

Open Joint-Stock Company
The Agency for Housing Mortgage Lending

Consolidated Financial Statements
for the Year Ended 31 December 2007

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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 2007, 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 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 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

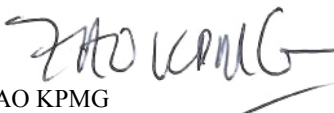
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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 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 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


ZAO KPMG
16 June 2008


OJSC "AHML"
Consolidated Income Statement for the Year Ended 31 December 2007

	Notes	2007 RUR'000	2006 RUR'000
Interest income	4	6 825 547	2 727 434
Interest expense	4	(3 918 198)	(1 523 452)
Net interest income		2 907 349	1 203 982
Impairment losses and provisions	9	(583 681)	(81 602)
Provision for financial guarantees provided	14	(10 759)	-
Net interest income after impairment losses		2 312 909	1 122 380
Commission expense	5	(802 451)	(377 882)
Net other income	6	65 918	17 822
Operating income		1 576 376	762 320
General administrative expenses	7	(726 225)	(311 886)
Profit before tax		850 151	450 434
Income tax expense	8	(349 244)	(108 805)
Net profit		500 907	341 629

The consolidated financial statements as set out on pages 4 to 33 were approved for issue on 16 June 2008.



Alexandr Semenyaka
General Director



Lubov Chernyshova
Chief Accountant

	Notes	2007 RUR'000	2006 RUR'000
ASSETS			
Cash and cash equivalents	20	3 742 735	333 370
Receivables from service agents		861 395	649 168
Mortgage loans:			
- owned by the Agency	9	45 630 843	28 012 405
- sold but not derecognized	9	3 182 946	3 530 113
- pledged as collateral	9	12 726 926	3 363 515
Other assets	10	110 933	105 239
Property and equipment	11	149 403	64 778
Current income tax asset		36 312	4 422
Deferred tax asset	8	-	23 509
Total assets		66 441 493	36 086 519
LIABILITIES AND SHAREHOLDER'S EQUITY			
Bonds issued	12	33 203 500	19 741 397
Financing secured by mortgage loans	9	3 189 111	3 539 429
Bank loans	13	19 110 989	7 132 161
Deferred tax liability		93 617	-
Other liabilities	14	362 327	140 643
Total liabilities		55 959 544	30 553 630
Shareholder's equity			
Share capital	15	9 359 543	5 359 543
Share premium	15	500 000	-
Retained earnings		622 406	173 346
Total shareholder's equity		10 481 949	5 532 889
Total liabilities and shareholder's equity		66 441 493	36 086 519

The consolidated balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

OJSC "AHML"
Consolidated Statement of Cash Flows for the Year Ended 31 December 2007

	Note	2007 RUR'000	2006 RUR'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		6 548 581	2 568 042
Interest paid		(3 786 937)	(1 356 021)
Commissions paid		(802 450)	(377 882)
Net other income less expenses		71 819	17 815
General administrative expenses		(698 957)	(295 048)
		1 332 056	556 906
(Increase)/decrease in operating assets			
Investments in promissory notes available for sale		114	652 109
Receivables from service agents		64 761	(223 860)
Mortgage loans		(27 218 364)	(24 226 666)
Other assets		(5 827)	(45 238)
Increase/(decrease) in operating liabilities			
Other liabilities		208 678	87 434
Net cash used in operating activities before taxes paid		(25 618 582)	(23 199 315)
Income taxes paid		(264 008)	(116 745)
Cash flows used in operating activities		(25 882 590)	(23 316 060)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net purchases of property and equipment		(115 550)	(42 136)
Cash flows used in investing activities		(115 550)	(42 136)
CASH FLOWS FROM FINANCING ACTIVITIES			
Bonds issued		13 441 831	8 971 032
Net bank loans received		11 867 839	7 132 159
Shares issued		4 500 000	3 700 000
Financing secured by mortgage loans		(350 318)	2 557 240
Dividends paid		(51 847)	(7 322)
Cash flows from financing activities		29 407 505	22 353 109
Net increase/(decrease) in cash and cash equivalents		3 409 365	(1 005 087)
Cash and cash equivalents at the beginning of the year		333 370	1 338 457
Cash and cash equivalents at the end of the year	20	3 742 735	333 370

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

Consolidated Statement of Changes in Shareholder's Equity for the Year Ended 31 December 2007

	Share capital RUR'000	Additional share capital in the process of registration RUR'000	Share premium RUR'000	Retained earnings/ (accumulated losses) RUR'000	Total RUR'000
Balance at 1 January 2006	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
Net profit for the year	-	-	-	500 907	500 907
Shares issued and registered in 2007	4 000 000	-	500 000	-	4 500 000
Dividends declared	-	-	-	(51 847)	(51 847)
Balance at 31 December 2007	9 359 543	-	500 000	622 406	10 481 949

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 2007 comprise financial statements of the Agency, and consolidated special purpose entities: Closed Joint Stock Company "First Mortgage Agent of AHML", and Closed Joint Stock Company "Second Mortgage Agent of AHML" (together referred to as the "Group").

