shall repay the amount of reimbursement pursuant to agreed payment schedule; final repayment date is July of 2016. As of 30 June 2011, the Group did not complete settlements under the purchased restructured non-performing mortgage loans of RUR 335,659 thousand (31 December 2010: RUR 1,131,403 thousand), for which the Group recognized an outstanding liability at the fair value of RUR 378,152 thousand (31 December 2010: RUR 771,117) under the installment agreement.

The difference between the fair value of the restructured non-performing mortgage loans, which were purchased in 2011, and the fair value of the purchase consideration payable for these mortgage loans amounted to RUR 79,432 thousand and was recognized as loss on initial recognition of mortgage loans in the statement of comprehensive income for the six months ended 30 June 2011 (30 June 2010: RUR 315,693 thousand).

6 Mortgage loans (continued)**Loans transferred to third parties or pledged**

Mortgage loans sold and derecognized in the consolidated statement of financial position

As of 30 June 2011, the total outstanding balance of mortgage loans sold in transactions that qualify for derecognition under IFRS, for which the Agency has an obligation to repurchase defaulted mortgage loans overdue for more than 90 days, is RUR 1,824,497 thousand (31 December 2010: RUR 2,050,056 thousand). As of 30 June 2011, the Group recognized an allowance for repurchase of defaulted mortgage loans sold of RUR 3,417 thousand (31 December 2010: RUR 5,581 thousand).

Mortgage loans pledged as collateral

Included in mortgage loans as of 30 June 2011 are mortgage loans of RUR 980,606 thousand (31 December 2010: RUR 1,148,884 thousand) pledged as collateral for mortgage-backed bonds issued by CJSC "First Mortgage Agent of AHML" in May 2007 (Note 12). The Group made an allowance for impairment of these mortgage loans in the amount of RUR 1,223 thousand (31 December 2010: RUR 1,549 thousand).

Included in mortgage loans as of 30 June 2011 are mortgage loans of RUR 2,947,629 thousand (31 December 2010: RUR 3,427,045 thousand) pledged as collateral for mortgage-backed bonds issued by CJSC "Second Mortgage Agent of AHML" in February 2008 (Note 12). The Group made an allowance for impairment of these mortgage loans in the amount of RUR 7,612 thousand (31 December 2010: RUR 11,119 thousand).

Included in mortgage loans as of 30 June 2011 are mortgage loans of RUR 3,643,090 thousand (31 December 2010: RUR 4,485,856 thousand) pledged as collateral for mortgage-backed bonds issued by CJSC "Mortgage Agent of AHML 2008-1" in November 2008 (Note 12). The Group made an allowance for impairment of these mortgage loans in the amount of RUR 28,782 thousand (31 December 2010: RUR 32,503 thousand).

Included in mortgage loans as of 30 June 2011 are mortgage loans of RUR 3,642,801 thousand (31 December 2010: RUR 4,767,304 thousand) pledged as collateral for mortgage-backed bonds issued by CJSC "Mortgage Agent of AHML 2008-1" in July 2010 (Note 12). The Group made an allowance for impairment of these mortgage loans in the amount of RUR 24,969 thousand (31 December 2010: RUR 31,768 thousand).

Aging analysis of overdue assets per class of financial assets is as follows:

	At 30 June 2011			
	30 to 90 days	90 to 180 days	More than 180 days	Total
Mortgage loans				
Restructured mortgage loans	59,482	65,983	1,441,754	1,567,219
Mortgage loans	1,617,478	926,834	9,838,630	12,382,942
Stabilization loans	124,546	116,396	264,975	505,917
Total financial assets exposed to credit risk	1,801,506	1,109,213	11,545,359	14,456,078
	At 31 December 2010			
	30-90 days	90-180 days	More than 180 days	Total
Mortgage loans				
Restructured mortgage loans	46,086	12,047	1,883,413	1,941,546
Mortgage loans	1,432,181	840,321	9,534,531	11,807,033
Stabilization loans	118,898	99,639	61,601	280,138
Total financial assets exposed to credit risk	1,597,165	952,007	11,479,545	14,028,717

For the purposes of this analysis, the total amount of an asset is considered overdue if any payment has fallen due and remained unpaid.

