

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

Consolidated Financial Statements  
for the Year Ended 31 December 2009

## Contents

Independent Auditors' Report .....	3
Consolidated Statement of Comprehensive Income .....	4
Consolidated Statement of Financial Position .....	5
Consolidated Statement of Cash Flows .....	6
Consolidated Statement of Changes in Equity .....	7
Notes to the Consolidated Financial Statements .....	8
1 Introduction.....	8
2 Basis of preparation .....	8
3 Significant accounting policies .....	9
4 Interest income and interest expense .....	16
5 Commission expense .....	16
6 Net other income.....	16
7 General administrative expenses.....	17
8 Income tax (expense)/benefit.....	17
9 Cash and cash equivalents .....	19
10 Mortgage loans .....	19
11 Held-to-maturity investments .....	22
12 Other assets.....	23
13 Property, equipment and intangible assets .....	23
14 Bonds issued .....	24
15 Bank loans .....	27
16 Other liabilities .....	27
17 Share capital.....	27
18 Financial risk management .....	28
19 Leases .....	33
20 Contingencies.....	34
21 Related party transactions .....	34
22 Fair value of financial instruments.....	35
23 Average effective interest rates.....	36
24 Maturity analysis.....	37
25 Subsequent events.....	38



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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" and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Consolidated Financial Statements*

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

#### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial position of the Group as at 31 December 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.


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31 May 2010

	Notes	2009 RUR'000	2008 RUR'000
Interest income	4	17 227 869	9 617 186
Interest expense	4	(5 071 550)	(5 805 269)
<b>Net interest income</b>		<b>12 156 319</b>	<b>3 811 917</b>
Impairment losses for mortgage loans	10	(4 681 213)	(2 206 116)
Impairment losses for stabilization loans	10	(473 004)	-
Recovery of provision (provision) for financial guarantees	16	2 967	(8 345)
<b>Net interest income after impairment losses</b>		<b>7 005 069</b>	<b>1 597 456</b>
Commission expense	5	(1 193 157)	(991 669)
Net other income	6	276 425	131 482
<b>Operating income</b>		<b>6 088 337</b>	<b>737 269</b>
General administrative expenses	7	(1 443 322)	(1 079 160)
<b>Profit (loss) before taxes</b>		<b>4 645 015</b>	<b>(341 891)</b>
Income tax (expense) benefit	8	(883 931)	225 915
<b>Profit (loss) and total comprehensive income (loss)</b>		<b>3 761 084</b>	<b>(115 976)</b>

The consolidated financial statements as set out on pages 4 to 38 were approved for issue on 31 May 2010.

  
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Semeniyaka A.N.  
*General Director*

  
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Chernyshova L.B.  
*Chief Accountant*

	Notes	2009 <u>RUR'000</u>	2008 <u>RUR'000</u>
<b>ASSETS</b>			
Cash and cash equivalents	9	64 768 652	54 487 354
Receivables from service agents		23 597	122 466
Mortgage loans:			
- owned by the Agency	10	73 331 546	52 413 638
- sold but not derecognized	10	-	2 716 038
- pledged as collateral	10	18 280 026	21 505 847
Stabilization loans issued	10	315 335	-
Loans issued		23 301	-
Held-to-maturity investments	11	3 424 610	-
Other assets	12	138 475	128 683
Property, equipment and intangible assets	13	255 261	276 502
Investment property		68 924	-
Current income tax asset		6 290	7 341
Deferred tax asset	8	1 587 633	450 432
<b>Total assets</b>		<b><u>162 223 650</u></b>	<b><u>132 108 301</u></b>
<b>LIABILITIES</b>			
Bonds issued	14	59 208 100	44 620 359
Financing secured by mortgage loans	10	-	2 737 655
Bank loans	15	2 612 715	8 183 351
Current income tax liability		61 888	-
Other liabilities	16	333 445	320 523
<b>Total liabilities</b>		<b><u>62 216 148</u></b>	<b><u>55 861 888</u></b>
<b>EQUITY</b>			
Share capital	17	95 859 543	14 359 543
Additional share capital in the process of registration	17	-	60 000 000
Share premium		-	1 500 000
Retained earnings		4 147 954	386 870
<b>Total equity attributable to equity holder of the parent</b>		<b><u>100 007 497</u></b>	<b><u>76 246 413</u></b>
Minority interest		5	-
<b>Total equity</b>		<b><u>100 007 502</u></b>	<b><u>76 246 413</u></b>
<b>Total liabilities and equity</b>		<b><u>162 223 650</u></b>	<b><u>132 108 301</u></b>