The major source of funding for the Group is bonds issued. As of 31 December 2007 92% of the bonds issued by the Group are guaranteed by the Federal Government of the Russian Federation (31 December 2006: 100%).

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 2007, the Group has 280 employees (31 December 2006: 205).

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.

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 except for the changes in accounting policies 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 two special purpose entities: Closed Joint Stock Company "First Mortgage Agent of AHML" and Closed Joint Stock Company "Second 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 these entities. However, the SPEs are established under terms that impose strict limits on the decision-making powers of the SPE's management over the operations of the SPEs. In addition, the benefits related to their operations and net assets are presently attributable to the Agency via a number of agreements. The financial statements of the SPEs are included in these consolidated financial statements from the date of establishment of the SPEs.

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 also 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 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 2007, the official foreign exchange rates established by the Central Bank of the Russian Federation used for translation of balances in foreign currencies were 24.5462 RUR/USD and 35.9332 RUR/EUR (31 December 2006: 26.3311 RUR/USD and 34.6965 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 instrumentsClassification

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 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 2007 and 2006, 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.

Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in the consolidated income statement. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

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.

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

Securitisation

For securitised financial assets, the Agency considers both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Agency over the other entity.

When the Agency, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the Agency's consolidated balance sheet.

When the Agency has transferred financial assets to another entity, but has retained substantially all the risks and rewards relating to the transferred assets, the transferred assets are recognised in the Agency's consolidated balance sheet.

When the Agency transfers substantially all the risks and rewards relating to the transferred assets to an entity that it does not control, the assets are derecognised from the Agency's consolidated balance sheet.

If the Agency neither transfers nor retains substantially all the risks and rewards relating to the transferred assets, the assets are derecognized if the Agency has not retained control over the assets.

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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ImpairmentFinancial 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.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

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.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when the Group's management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

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.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

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

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

Interest income and expense are recognized in the consolidated income statement using the effective interest method.

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

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 by segments.

Changes in accounting policies

As at 1 January 2007, the Group adopted the IFRS 7 "Financial Instruments: Disclosures" and the amendment to the International Financial Reporting Standard IAS 1 "Presentation of Financial Statements" – "Capital Disclosures". The application of the Standard and the amendment resulted in increased disclosure in respect of Group's financial instruments and the nature and extent of risks arising from financial instruments and increased disclosure in respect of Group's objectives, policies and processes for managing capital.

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 2007, 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 analysed the likely impact of these new standards on its financial statements.

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. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. IFRS 8 "Operating Segments" will replace the International Financial Reporting Standard IAS 14 "Segment Reporting".

International Financial Reporting Standard IAS 1 "Presentation of Financial Statements" (Revised), which is effective for annual periods beginning on or after 1 January 2009, specifies how an entity should present changes in equity not resulting from transactions with owners and other changes in equity in its financial statements, and introduces certain other requirements in respect of presentation of information in the financial statements.

4 Net Interest Income and Interest Expense

	2007	2006
	RUR'000	RUR'000
Interest income		
Mortgage loans	6 751 335	2 670 706
Bank deposits	74 094	49 200
Investments in promissory notes available for sale	118	7 528
	6 825 547	2 727 434
Interest expense		
Bonds issued	(2 074 001)	(1 085 519)
Bank loans	(1 286 798)	(86 810)
Financing secured by mortgage loans	(557 209)	(350 725)
Finance leases	(190)	(398)
	(3 918 198)	(1 523 452)
	2 907 349	1 203 982

Included in interest income for the year ended 31 December 2007 is interest income of RUR 541 658 thousand (2006: RUR 389 800 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 2007 is interest expense of RUR 557 209 thousand (2006: RUR 350 725 thousand) for financing secured by mortgage loans recognized as a result of this transfer.

Included in interest income for the year ended 31 December 2007 is interest income of RUR 777 248 thousand (2006: RUR 40 439 thousand) received from mortgage loans pledged as collateral. Refer to Note 9.