As of 30 June 2011, non-performing mortgage loans repurchased from other lenders for subsequent restructuring in the amount of RUR 1,197,824 thousand (31 December 2010: RUR 1,852,849 thousand) were classified as more than 180 days overdue for the purposes of aging analysis. The Group's own mortgage loans in the amount of RUR 1,162,767 thousand, which were restructured, are disclosed by actual periods passed from the date of delay in payment after the restructuring (31 December 2010: RUR 423,542 thousand).

7 Stabilization loans

During the year ended 31 December 2009, the Group launched a program aimed to provide support for mortgage loan borrowers experiencing temporary difficulties by issuing stabilization loans to them. Stabilization loans are used for payment of monthly installments for the original mortgage loans for a one year period. Stabilization loans are secured by the same residential property that is pledged under the original mortgage loans but are subordinate to the rights of the original pledge. The Group established a set of eligibility criteria for borrowers that have mortgage loans held by the Group or other banks.

As of 30 June 2011, the carrying amount of stabilization loans less of the allowance and loss on initial recognition was RUR 1,187,977 thousand (31 December 2010: RUR 1,197,678 thousand). As of 30 June 2011, the total amount of stabilization loans was RUR 2,478,788 thousand (31 December 2010: RUR 2,538,178 thousand) against which a loss from initial recognition of loans issued by the Group in 2011 under non-market interest rates was recognized in the amount of RUR 60,686 thousand (30 June 2010: RUR 581,605 thousand) (Note 4) and an impairment allowance of RUR 771,480 thousand (30 June 2010: RUR 387,870 thousand) was created. The Group uses its judgment to estimate impairment allowance for stabilization loans based on its experience in the mortgage industry.

8 Loans issued to banks

	30 June 2011 (unaudited) RUR'000	31 December 2010 RUR'000
Financing of banks under Stimul governmental program	4,003,301	2,948,735
Financing of banks pledged by collateral of mortgage loans	274,374	346,891
Total loans issued	4,277,675	3,295,626
Allowance for loan impairment	(4,781)	–
	4,272,894	3,295,626

At the end of 2009, the Group developed the *Stimul* program (a set of crisis management measures to support affordable housing construction). The Group and the participating banks enter into funding agreements for certain construction projects. The funds are provided for a term of up to two years and bear interest at a rate of 7.25% to 8.75% p.a. As of 30 June 2011, nineteen banks received the Group's support under the *Stimul* program totaling RUR 4,003,301 thousand (31 December 2010: RUR 2,948,735 thousand) against which an impairment allowance of RUR 4,781 thousand (31 December 2010: nil) was created. Loans granted under the *Stimul* program were carried at fair value as of the date of recognition. Government grants (Note 14) were recorded within income in the statement of comprehensive income for the six months ended 30 June 2011 in the amount of RUR 11,379 thousand (30 June 2010: nil), which is equivalent to loss on initial recognition at fair value arising from loans issued in 2011 to banks under the *Stimul* program under non-market interest rates. Loan commitments under the *Stimul* program are disclosed in Note 17.

In 2010, the Group developed a refinancing mechanism which became an alternative to the mortgage loan purchases. According to that mechanism, the Group grants loans secured by new mortgage product portfolios to the market participants involved in residential mortgage lending. As of 30 June 2011, the Group provided financing secured by collateral of mortgage loans totaling RUR 274,374 thousand (31 December 2010: RUR 346,891 thousand) to five banks.

9 Available-for-sale securities

	30 June 2011 (unaudited) RUR'000	31 December 2010 RUR'000
Mortgage-backed bonds	1,089,180	1,292,994
Corporate bonds	22,084	48,093
Municipal bonds	22,726	22,911
Total available-for-sale securities	1,133,990	1,363,998

As of 30 June 2011 and 31 December 2010, available-for-sale securities mainly included mortgage-backed securities of CJSC "Mortgage Agent of Moscow Bank for Reconstruction & Development" (96% of the total value of available-for-sale securities) maturing on 20 December 2038 and bearing a coupon rate of 8.0% p.a.