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

	Notes	<b>2009</b> <b>RUR'000</b>	<b>2008</b> <b>RUR'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received		17 284 798	10 208 504
Interest paid		(4 034 013)	(5 815 737)
Commissions paid		(1 193 157)	(994 467)
Net other income received		276 425	73 838
General administrative expenses paid		(1 272 162)	(969 950)
		<b>11 061 891</b>	<b>2 502 188</b>
<b>(Increase) decrease in operating assets</b>			
Receivables from service agents		28 329	173 032
Mortgage loans		(19 731 796)	(17 300 921)
Stabilization loans		(788 339)	-
Loans issued		(23 301)	-
Other assets		(10 700)	(29 546)
<b>Increase (decrease) in operating liabilities</b>			
Other liabilities		17 329	(44 138)
<b>Net cash used in operating activities before income tax paid</b>		<b>(9 446 587)</b>	<b>(14 699 385)</b>
Income taxes paid		(1 958 193)	(289 163)
<b>Cash flows used in operating activities</b>		<b>(11 404 780)</b>	<b>(14 988 548)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of held-to-maturity investments		(3 411 000)	-
Net purchases of property, equipment and intangible assets		(144 834)	(188 626)
<b>Cash flows used in investing activities</b>		<b>(3 555 834)</b>	<b>(188 626)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Bonds issued		13 479 562	11 392 808
Net bank loans repaid		(5 500 000)	(10 900 000)
Shares issued		20 000 005	66 000 000
Financing secured by mortgage loans repaid		(2 737 655)	(451 455)
Dividends paid		-	(119 560)
<b>Cash flows from financing activities</b>		<b>25 241 912</b>	<b>65 921 793</b>
<b>Net increase in cash and cash equivalents</b>		<b>10 281 298</b>	<b>50 744 619</b>
Cash and cash equivalents as at the beginning of the year		54 487 354	3 742 735
<b>Cash and cash equivalents as at the end of the year</b>	9	<b>64 768 652</b>	<b>54 487 354</b>

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

	Attributable to equity holder of the parent						Total equity RUR'000
	Share capital RUR'000	Additional share capital in the process of registration RUR'000	Share premium RUR'000	Retained earnings RUR'000	Total RUR'000	Minority interest RUR'000	
<b>Balance as at 1 January 2008</b>	<b>9 359 543</b>	-	<b>500 000</b>	<b>622 406</b>	<b>10 481 949</b>	-	<b>10 481 949</b>
Loss	-	-	-	(115 976)	(115 976)	-	(115 976)
Shares issued and registered	5 000 000	-	1 000 000	-	6 000 000	-	6 000 000
Additional share capital in the process of registration	-	60 000 000	-	-	60 000 000	-	60 000 000
Dividends declared	-	-	-	(119 560)	(119 560)	-	(119 560)
<b>Balance as at 31 December 2008</b>	<b>14 359 543</b>	<b>60 000 000</b>	<b>1 500 000</b>	<b>386 870</b>	<b>76 246 413</b>	-	<b>76 246 413</b>
<b>Balance as at 1 January 2009</b>	<b>14 359 543</b>	<b>60 000 000</b>	<b>1 500 000</b>	<b>386 870</b>	<b>76 246 413</b>	-	<b>76 246 413</b>
Profit	-	-	-	3 761 084	3 761 084	-	3 761 084
Shares issued and registered	81 500 000	(60 000 000)	(1 500 000)	-	20 000 000	5	20 000 005
<b>Balance as at 31 December 2009</b>	<b>95 859 543</b>	-	-	<b>4 147 954</b>	<b>100 007 497</b>	<b>5</b>	<b>100 007 502</b>

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the 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. 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 lending market.

The Agency also performs other activities aimed to develop the mortgage loans industry in Russia. Such activities include issuance of guarantees to banks originating mortgage loans and issuance of financing to construction companies. In February 2009 Open Joint-Stock Company "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".