5 Commission Expense

	2007 RUR'000	2006 RUR'000
Service fees to service agents	(615 990)	(285 677)
Service fees to custody banks	(185 409)	(90 224)
Other	(1 052)	(1 981)
	(802 451)	(377 882)

6 Net Other Income

	2007 RUR'000	2006 RUR'000
Income from consulting services	34 149	6 019
Income from servicing of mortgage loans transferred	32 631	9 840
Net other income/(expense)	(862)	1 963
	65 918	17 822

7 General Administrative Expenses

	2007 RUR'000	2006 RUR'000
Employee compensation	(364 603)	(189 151)
Professional services	(126 860)	(33 521)
Occupancy	(70 734)	(18 856)
Communication and information services	(18 039)	(22 718)
Depreciation and amortization	(23 373)	(17 107)
Repair and maintenance	(7 242)	(5 835)
Taxes other than income tax	(986)	(543)
Other	(114 388)	(24 155)
	(726 225)	(311 886)

8 Income Tax Expense

	2007 RUR'000	2006 RUR'000
Current income tax expense	(232 118)	(118 293)
Deferred income tax	(117 126)	9 488
Total income tax expense	(349 244)	(108 805)

The Group's applicable tax rates for current and deferred tax in 2007 are 15% for interest income on mortgage backed securities and 24% for other income (2006: 15% for interest income on mortgage backed securities and 24% for other income).

Reconciliation of effective tax rate:

	2007	%	2006	%
	RUR'000		RUR'000	
Profit before tax	850 151	100	450 434	100
Income tax at the applicable tax rate	(204 036)	(24.0)	(108 104)	(24.0)
Non-deductible mortgage loan impairment losses	(164 770)	(19.3)	-	-
Other non-deductible costs	(26 735)	(3.2)	(4 412)	(1.0)
Income taxed at lower tax rates	46 297	5.4	3 711	0.8
	(349 244)	(41.1)	(108 805)	(24.2)

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 liability as at 31 December 2007 (31 December 2006: deferred tax asset).

Movement in temporary differences during the year ended 31 December 2007:

RUR'000	1 January 2007	Recognized in the income statement	31 December 2007
Investments in promissory notes available for sale	(75)	-	(75)
Receivables from service agents	5 994	(5 994)	-
Other assets	(164)	131	(33)
Property and equipment	(275)	293	18
Impairment allowance	(22 103)	22 103	-
Bonds issued	(4 364)	98 392	94 028
Bank loans	(2 062)	2 074	12
Other	(460)	127	(333)
Deferred tax liability/(asset)	(23 509)	117 126	93 617

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

RUR'000	1 January 2006	Recognized in the income statement	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)

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

Management of the Agency believes that the Agency will not be able to reduce its future taxable profits by losses from defaulted mortgage loans due to uncertainties in the current tax legislation and therefore has not recognized a deferred tax assets in respect of mortgage loan impairment allowance of RUR 164 770 thousand as at 31 December 2007 (31 December 2006: nil).

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 2007 and recognized an impairment loss of RUR 675 783 thousand, as at 31 December 2007. Mortgage loans in these consolidated financial statements are shown net of impairment loss allowance.

	2007 RUR'000	2006 RUR'000
Gross mortgage loans	62 216 498	34 998 135
Impairment allowance	(675 783)	(92 102)
Net mortgage loans	61 540 715	34 906 033

Analysis of movements in the mortgage loans impairment:

	2007 RUR'000	2006 RUR'000
Balance as at 1 January	92 102	10 500
Impairment loss	583 681	81 602
Balance as at 31 December	675 783	92 102

As at 31 December 2007, the Group has mortgage loans with a total gross amount of RUR 2 715 578 thousand, for which one or more monthly installment payments were overdue. The ageing analysis of overdue mortgage loans as at 31 December 2007 is presented below:

	2007 RUR'000	2006 RUR'000
Overdue less than 90 days	1 082 532	117 571
Overdue for 90-180 days	798 409	112 166
Overdue for more than 180 days	834 637	31 263
Total	2 715 578	261 000

Management used its judgment to estimate the amount of impairment losses incurred as at 31 December 2007. Management estimated the amount of impairment losses incurred as at 31 December 2007 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 a loan with overdue payments will not be brought current and will be collected through foreclosure. The following key assumptions were used in assessing the impairment losses:

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

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus 0.5 percent, the loan impairment of mortgage loans as of 31 December 2007 would be RUR 307 704 thousand lower/higher.