10 Held-to-maturity investments

	30 June 2011 (unaudited) RUR'000	31 December 2010 RUR'000
Mortgage-backed securities of CJSC "VTB-24"	3,424,920	3,425,812

11 Securities designated at fair value through profit or loss

	30 June 2011 (unaudited) RUR'000	31 December 2010 RUR'000
Bonds of Russian banks	154,336	–
Bonds of Russian companies	183,683	–
Total securities designated at fair value through profit and loss	338,019	–

The above securities were designated at fair value through profit and loss at initial recognition. The Group manages this group of financial assets in accordance with the documented investment strategy. The results of the strategy are evaluated on the basis of fair value.

12 Bonds issued

Bonds issued by the Group as at 30 June 2011 comprise the following:

<i>Issue number</i>	<i>Maturity</i>	<i>Coupon rate and period</i>	<i>Effective interest rate</i>	<i>Nominal RUR'000</i>	<i>Carrying value RUR'000</i>
A4	1 February 2012	8.70% paid quarterly	9.15%	900,000	912,639
A5	15 July 2011 – 40% of the issue; 15 October 2012 – 60% of the issue.	7.35% paid quarterly	7.69%	2,200,000	2,234,230
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	2,539,056
A7	15 October 2013 - 50% of the issue; 15 July 2015 - 25% of the issue; 15 July 2016 - 25% of the issue.	7.68% paid quarterly	7.95%	4,000,000	4,064,998
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	5,018,385
A9	15 February 2013 - 40% of the issue; 15 February 2015 - 20% of the issue; 15 February 2016 - 20% of the issue; 15 February 2017 - 20% of the issue. The Group has a right for early redemption of the bonds on 15 February 2015.	7.49% paid quarterly	7.76%	5,000,000	5,047,934
A10	15 November 2014 - 50% of the issue; 15 November 2016 - 25% of the issue; 15 November 2018 - 25% of the issue. The Group has a right for early redemption of the bonds on 15 November 2016.	8.05% paid quarterly	8.34%	6,000,000	6,060,508
A11	15 September 2015 - 30% of the issue; 15 September 2016 - 20% of the issue; 15 September 2017 - 20% of the issue; 15 September 2018 - 10% of the issue; 15 September 2019 - 10% of the issue; 15 September 2020 - 10% of the issue. The Group has a right for early redemption of the bonds on 15 September 2017 or 15 September 2018.	8.20% paid quarterly	8.50%	10,000,000	10,034,283
A12	15 December 2013	Floating rate, paid semi-annually	11.75%	7,000,000	7,012,165
A13	15 April 2018	Floating rate, paid semi-annually	11.09%	3,900,001	3,930,619
A14	15 May 2023	Floating rate, paid semi-annually	10.79%	3,850,001	3,900,239
A15	15 September 2028	Floating rate, paid semi-annually	10.91%	4,859,251	4,930,308
A16	15 September 2017 - 40% of the issue; 15 September 2019 - 35% of the issue; 15 September 2020 - 15% of the issue; 15 September 2021 - 10% of the issue. The Group has a right for early redemption of 60% of the nominal value of the bonds on 15 September 2013 and 40% of the nominal value of the bonds on 15 September 2014.	8.25% paid quarterly	8.51%	8,725,000	8,755,599
A17	15 April 2019 - 40% of the issue; 15 April 2020 - 25% of the issue; 15 April 2021 - 20% of the issue; 15 April 2022 - 15% of the issue. The Group has a right for early redemption of 30% of the nominal value of the bonds on 15 April 2014 and 70% of the nominal value of the bonds on 15 April 2015.	9.05% paid quarterly	9.23%	8,000,000	8,145,950
A18	15 July 2020 - 30% of the issue; 15 July 2021 - 20% of the issue; 15 July 2022 - 20% of the issue; 15 July 2023 - 30% of the issue. The Group has a right for early redemption of 70% of the nominal value of the bonds on 15 July 2016 and 30% of the nominal value of the bonds on 15 July 2017.	8.00% paid quarterly	8.16%	7,000,000	7,114,875