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 for the year ended 31 December 2009 comprise the financial statements of the Agency, a consolidated subsidiary OJSC "ARHML" and consolidated special purpose entities: Closed Joint Stock Company "First Mortgage Agent of AHML", Closed Joint Stock Company "Second Mortgage Agent of AHML" and Closed Joint Stock Company "Mortgage Agent of AHML 2008-1" (together referred to as the "Group").

The major sources of funding are bonds issued and contributions to the share capital. As of 31 December 2009 96% of the bonds issued by the Group are guaranteed by the Federal Government of the Russian Federation (31 December 2008: 87%).

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.

Substantially all operations of the Group are performed in Russia. The majority of revenues are derived from operations in the Russian Federation. The majority of non-current assets are located in the Russian Federation. There were no customer, revenues from transactions with whom, amounted to 10% or more of revenue.

As of 31 December 2009, the Group has 493 employees (31 December 2008: 333).

### *Russian business environment*

The Russian Federation is experiencing political and economic change that affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

## 2 Basis of preparation

### *Statement of compliance*

The accompanying consolidated financial statements are 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 determined the functional currency of the Agency and its subsidiaries to be the RUR as it reflects the economic substance of the underlying events and circumstances of the Group.

RUR is also the presentation currency for the purposes of these consolidated financial statements.

Financial information presented in RUR is rounded to the nearest thousand.

### ***Use of estimates and judgments***

Management makes 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 10 in respect of mortgage loan impairment estimates and in the note 8 in respect of the deferred tax asset.

## **3 Significant accounting policies**

The following significant accounting policies are consistently applied in the preparation of the consolidated financial statements. Changes in accounting policies described at the end of this note.

### ***Basis of consolidation***

#### ***Subsidiaries***

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group 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 consolidated financial statements where the substance of the relationship is that the Group controls the special purpose entity.

The Agency has three SPEs, established for the purpose of issuing 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 eliminated to the extent that there is no evidence of impairment.

#### ***Minority interest***

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

Minority interest is presented in the consolidated statement of financial position within equity, separately from the equity attributable to the equity holder of the Agency. Minority interest in profit or loss and other comprehensive income is separately disclosed in the consolidated statement of comprehensive income.

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

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

As at 31 December 2009, the official foreign exchange rates established by the Central Bank of the Russian Federation used for translation of balances in foreign currencies are 30.2442 RUR/USD and 43.3883 RUR/EUR (31 December 2008: 29.3804 RUR/USD and 41.4411 RUR/EUR).

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

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents comprise petty cash, current accounts with banks and short-term deposits with banks.

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

##### *Classification*

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- upon initial recognition, designated by the entity as at fair value through 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 financial liabilities 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 2009 and 2008, 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 statement of financial position 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 that 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, that are recognised 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 profit or loss. 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 reporting date without any deduction for transaction costs. Where a quoted market price is not available, fair value is determined using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm's length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

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 reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting 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 reporting 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 profit or loss
- a gain or loss on an available for sale financial asset is recognized as other comprehensive income (except for impairment losses and foreign exchange gains and losses on debt financial instruments available for sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognized in profit or loss. Interest in relation to an available for sale financial asset is recognized as earned in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss 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 are transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the consolidated statement of financial position.

When the Agency transfers 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 consolidated statement of financial position.

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 consolidated statement of financial position.

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 statement of financial position 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 profit or loss 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 that are acquired by the Group are stated at cost less accumulated amortization and impairment losses.

##### Amortization

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 3 to 10 years.

### ***Investment property***

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is stated at cost less accumulated depreciation and impairment losses.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful life. The estimated useful life is 50 years.

### ***Impairment***

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

Financial assets carried at amortized cost consist principally of loans and other receivables ("loans and receivables"). The 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 profit or loss 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 management determines that the loan is uncollectable 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 profit or loss 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 statement of financial position 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 in other liabilities.

### ***Share capital***

Share capital comprises the nominal amount of the Agency's officially registered shares fully paid by the shareholders 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 profit or loss 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 recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within 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 reporting 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 and investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future 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 reporting 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**

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The majority of Group's activities relates to transactions with mortgage loans. Management concluded that the Group has a single reportable segment.