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 2007, are loans of RUR 3 189 111 thousand loans (31 December 2006: RUR 3 539 429 thousand) which were transferred by the Group to third parties, against which impairment allowance of RUR 6 165 thousand (31 December 2006: RUR 9 316 thousand) was recognized. According to the terms of the transfer, the Agency continues to service the mortgage loans transferred and it has an obligation to re-purchase back the mortgage loans in case of a 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 3 189 111 thousand (31 December 2006: RUR 3 539 429 thousand) to the transferees has been recognized in these financial statements as financing secured by mortgage loans.

Interest income of RUR 541 658 thousand received for mortgage loans transferred is included within interest income for the year ended 31 December 2007 (31 December 2006: RUR 389 800 thousand). Interest expense of RUR 557 209 thousand paid to transferees is included within interest expense for the year ended 31 December 2007 (31 December 2006: RUR 350 725 thousand). Refer to Note 4.

Mortgage loans sold and derecognized

During the year ended 31 December 2007, the Agency transferred loans of RUR 4 206 734 thousand to a third party in a transfer that resulted in derecognition of mortgage loans transferred, as Management believes that the Agency neither retained nor transferred substantially all risks and rewards related to mortgage loans transferred and has not retained control over the assets. The Agency retained a right to serve the mortgage loans transferred and an obligation to repurchase defaulted mortgage loans.

As at 31 December 2007, the total outstanding balance of mortgage loans sold in transactions which qualify for derecognition under IFRS, for which the Agency has an obligation to repurchase defaulted mortgage loans, is RUR 4 086 159 thousand (31 December 2006: RUR 331 540 thousand). As at 31 December 2007, the Group recognized a provision for the liability to repurchase defaulted sold mortgage loans transferred of RUR 10 759 thousand (31 December 2006: nil).

Loans pledged as collateral

Included in mortgage loans, as at 31 December 2007, are loans of RUR 2 579 415 thousand (31 December 2006: RUR 3 372 391 thousand) which were transferred by the Agency to Closed Joint Stock Company "First Mortgage Agent of AHML", a consolidated special purpose entity, against which impairment allowance of RUR 5 375 thousand (31 December 2006: RUR 8 876 thousand) was recognized. These mortgage loans are included in the Group's consolidated balance sheet. The mortgage loans transferred by the Agency to Closed Joint Stock Company "First Mortgage Agent of AHML" are pledged as collateral for mortgage-backed securities which were issued by Closed Joint Stock Company "First Mortgage Agent of AHML" in May 2007. Refer to Note 12.

Included in mortgage loans, as at 31 December 2007, are mortgage loans of RUR 10 163 495 thousand which were transferred by the Agency in November 2007 to Closed Joint Stock Company "Second Mortgage Agent of AHML", a consolidated special purpose entity (31 December 2006: nil), against which impairment allowance of RUR 10 609 thousand (31 December 2006: nil) was recognized. These mortgage loans are included in the Group's consolidated balance sheet. The mortgage loans transferred by the Agency to Closed Joint Stock Company "Second Mortgage Agent of AHML" are pledged as collateral for the mortgage-backed securities which were issued by Closed Joint Stock Company "Second Mortgage Agent of AHML" in February 2008. Refer to Note 24.

Significant mortgage loans exposures

As at 31 December 2007 and 2006, 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 2007 and 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.

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 2007:

RUR'000	Owned by the Agency	Sold but not derecognized	Pledged as collateral	Total mortgage loans
Volga Federal region	13 436 347	937 243	3 747 540	18 121 130
Siberia Federal region	13 779 028	961 146	3 843 117	18 583 291
North-West Federal region	5 991 409	417 926	1 671 068	8 080 403
Ural Federal region	5 687 351	396 717	1 586 262	7 670 330
Central Federal region	3 009 508	209 926	839 384	4 058 818
South Federal region	2 204 572	153 778	614 878	2 973 228
Far-East Federal region	1 522 628	106 210	424 677	2 053 515
	45 630 843	3 182 946	12 726 926	61 540 715

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
Siberia Federal region	6 614 094	833 506	794 170	8 241 770
North-West Federal region	4 859 618	612 407	583 506	6 055 531
Ural Federal region	4 461 935	562 291	535 754	5 559 980
Central Federal region	3 489 361	439 728	418 976	4 348 065
South Federal region	802 274	101 102	96 331	999 707
Far-East Federal region	466 625	58 804	56 029	581 458
	28 012 405	3 530 113	3 363 515	34 906 033

Analysis of collateral

Mortgage loans are secured by underlying housing real estate.