12 Bonds issued (continued)

<i>Issue number</i>	<i>Maturity</i>	<i>Coupon rate and period</i>	<i>Effective interest rate</i>	<i>Nominal RUR'000</i>	<i>Carrying value RUR'000</i>
A19	15 November 2021 - 20% of the issue; 15 November 2022 - 20% of the issue; 15 November 2023 - 20% of the issue; 15 November 2024 - 40% of the issue The Group has a right for early redemption of 40% of the nominal value of the bonds on 15 November 2017 and 60% of the nominal value of the bonds on 15 November 2018.	7.70% paid quarterly	7.88%	6,000,000	6,057,014
A 20	15 December 2025 - 40% of the issue; 15 December 2026 - 30% of the issue; 15 December 2027 - 30% of the issue. The Group has a right for early redemption of 60% of the nominal value of the bonds on 15 December 2019 and 40% of the nominal value of the bonds on 15 December 2020.	8.60% paid quarterly	8.96%	3,510,000	3,503,346
FMA AHML-A	Final contractual maturity – 15 February 2039.	6.94% paid quarterly	8.50%	688,228	723,151
FMA AHML-B	Pass-through redemption Final contractual maturity – 15 February 2039.	9.50% paid quarterly	10.66%	264,000	269,793
SMA AHML-A	Pass-through redemption Final contractual maturity – 15 March 2040.	8.50% paid quarterly	8.56%	2,825,991	2,928,631
MA 2008- 1- A	Pass-through redemption Final contractual maturity – 20 February 2041.	10.5% paid quarterly	11.24%	3,653,748	3,767,908
MA 2010- 1- A1	Pass-through redemption Final contractual maturity – 20 November 2042.	9.0% paid quarterly	9.70%	3,843,284	3,917,094
				99,719,504	100,868,725

Bonds issued by the Group as at 31 December 2010 comprise the following:

<i>Issue number</i>	<i>Maturity</i>	<i>Coupon rate and period</i>	<i>Effective interest rate</i>	<i>Nominal RUR'000</i>	<i>Carrying value RUR'000</i>
A4	1 February 2012	8.70% paid quarterly	9.15%	900,000	912,523
A5	15 July 2011 – 40% of the issue; 15 October 2012 – 60% of the issue.	7.35% paid quarterly	7.69%	2,200,000	2,234,451
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	2,539,418
A7	15 October 2013 - 50% of the issue; 15 July 2015 - 25% of the issue; 15 July 2016 - 25% of the issue.	7.68% paid quarterly	7.95%	4,000,000	4,065,806
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	5,019,118
A9	15 February 2013 - 40% of the issue; 15 February 2015 - 20% of the issue 15 February 2016 - 20% of the issue; 15 February 2017 - 20% of the issue. The Group has a right for early redemption of the bonds on 15 February 2015.	7.49% paid quarterly	7.76%	5,000,000	5,047,711
A10	15 November 2014 - 50% of the issue; 15 November 2016 - 25% of the issue; 15 November 2018 - 25% of the issue. The Group has a right for early redemption of the bonds on 15 November 2016.	8.05% paid quarterly	8.34%	6,000,000	6,061,785