### **Changes in accounting policies**

Starting from 1 January 2009 the Group adopted the revised version of IAS 1 *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009). As a result the income statement is replaced by a statement of comprehensive income that also includes all non-owner changes in equity, such as the revaluation of available-for-sale assets. The balance sheet is renamed to the statement of financial position and the cash flow statement is renamed to the statement of cash flows. According to the revised IAS 1, a statement of financial position at the beginning of the earliest comparative period is presented whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors.

Starting from 1 January 2009 the Group adopted IFRS 8 *Operating Segments* (effective for annual periods beginning on or after 1 January 2009) which introduces the management approach to segment reporting and requires the disclosure of segment information based on the internal reports regularly reviewed by the chief operating decision maker in order to assess each segment's performance and to allocate resources to them.

### **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 2009, and are not 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 pronouncements on its financial statements.

- IAS 27 *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously minority interests) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will be measured at its fair value.
- IFRS 3 *Business Combinations* (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure minority interest using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed.

Instead, in a business combination achieved in stages, the acquirer must remeasure its previously held equity interest in the acquiree at its acquisition date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer must recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone.

- Revised IAS 24 *Related Party Disclosures* (2009) (effective for annual periods beginning on or after 1 January 2011) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

Various Improvements to IFRSs which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2010.

#### 4 Interest income and interest expense

	<b>2009</b>	<b>2008</b>
	<b>RUR'000</b>	<b>RUR'000</b>
<b>Interest income</b>		
Mortgage loans	10 444 277	9 103 299
Bank deposits	6 745 722	513 726
Loans issued	24 260	-
Held-to-maturity investments	13 610	-
Investments in promissory notes available for sale	-	161
	<b>17 227 869</b>	<b>9 617 186</b>
<b>Interest expense</b>		
Bonds issued	(4 316 011)	(3 805 689)
Bank loans	(613 048)	(1 591 950)
Financing secured by mortgage loans	(141 571)	(406 717)
Other borrowed funds	(920)	(913)
	<b>(5 071 550)</b>	<b>(5 805 269)</b>
	<b>12 156 319</b>	<b>3 811 917</b>

#### 5 Commission expense

	<b>2009</b>	<b>2008</b>
	<b>RUR'000</b>	<b>RUR'000</b>
Service fees to service agents	(997 412)	(821 996)
Service fees to custody banks	(194 669)	(141 298)
Other	(1 076)	(28 375)
	<b>(1 193 157)</b>	<b>(991 669)</b>

#### 6 Net other income

	<b>2009</b>	<b>2008</b>
	<b>RUR'000</b>	<b>RUR'000</b>
Fees and penalties received	79 278	45 211
Gain from early repayment of financing secured by mortgage loans	76 216	-
Income from servicing mortgage loans transferred	51 914	71 812
Income from consulting services	5 474	3 078
Net other income	63 543	11 381
	<b>276 425</b>	<b>131 482</b>

## 7 General administrative expenses

	<b>2009</b>	<b>2008</b>
	<b>RUR'000</b>	<b>RUR'000</b>
Employee compensation	(712 632)	(527 253)
Professional services	(217 395)	(187 795)
Depreciation and amortization	(166 075)	(61 527)
Occupancy	(105 989)	(84 541)
Taxes other than income tax	(60 710)	(66 742)
Communication and information services	(45 849)	(39 821)
Repair and maintenance	(21 290)	(25 316)
Other	(113 382)	(86 165)
	<b>(1 443 322)</b>	<b>(1 079 160)</b>

## 8 Income tax (expense)/benefit

	<b>2009</b>	<b>2008</b>
	<b>RUR'000</b>	<b>RUR'000</b>
Current income tax expense	(2 021 132)	(318 134)
Deferred income tax benefit	1 137 201	544 049
<b>Total income tax (expense)/benefit</b>	<b>(883 931)</b>	<b>225 915</b>

The applicable tax rates for current tax in 2009 are 15% for interest income on mortgage-backed securities and 20% for other income (2008: 15% for interest income on mortgage-backed securities and 24% for other income).