As at 31 December 2007, an average ratio of the carrying amount of a mortgage loan to originally appraised value of collateral for the portfolio of mortgage loans was approximately 55%.

Management believes that the fair value of collateral for overdue or impaired mortgage loans is at least 90% of the carrying amount of overdue or impaired mortgage loans, as at 31 December 2007.

10 Other Assets

	2007 RUR'000	2006 RUR'000
Prepayments	73 743	102 413
Other	37 190	2 826
Total other assets	110 933	105 239

11 Property and Equipment

The roll-forward of property and equipment from 1 January 2007 to 31 December 2007:

RUR'000	Equipment	Furniture	Leased assets	Software	Total
Cost					
1 January 2007	55 294	4 784	4 350	31 818	96 246
Additions	56 777	28 636	-	30 137	115 550
Disposals	(818)	-	-	(8 993)	(9 811)
31 December 2007	111 253	33 420	4 350	52 962	201 985
Depreciation					
1 January 2007	(17 662)	(2 477)	(1 339)	(9 990)	(31 468)
Depreciation charge	(13 168)	(1 047)	(911)	(8 247)	(23 373)
Disposals	45	-	-	2 214	2 259
31 December 2007	(30 785)	(3 524)	(2 250)	(16 023)	(52 582)
Net carrying value					
31 December 2007	80 468	29 896	2 100	36 939	149 403

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	55 294	4 784	4 350	31 818	96 246
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	(17 662)	(2 477)	(1 339)	(9 990)	(31 468)
Net carrying value					
31 December 2006	37 632	2 307	3 011	21 828	64 778

12 Bonds Issued

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

Issue number	Maturity	Coupon rate and period	Effective interest rate	Nominal RUR'000	Carrying value RUR'000
A1	1 December 2008	11.00%, paid semi-annually	9.87%	1 070 000	1 092 021
A2	1 February 2010	11.00%, paid semi-annually	11.53%	1 500 000	1 562 430
A3	15 October 2010	9.40%, paid quarterly	9.93%	2 250 000	2 284 932
A4	1 February 2012	8.70%, paid quarterly	9.14%	900 000	907 803
A5	15 July 2011 - 40% of the issue 15 October 2012 - 60% of the issue	7.35%, paid quarterly	7.66%	2 200 000	2 224 031
A6	15 July 2011 - 20% of the issue 15 July 2013 - 40% of the issue 15 July 2014 - 40% of the issue	7.40%, paid quarterly	7.70%	2 500 000	2 529 537
A7	15 October 2013 - 50% of the issue 15 July 2015 - 25% of the issue 15 July 2016 - 25% of issue	7.68%, paid quarterly	7.95%	4 000 000	4 054 779
A8	15 June 2012 - 40% of the issue 15 March 2014 - 30% of the issue 15 June 2017 - 15% of the issue 15 June 2018 - 15% of the issue The Group has a right for early redemption of the bonds on 15 March 2014	7.63%, paid quarterly	7.91%	5 000 000	5 003 614
A9	15 February 2013 - 40% of the issue 15 February 2015 - 20% of the issue 15 February 2016 - 20% of the issue 15 February 2017 - 20% of the issue The Group has a right for early redemption of the bonds on 15 February 2015	7.49%, paid quarterly	7.76%	5 000 000	5 032 394
A10	15 November 2014 - 50% of the issue 15 November 2016 - 25% of the issue 15 November 2018 - 25% of the issue The Group has a right for early redemption of the bonds on 15 November 2016	8.05%, paid semi-annually	9.82%	6 000 000	5 984 645
FMA AHML-A	Pass-through redemption Expected average maturity - 3.5 years Final contractual maturity - 15 February 2039	6.94%, paid quarterly	8.50%	2 347 579	2 271 706
FMA AHML-B	Expected average maturity - 3.5 years Final contractual maturity - 15 February 2039	9.50%, paid quarterly	10.66%	264 000	255 608
				33 031 579	33 203 500

All of the bonds issued carry a fixed coupon rate.

The bonds of A1, A2, A3 issues are fully guaranteed by the Federal Government of the Russian Federation. The bonds of A4, A5, A6, A7, A8, A9, A10 issues 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 3 294 794 thousand secured by a pool of mortgage loans. These mortgage-backed securities were issued by Closed Joint Stock Company "First Mortgage Agent of AHML" (FMA AHML), a consolidated special purpose entity. 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. A final repayment date of mortgage-backed securities is February 2039. As at 31 December 2007 the mortgage-backed securities were secured by a pool of mortgage loans with a carrying value of RUR 2 574 040 thousand.