12 Bonds issued (continued)

<i>Issue number</i>	<i>Maturity</i>	<i>Coupon rate and period</i>	<i>Effective interest rate</i>	<i>Nominal RUR'000</i>	<i>Carrying value RUR'000</i>
A11	15 September 2015 - 30% of the issue; 15 September 2016 - 20% of the issue; 15 September 2017 - 20% of the issue; 15 September 2018 - 10% of the issue; 15 September 2019 - 10% of the issue; 15 September 2020 - 10% of the issue. The Group has a right for early redemption of the bonds on 15 September 2017 or 15 September 2018.	8.20% paid quarterly	8.50%	10,000,000	10,036,386
A12	15 December 2013	Floating rate, paid semi-annually	11.75%	7,000,000	6,976,938
A13	15 April 2018	Floating rate, paid semi-annually	11.09%	3,900,001	3,924,507
A14	15 May 2023	Floating rate, paid semi-annually	10.79%	3,850,001	3,895,780
A15	15 September 2028	Floating rate, paid semi-annually	10.91%	4,968,430	5,047,907
A16	15 September 2017 - 40% of the issue; 15 September 2019 - 35% of the issue; 15 September 2020 - 15% of the issue; 15 September 2021 - 10% of the issue. The Group has a right for early redemption of 60% of the nominal value of the bonds on 15 September 2013 and 40% of the nominal value of the bonds on 15 September 2014.	8.25% paid quarterly	8.51%	8,725,000	9,088,896
A 20	15 December 2025 - 40% of the issue; 15 December 2026 - 30% of the issue; 15 December 2027 - 30% of the issue. The Group has a right for early redemption of 60% of the nominal value of the bonds on 15 December 2019 and 40% of the nominal value of the bonds on 15 December 2020.	8.6% paid quarterly	8.96%	5,000,000	5,003,524
FMA AHML-A	Pass-through redemption Final contractual maturity – 15 February 2039.	6.94% paid quarterly	8.50%	852,310	850,844
FMA AHML-B	Pass-through redemption Final contractual maturity – 15 February 2039.	9.50% paid quarterly	10.66%	264,000	270,148
SMA AHML-A	Pass-through redemption Final contractual maturity – 15 March 2040.	8.5% paid quarterly	8.56%	3,348,364	3,401,419
MA 2008- 1- A	Pass-through redemption Final contractual maturity – 20 February 2041.	10.5% paid quarterly	11.24%	4,505,588	4,607,183
MA 2010- 1- A1	Pass-through redemption Final contractual maturity – 20 November 2042.	9.0% paid quarterly	9.70%	4,997,379	5,090,913
				83,011,073	84,075,257

All of the bonds issued, except for A12, A13, A14 and A15 issues, carry a fixed coupon rate. Bonds of A12, A13, A14 and A15 issues have a floating coupon rate linked to the refinancing rate of the Central Bank of Russia.

Bonds of A4, A5, A6, A7, A8, A9, A10, A11, A12, A13, A14, A15, A16, A17, A18, A19 and A20 issues are guaranteed by the Government of the Russian Federation up to their nominal amounts.

In May 2007, the Group issued mortgage-backed securities with a total nominal value of RUR 3,294,794 thousand secured by a pool of mortgage loans. These mortgage-backed securities were issued by Closed Joint Stock Company "First Mortgage Agent of AHML", a consolidated special purpose entity. Two tranches of these mortgage-backed securities were sold to third parties, and the third (subordinated) tranche with a total nominal value of RUR 130,794 thousand was retained by the Group and therefore it is not included in these consolidated financial statements. Mortgage-backed securities are subject to pass-through redemption as the underlying mortgage loans are being repaid, and they may be repaid before contractual repayment dates in case of earlier repayment of underlying mortgage loans. The final repayment date of mortgage-backed securities is February 2039. As of 30 June 2011, the mortgage-backed securities with a nominal value of RUR 952,228 thousand (31 December 2010: RUR 1,116,310 thousand) are secured by a pool of mortgage loans with a carrying value of RUR 980,606 thousand (31 December 2010: RUR 1,148,884 thousand).

12 Bonds issued (continued)

In February 2008, the Group issued mortgage-backed securities with a total nominal value of RUR 10,727,617 thousand secured by a pool of mortgage loans. These mortgage-backed securities were issued by Closed Joint Stock Company "Second Mortgage Agent of AHML", a consolidated special purpose entity. Tranches B and C of these mortgage-backed securities were retained by the Group and therefore these securities are not included in these consolidated financial statements. Mortgage-backed securities are subject to pass-through redemption as the underlying mortgage loans are being repaid, and they may be repaid before contractual repayment dates in case of earlier repayment of underlying mortgage loans. The final repayment date of mortgage-backed securities is March 2040. As of 30 June 2011, the mortgage-backed securities with a nominal value of RUR 2,825,992 thousand (31 December 2010: RUR 3,348,364 thousand) are secured by a pool of mortgage loans with a carrying value of RUR 2,947,629 thousand (31 December 2010: RUR 3,427,045 thousand).