Reconciliation of the effective tax rate:

	<b>2009</b>		<b>2008</b>	
	<b>RUR'000</b>	<b>%</b>	<b>RUR'000</b>	<b>%</b>
Profit (loss) before tax	4 645 015	100.0	(341 891)	100.0
Income tax at the applicable tax rate	(929 003)	(20.0)	82 054	24.0
Non-deductible costs	(51 338)	(1.1)	(30 237)	(8.8)
Income taxed at lower tax rates	96 410	2.1	114 095	33.4
Movement in provision for deferred tax asset	-	-	164 770	48.2
Effect of change in the income tax rate	-	-	(104 767)	(30.6)
	<b>(883 931)</b>	<b>19.0</b>	<b>225 915</b>	<b>66.2</b>

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to a net deferred tax asset of RUR 1 587 633 thousand as at 31 December 2009 (31 December 2008: net deferred tax asset of RUR 450 432 thousand).

***Movement in temporary differences during the year ended 31 December 2009:***

<b>RUR'000</b>	<b>1 January 2009</b>	<b>Recognized in profit or loss</b>	<b>31 December 2009</b>
Receivables from service agents	8 573	(10 671)	(2 098)
Other assets	(245)	245	-
Investment property	-	(1 111)	(1 111)
Property, equipment and intangible assets	(294)	(4 404)	(4 698)
Impairment allowance	(576 380)	(1 230 791)	(1 807 171)
Bonds issued	(65 611)	50 146	(15 465)
Investment in consolidated subsidiaries	192 018	67 775	259 793
Bank loans	5 908	(5 908)	-
Other	(14 401)	(2 482)	(16 883)
<b>Deferred tax liability (asset)</b>	<b>(450 432)</b>	<b>(1 137 201)</b>	<b>(1 587 633)</b>

***Movement in temporary differences during the year ended 31 December 2008:***

<b>RUR'000</b>	<b>1 January 2008</b>	<b>Recognized in profit or loss</b>	<b>31 December 2008</b>
Investments in promissory notes available for sale	(75)	75	-
Receivables from service agents	-	8 573	8 573
Other assets	(33)	(212)	(245)
Property, equipment and intangible assets	18	(312)	(294)
Impairment allowance	(164 770)	(411 610)	(576 380)
Bonds issued	10 842	(76 453)	(65 611)
Investment in consolidated subsidiaries	83 186	108 832	192 018
Bank loans	12	5 896	5 908
Other	(333)	(14 068)	(14 401)
<b>Deferred tax liability (asset)</b>	<b>(71 153)</b>	<b>(379 279)</b>	<b>(450 432)</b>
Provision for a deferred tax asset	164 770	(164 770)	-
<b>Net deferred tax liability (asset)</b>	<b>93 617</b>	<b>(544 049)</b>	<b>(450 432)</b>

The above deductible temporary differences do not expire under current tax legislation of the Russian Federation.

As at 31 December 2009 management believes that the Agency will generate taxable profits in the future that will allow the Agency to realize the deferred tax asset in full.

## 9 Cash and cash equivalents

Cash and cash equivalents comprise:

	<b>2009</b>	<b>2008</b>
	<b>RUR'000</b>	<b>RUR'000</b>
Petty cash	8	5
Current accounts with large Russian banks:		
- rated BBB+ by Fitch Ratings	2 053 637	-
- rated BBB by Fitch Ratings	117 679	1 093
- rated BBB- by Fitch Ratings	-	2 172 650
- rated BB- by Fitch Ratings	94 620	451 870
- rated B+ by Fitch Ratings	89 306	-
Deposits with large Russian banks:		
- rated BBB by Fitch Ratings	30 468 035	32 761 736
- rated BBB- by Fitch Ratings	-	19 100 000
- rated BB by Fitch Ratings	4 128 928	-
- rated BB- by Fitch Ratings	3 338 009	-
- rated B+ by Fitch Ratings	18 077 263	-
- rated B by Fitch Ratings	5 900 002	-
- rated B2 by Moody's Investors Service	501 165	-
	<b>64 768 652</b>	<b>54 487 354</b>

The Group has the right to demand early repayment of bank deposits maturing after three months after the reporting date with a loss of accrued interest.

## 10 Mortgage loans

### *Mortgage loan maturity*

The maturity of the mortgage loan portfolio is presented in note 24, 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 assessed its portfolio of mortgage loans for impairment on a collective basis as at 31 December 2009 and recognized an impairment loss of RUR 7 563 112 thousand. Mortgage loans in these consolidated financial statements are shown net of impairment allowance.