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

13 Bank Loans

	2007 RUR'000	2006 RUR'000
Principal amount	19 000 000	7 102 000
Interest accrued	110 989	30 161
	19 110 989	7 132 161

Bank loans, as at 31 December 2007, comprise fixed and floating rates loans from four banks maturing within one year, each of which exceeded 10% of total bank loans.

14 Other Liabilities

	2007 RUR'000	2006 RUR'000
Amounts due to transferees in respect of loans transferred and derecognized, which are served by the Agency	231 315	78 055
Liabilities to service agents	90 755	53 140
Tax payables	384	1 462
Provision for liability to repurchase defaulted loans	10 759	-
Other	29 114	7 986
	362 327	140 643

Analysis of provision for liability to repurchase defaulted mortgage loans

Movements in provision for liability to repurchase defaulted loans are as follows (refer to Note 9):

	2007 RUR'000	2006 RUR'000
Balance at the beginning of the year	-	-
Net charge for the year	10 759	-
Balance at the end of the year	10 759	-

15 Share Capital

Share capital

The share capital of the Agency as at 31 December 2007 comprised 3 636 000 ordinary issued, fully paid and registered shares (31 December 2006: 2 036 000 ordinary issued, fully paid and registered shares). All ordinary shares have a nominal value of RUR 2 500.

During the year ended 31 December 2007 1 600 000 additional shares with a total nominal value of RUR 4 000 000 thousand were issued and registered. Contribution received for shares issued was RUR 4 500 000 thousand, which resulted in a share premium of RUR 500 000 thousand.

The structure of the registered share capital is as follows:

	2007 RUR'000	2006 RUR'000
Share capital at nominal value	9 090 000	5 090 000
Inflation adjustment	269 543	269 543
	9 359 543	5 359 543

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.

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 the legislation of the Russian Federation. As at 31 December 2007, reserves available for distribution were RUR 985 331 thousand (31 December 2006: RUR 426 100 thousand).

During the year ended 31 December 2007 the Agency declared and paid dividends totaling RUR 51 847 thousand (2006: RUR 7 322 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.

Risk management policies and procedures

The Agency's risk management policies aim to identify, analyse and manage the risks faced by the Agency, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions and emerging best practice.

The Supervisory Board of the Agency has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving large exposures.

The Management Board of the Agency is responsible for monitoring and implementation of risk mitigation measures and making sure that the Agency operates within the established risk parameters. The Head of Risk Management Department of the Agency is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks.

Apart from the standard credit, liquidity and market risk analysis, the Risk Management Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

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 standard requirements for mortgage loans, guidelines in respect of portfolio concentration, procedure of limit approvals for service agents and the establishment of a Credit Committee, which actively monitors the credit risk of the Agency and of 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 which qualify for the established set of requirements. 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 2007, the maximum loan limit is RUR 16.2 million for Moscow, Moscow Region, St. Petersburg and Krasnodar Territory and from RUR 4 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 a 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 to be 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 recognizes mortgage loan impairment losses based on its estimate of losses incurred as at the reporting date. Losses migration models are used for impairment estimates.

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.

Apart from individual mortgage loans, the whole portfolio of mortgage loans is assessed by the Risk Management Department with regard to credit concentration and market risks.

The Agency also monitors concentrations of credit risk by geographic location. For the analysis of concentration of credit risk in respect of mortgage loans refer to Note 9 "Mortgage loans".

The Agency constantly monitors financial position of service agents and performance of mortgage loan portfolios purchased from service agents and amends established limits if necessary.

The Agency's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet and off-balance sheet commitments. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its commitments. 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.

The Agency seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, amounts received from sales of mortgage loans and securitisation, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy of the Agency requires:

- projecting cash flows and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans.
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;

The Agency aims to match maturities of its assets and liabilities. Increase in pre-payment rates for mortgage loans due to increase in disposable income of the borrowers or decrease in the level of interest rates may increase mismatch between maturities of assets and liabilities. The Agency estimates the expected life of mortgage loans when issuing bonds.

The following tables show the undiscounted cash flows on the Group's financial liabilities on the basis of their earliest possible contractual maturity. The total gross amount (inflow)/outflow disclosed in the table is the contractual, undiscounted cash flows on the financial liability or commitment. The Group's actual cash flows on these financial liabilities may vary significantly from this analysis.