At the end of December 2008 the Group issued two tranches of mortgage-backed securities with a total nominal value of RUR 11,331,828 thousand secured by a pool of mortgage loans. These mortgage-backed securities were issued by Closed Joint Stock Company "Mortgage Agent of AHML 2008-1", a consolidated special purpose entity. Bonds included in the tranche A have final contractual maturity on 20 February 2041 and carry a fixed coupon rate. Bonds included in the tranche B have final contractual maturity on 20 February 2041 and carry a floating coupon rate. Tranche B of these mortgage-backed securities was retained by the Group and therefore these securities are not included in these consolidated financial statements. As of 30 June 2011, the mortgage-backed securities with a nominal value of RUR 3,653,748 thousand (31 December 2010: RUR 4,505,588 thousand) are secured by a pool of mortgage loans with a carrying value of RUR 3,643,090 thousand (31 December 2010: RUR 4,485,856 thousand).

At the end of June 2010 the Group issued three tranches of mortgage-backed securities with a total nominal value of RUR 13,546,706 thousand secured by a pool of mortgage loans. These mortgage-backed securities were issued by Closed Joint Stock Company "Mortgage Agent of AHML 2010-1", a consolidated special purpose entity. Bonds included in the tranches A1 and A2 have final contractual maturity on 20 November 2042 and carry a fixed coupon rate of 9.0% and 6.5%, respectively. Bonds included in the tranche B have final contractual maturity on 20 November 2042 and carry a floating coupon rate. Tranches A2 and B of these mortgage-backed securities were retained by the Group and therefore these securities are not included in these consolidated financial statements. As of 30 June 2011, the mortgage-backed securities with in the amount of RUR 3,843,284 thousand (31 December 2010: RUR 4,997,379 thousand) are secured by a pool of mortgage loans with a carrying value of RUR 3,642,801 thousand (31 December 2010: RUR 4,767,304 thousand).

13 Bank loans

As of 30 June 2011, bank loans comprise a loan issued by a large Russian bank and recognized at amortized cost of RUR 1,044,844 thousand (31 December 2010: RUR 2,092,309 thousand). The loan matures in November 2011 and bears a fixed interest rate of 8.5% p.a.

14 Other borrowed funds

In December 2010, the Group raised a loan from Vnesheconombank in the amount of RUR 3,000,000 thousand for the purposes of the Stimul program financing (Note 8). The financing under the Stimul program is provided to banks on the terms and conditions that have been agreed with Vnesheconombank. The loan matures in May 2020 and bears interest at a rate of 6.5% p.a. As of 30 June 2011, the amortized cost of the loan amounted to RUR 2,772,844 thousand (31 December 2010: RUR 2,762,550 thousand). The Group recognized the loan in accordance with IAS 20. The Group also recognized a government grant of RUR 206,254 thousand (31 December 2010: RUR 221,209 thousand) within other liabilities.

15 Share capital

Share capital

The share capital of the Agency as of 30 June 2011 comprises 38,236,000 ordinary issued, fully paid and registered shares (31 December 2010: 38,236,000 ordinary issued, fully paid and registered shares). All ordinary shares have a nominal value of RUR 2,500. As of 30 June 2011, the aggregate effect of inflation on the share capital amounted to RUR 269,543 thousand (31 December 2010: RUR 269,543 thousand).

15 Share capital (continued)**Capital management**

The capital management policy of the Group is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The following table shows the ratio of the total equity to the total assets:

	30 June 2011 (unaudited) RUR'000	31 December 2010 RUR'000
Share capital, RUR'000	95,859,543	95,859,543
Retained earnings, RUR'000	14,420,757	10,999,502
Revaluation reserve for investment securities available for sale	(83)	(1,739)
Non-controlling interests	565	566
Total equity, RUR'000	110,280,782	106,857,872
Total assets, RUR'000	216,118,895	197,458,328
Total equity expressed as percentage of assets, %	51%	54%

16 Related party transactions

In accordance with IAS 24, *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The Russian Federation controls the Group acting through the Federal Agency for Federal Property Management.

The Russian Federation, acting through state agencies and other institutions, directly and indirectly controls and significantly influences a large number of entities (collectively referred to as "state-related entities"). The Group performs the following transactions with these entities: lending, placing deposits, attracting loans, cash and settlement operations, providing guarantees, transactions with securities. Transactions with these entities which just as the Agency are under control or significant influence of the State are included in financial statements in related party transactions.

The outstanding balances of transactions with related parties at the end of the reporting period are as follows:

	30 June 2011	31 December 2010
	<i>Total transactions with the Government of the Russian Federation and legal entities controlled by the Government of the Russian Federation</i>	<i>Total transactions with the Government of the Russian Federation and legal entities controlled by the Government of the Russian Federation</i>
	RUR'000	RUR'000
Cash and cash equivalents	3,019,613	3,605,458
Amounts due from credit institutions	3,864,167	4,346,730
Investment securities held to maturity	3,424,920	3,425,812
Investment securities available for sale	44,810	63,800
Investment securities at fair value through profit and loss	25,931	–
Other borrowed funds at 30 June	2,772,844	2,760,550
Other liabilities	206,254	221,209

16 Related party transactions (continued)

The income and expenses from transactions with related parties are as follows:

	<i>Six months ended 30 June 2011</i>	<i>Six months ended 30 June 2010</i>
	<i>RUR'000</i>	<i>RUR'000</i>
Interest income from amounts due from state-owned credit institutions	221,640	842,218
Interest income on securities held to maturity	164,083	164,046
Interest income on securities available for sale	3,477	–
Interest income on securities at fair value through profit and loss	448	–
Interest expense on other borrowed funds from state-owned banks	(96,699)	–
Other income	113,718	–
Loss on initial recognition of mortgage loans	(63,739)	(233,540)

Bonds issued by the Group with a total carrying value of RUR 89,262,149 thousand (31 December 2010: RUR 69,854,723 thousand) are fully guaranteed by the Government of the Russian Federation.

In the first half of 2011, the Group purchased from CJSC "VTB-24", a government-controlled bank, non-performing mortgage loans totaling RUR 164,130 thousand. The loans were purchased on a non-arms' length basis for restructuring purposes. As of the transaction date, the loans were recognized at fair value of RUR 100,391 thousand. The difference between the fair value of the purchased restructured non-performing mortgage loans and the fair value of the obligation to deliver bonds of RUR 63,739 thousand (Note 6) was recognized as loss on initial recognition of mortgage loans in the statement of comprehensive income for the six months ended 30 June 2011.

In 2010, the Group purchased non-performing mortgage loans totaling RUR 1,233,057 thousand on non-arms' length basis from CJSC JSB "GPB-Ipoteka", which is significantly influenced by the government, for restructuring purposes. As of the transaction date, the loans were recognized at fair value of RUR 982,720 thousand. The difference between the fair value of purchased restructured non-performing mortgage loans and the fair value of the obligation to deliver bonds of RUR 250,337 thousand was recognized as loss on initial recognition of mortgage loans in the statement of comprehensive income for the period ended 31 December 2010. In June 2011, due to the refusal of borrowers to participate in restructuring, the Group resold a part of the portfolio totaling RUR 728,539 thousand to CJSC JSB "GPB-Ipoteka" on non-arms' length basis. The Group recognized a loss on initial recognition of mortgage loans totaling RUR 113,718 thousand in the statement of comprehensive income for the six months ended 30 June 2011.

In June 2010, the Group purchased restructured non-performing mortgage loans totaling RUR 984,667 thousand from OJSC "CIT Finance Investment Bank", its related party, in exchange for bonds issued by the Group. As of the transaction date, the loans were recognized at fair value of RUR 834,134 thousand. The difference between the fair value of purchased restructured non-performing mortgage loans and the fair value of the obligation to deliver bonds of RUR 233,540 thousand (Note 6) was recognized as loss on initial recognition of mortgage loans in the statement of comprehensive income for the six months ended 30 June 2010. As of 30 June 2011, the Group did not complete settlements with the related party on the purchase of the restructured non-performing mortgage loans. As a result, the Group recognized the obligation to deliver bonds of RUR 1,067,674 thousand issued by the Group.