The position of the Agency as at 31 December 2007 was as follows:

	Less than 1 month	1-3 months	3-12 months	1 years to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Bonds issued	218 128	395 709	3 561 207	16 920 325	26 177 376	47 272 745	33 203 500
Financing secured by mortgage loans	96 745	106 994	423 452	2 115 885	4 629 232	7 372 308	3 189 111
Bank loans	68 283	1 878 194	11 481 320	5 641 978	2 190 500	21 260 275	19 110 989
Other liabilities	275 772	50 237	36 318	-	-	362 327	362 327
Total	658 928	2 431 134	15 502 297	24 678 188	32 997 108	76 267 655	55 865 927

The position of the Agency as at 31 December 2006 was as follows:

	Less than 1 month	1-3 months	3-12 months	1 years to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Bonds issued	223 875	19 736	1 448 802	11 761 954	15 729 404	29 183 771	19 741 397
Financing secured by mortgage loans	107 741	116 843	458 259	2 326 663	5 750 757	8 760 263	3 539 429
Bank loans	19 773	151 237	7 460 983	-	-	7 631 993	7 132 161
Other liabilities	134 223	5 934	486	-	-	140 643	140 643
Total	485 612	293 750	9 368 530	14 088 617	21 480 161	45 716 670	30 553 630

For further information on the Group's exposure to liquidity risk as at 31 December 2007 refer to Note 23.

Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Group's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

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

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual portfolios and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Group include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

The management of interest rates risk component of market risk by monitoring interest rate gaps is supplemented by monitoring the sensitivity of the Group's net interest margin to various standard and non-standard interest rate scenarios. The Agency also issues bonds which have an early redemption option for the Agency, which provides the Agency with additional tool for interest-risk management.

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.

As at 31 December 2007 and 31 December 2006, the Agency and the Group are not exposed to significant price risk.

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Group's income or the value of its portfolios of financial instruments.

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

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.

The majority of the Group's assets and liabilities are fixed rate assets and liabilities maturing after one year from the reporting date.

An analysis of sensitivity of the Group's net income for the year and equity to interest rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2007 and 31 December 2006 is as follows:

	2007	2006
	RUR'000	RUR'000
100 bp parallel fall	(8 497)	(37 438)
100 bp parallel rise	8 497	37 438

As the Group does not have any interest-bearing assets or liabilities at fair value through profit or loss or available for sale, the Group is not exposed to significant fair value interest rate risk, as at 31 December 2007.

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 2007 and as at 31 December 2006, the Group is not exposed to significant currency risk.

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.

Capital management

The Agency's policy 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 Supervisory Board monitors the level of dividends to the sole shareholder.

The following table shows the ratio of the Group's total shareholder's equity to the Group's total assets:

	31 December 2007	31 December 2006
Share capital, RUR'000	9 359 543	5 359 543
Share premium RUR'000	500 000	-
Retained earnings, RUR'000	622 406	173 346
Total shareholder's equity	10 481 949	5 532 889
Total assets, RUR'000	66 441 493	36 086 519
Total shareholder's equity expressed as percentage of assets, %	15.8%	15.3%

17 Leases

Non-cancelable operating lease rentals are payable as follows:

	2007 RUR'000	2006 RUR'000
Less than one year	47 363	12 704
Between one and five years	127 777	7 335
	175 140	20 039

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 2007 RUR 70 734 thousand was recognized as an expense in the consolidated income statement in respect of operating leases (2006: RUR 18 856 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 the financial position of the Group, if the authorities were successful in enforcing their interpretations, could be significant.

19 Related Party Transactions

During the year ended 31 December 2007 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 13 417 thousand (2006: RUR 14 225 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 outstanding balances and the related average interest rates as of 31 December 2007 and related consolidated income statement amounts of transactions with other related parties for the year ended 31 December 2007 are as follows.

	2007	Average effective interest rate,	2006	Average effective interest rate,
	Amount, RUR'000	%	Amount, RUR'000	%
Current accounts and deposits	2 271 568	7.16	47 784	5.18
Interest income on deposits	24 938	-	12 053	-
Promissory notes	517	9.20	651	9.20
Interest income on promissory notes	-	-	7 529	-
Bank loans received	2 612 715	8.50	1 908 815	9.00
Interest expense on loans	12 715	-	6 815	-

During the year ended 31 December 2007, the Group paid commissions to Russian state-owned banks of RUR 15 504 thousand (2006: RUR 14 745 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.

Bonds issued by the Group with a total carrying value of RUR 30 676 186 thousand (31 December 2006: RUR 19 741 397 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 48 596 thousand paid to a state-owned entity (31 December 2006: RUR 12 209 thousand).