Total remuneration of the members of the Management Board and the Supervisory Board, including salary, bonuses and other compensations, recognized in financial statements for the six months ended 30 June 2011, amounts to RUR 18,945 thousand (30 June 2010: RUR 18,129 thousand).

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

During the six months ended 30 June 2011, the Group paid fees and commissions to state-owned companies in the amount of RUR 18,122 thousand (30 June 2010: RUR 21,714 thousand) for transactions related to the Group's bonds issuance. Such payments have been recognized as deferred expense and shall be amortized during the term before the maturity of bonds.

Included in general and administrative expenses are rent expenses of RUR 19,416 thousand paid to a state-owned entity (30 June 2010: RUR 19,381 thousand).

17 Commitments and 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, temporary discontinued operations, or third party liability in respect of property or environmental damage arising from accidents on the Group's property or relating to its operations. Until the Group obtains adequate insurance coverage for its activities, there is a risk that the loss or destruction of certain assets could have a material adverse effect on its operations and financial position.

In 2009, the Group issued a financial guarantee in respect of the senior tranche of mortgage-backed bonds issued by CJSC Mortgage Agent of IBRD. As of 30 June 2011, the total outstanding amount of Class A mortgage-backed bonds issued by CJSC Mortgage Agent of IBRD covered by the Group's guarantee comprised RUR 1,174,538 thousand (31 December 2010: RUR 1,811,338 thousand). This guarantee is provided as an additional security for the obligations of CJSC Mortgage Agent of IBRD under its Class A mortgage-backed bonds and any claims can be raised against the Group only in case of default under the bonds guaranteed. These mortgage-backed bonds are secured by the underlying residential real estate. As of 30 June 2011, the Group owns 93% of the senior tranche of mortgage-backed bonds issued by CJSC "Mortgage Agent of IBRD" of Class A (31 December 2010: 71%).

	<i>30 June 2011</i> <i>RUR'000</i>	<i>31 December 2010</i> <i>RUR'000</i>
Financial commitments and contingencies		
Guarantees issued	1,174,538	1,811,338
Loan agreements	25,194,600	25,932,144
Mortgage-backed securities purchase agreements	16,580,000	–
Mortgage loan repurchase obligations	58,668,372	51,251,211
	101,617,510	78,994,693

Loan agreements are the Group's lending commitments and contingencies in accordance with the established tranches to banks participating in the Stimul program (Note 8).

In September 2010, the Group approved a program for the purchase of mortgage-backed securities, whereby the Group undertakes to purchase senior tranches of mortgage-backed securities from banks planning to issue mortgage-backed securities. As of 30 June 2011, the Group entered into agreements with banks to purchase the securities for the total amount of RUR 16,580,000 thousand (31 December 2010: nil). The securities will be purchased in the fourth quarter of 2011 and in 2012.

Mortgage loan repurchase obligations are contractual mortgage loan repurchase obligations effective at the reporting date.

The above commitments may terminate without being performed in part or in full. Therefore, they do not represent expected cash outflow.

Litigation

Management is unaware of any significant actual, pending or threatened claims against the Group.

Taxation contingencies

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court rulings. However, the interpretations of the relevant authorities may differ from the management's opinion and the effect on the financial performance of the Group, in case of applying enforcement measures by regulators, could be significant.

18 Subsequent events

In July 2011, CJSC "Mortgage Agent of AHML 2011-2" issued 16,571,195 mortgage bonds with the nominal value of RUR 1,000 maturing on 15 September 2043, including 7,457,000 Series A1 bonds with a coupon rate of 8.25%; 7,457,000 Series A2 bonds with coupon rates of 6% (coupons 1 - 9) and 9% (from coupon 10); and 1,657,195 Series B bonds with no fixed coupon rate.

In July 2011, the Agency sold mortgage loans totaling RUR 3,902,868 thousand to CJSC "Mortgage Agent of AHML 2011-1".