20 Cash and Cash Equivalents

Cash and cash equivalents comprise:

	2007	2006
	RUR'000	RUR'000
Petty cash	3	-
Current accounts with banks:		
- rated BBB+	45 776	3 172
- rated BBB-	1 125 638	155 735
- rated BB-	78 913	904
Short-term deposits with banks:		
- rated BBB+	652 667	-
- rated BBB-	1 497 430	-
- rated BB+	342 308	173 559
	3 742 735	333 370

21 Fair Value of Financial Instruments

The Group has performed an assessment of its financial instruments, as required by IFRS 7 "Financial Instruments: Disclosures".

The estimated fair value of bonds issued is their quoted price. As at 31 December 2007 the estimated fair value of bonds issued are RUR 33 769 070 thousand (31 December 2006: 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 2007.

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 2007 and 31 December 2006, and their corresponding average effective interest rates as at those dates. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	Carrying value RUR'000	2007 Average effective interest rate	Carrying value RUR'000	2006 Average effective interest rate
Interest Bearing Assets				
Current accounts with banks	1 250 327	0.0 - 5.37%	159 811	0.0 - 4.5%
Short-term deposits with banks	2 492 405	7.14%	173 559	5.71%
Mortgage loans				
- owned by the Agency	45 630 843	13.10%	28 012 405	13.50%
- sold but not derecognized	3 182 946	13.83%	3 530 113	13.83%
- pledged as collateral	12 726 926	12.80%	3 363 515	13.50%
Interest Bearing Liabilities				
Bonds issued	33 203 500	9.04%	19 741 397	8.96%
Financing secured by mortgage loans	3 189 111	11.83%	3 539 429	13.50%
Bank loans	19 110 989	8.78%	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 2007. 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	2 219 246	1 523 489	-	-	-	-	3 742 735
Receivables from service agents	861 395	-	-	-	-	-	861 395
Mortgage loans	152 247	309 452	1 478 010	9 000 941	50 600 065	-	61 540 715
Property and equipment	-	-	-	-	-	149 403	149 403
Other assets	20 728	16 586	10 694	37 827	24 862	236	110 933
Current income tax asset	-	-	36 312	-	-	-	36 312
Total assets	3 253 616	1 849 527	1 525 016	9 038 768	50 624 927	149 639	66 441 493
Liabilities							
Bonds issued	191 011	189 707	1 178 840	7 176 721	24 467 221	-	33 203 500
Financing secured by mortgage loans	7 890	16 036	76 592	466 439	2 622 154	-	3 189 111
Bank loans	-	1 528 303	10 461 241	5 041 445	2 080 000	-	19 110 989
Deferred tax liability	-	-	-	-	-	93 617	93 617
Other liabilities	275 772	50 237	36 318	-	-	-	362 327
Total liabilities	474 673	1 784 283	11 752 991	12 684 605	29 169 375	93 617	55 959 544
Net position as at 31 December 2007	2 778 943	65 244	(10 227 975)	(3 645 837)	21 455 552	56 022	10 481 949
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

24 Subsequent Events

In January 2008 the Group issued bonds with a total nominal value of RUR 10 000 000 thousand with an annual coupon rate of 8.20% paid quarterly. 30% of the bonds mature on 15 September 2015, 20% of the bonds mature on 15 September 2016, 20% of the bonds mature on 15 September 2017, 10% of the bonds mature on 15 September 2018, 10% of the bonds mature on 15 September 2019, and 10% of the bonds mature on 15 September 2020. The Group has a right for early redemption of 50% of the bonds on 15 September 2017 and 30% of the bonds on 15 September 2018. The bonds are guaranteed by the Federal Government of the Russian Federation up to their principal amounts.

In February 2008, the Group registered an issue of mortgage-backed securities with a total nominal value of RUR 10 727 617 thousand. All three tranches of the mortgage-backed securities were purchased by the Agency at the issue date. Bonds included in the tranche A with a total nominal value of RUR 9 440 000 thousand have final contractual maturity on 15 March 2040 and carry a fixed coupon rate. Bonds included in the tranche B with a total nominal value of RUR 590 300 thousand have final contractual maturity on 15 March 2040 and carry a variable coupon rate. Bonds included in the tranche C (subordinated) with a total nominal value of RUR 697 317 thousand mature on 15 March 2040 and carry a variable coupon rate. The mortgage-backed securities may be repaid before contractual repayment dates in case of earlier repayment of underlying mortgage loans. In May 2008, the Group issued an irrevocable offer to repurchase bonds of tranche A on 30 July 2009.