	<b>2009</b>	<b>2008</b>
	<b>RUR'000</b>	<b>RUR'000</b>
Gross mortgage loans	99 174 684	79 517 422
Impairment allowance	(7 563 112)	(2 881 899)
<b>Net mortgage loans</b>	<b>91 611 572</b>	<b>76 635 523</b>

### *Analysis of movements in the mortgage loans impairment:*

	<b>2009</b>	<b>2008</b>
	<b>RUR'000</b>	<b>RUR'000</b>
Balance as at 1 January	2 881 899	675 783
Impairment loss	4 681 213	2 206 116
<b>Balance as at 31 December</b>	<b>7 563 112</b>	<b>2 881 899</b>

As at 31 December 2009, the Group has mortgage loans totaling RUR 11 758 958 thousand (31 December 2008: RUR 6 981 636 thousand), for which one or more monthly installment payments are overdue.

**Ageing analysis of overdue mortgage loans as at 31 December 2009:**

	<b>Principal RUR'000</b>	<b>Interest RUR'000</b>	<b>Total RUR'000</b>
Overdue less than 90 days	1 290 234	8 160	1 298 394
Overdue for 90-180 days	1 148 392	20 336	1 168 728
Overdue for more than 180 days	8 685 699	606 137	9 291 836
<b>Total</b>	<b>11 124 325</b>	<b>634 633</b>	<b>11 758 958</b>

**Ageing analysis of overdue mortgage loans as at 31 December 2008:**

	<b>Principal RUR'000</b>	<b>Interest RUR'000</b>	<b>Total RUR'000</b>
Overdue less than 90 days	2 051 204	45 548	2 096 752
Overdue for 90-180 days	1 289 358	53 254	1 342 612
Overdue for more than 180 days	3 143 055	399 217	3 542 272
<b>Total</b>	<b>6 483 617</b>	<b>498 019</b>	<b>6 981 636</b>

Management uses its judgment to estimate the amount of impairment losses incurred. Management estimates the amount of impairment losses incurred 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 are used in assessing the impairment losses:

- management assumes historic data on migration of overdue loans serves as an appropriate basis for estimation of impairment losses
- management assumes a discount of 30% to the originally appraised value indexed to changes in housing prices since the date of mortgage loan origination.

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 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 2009 would be RUR 458 058 thousand lower/higher (31 December 2008: RUR 383 178 thousand).

**Stabilization loans**

During the year ended 31 December 2009 the Group launched a program aimed to provide support for mortgage loan borrowers 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.

During the year ended 31 December 2009 the Group renegotiated mortgage loans that would otherwise be past due or impaired of RUR 927 453 thousand through the issue of stabilization loans.

As at 31 December 2009 the Group has RUR 788 339 thousand of stabilization loans, against which an impairment allowance of RUR 473 004 thousand is recognized. The Group uses its judgment to estimate impairment losses on stabilization loans based on its experience in the mortgage industry.

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 for stabilization loans differs by plus/minus 5.0 percent, the impairment of stabilization loans as of 31 December 2009 would be RUR 15 767 thousand lower/higher (31 December 2008: nil).

***Loans transferred to third parties or pledged***

***Mortgage loans transferred but not derecognized***

Included in mortgage loans as at 31 December 2008 are loans of RUR 2 737 655 thousand that were transferred by the Group to third parties, against which an impairment allowance of RUR 21 617 thousand was recognized. Management determined that the Group did not transfer the majority of risks associated with these mortgage loans and that the transfer therefore does not qualify for derecognition. A corresponding liability of RUR 2 737 655 thousand to the transferees was recognized as at 31 December 2008 as financing secured by mortgage loans.

During 2009 the Group repurchased mortgage loans of RUR 2 450 707 thousand from a transferee. As a result of this repurchase the liability related to these mortgage loans was reduced by the same amount, and the Group recognized a gain of RUR 76 216 thousand as other income. Refer to note 6.

Interest income of RUR 165 427 thousand received for mortgage loans transferred is included in interest income for the year ended 31 December 2009 (31 December 2008: RUR 457 122 thousand). Interest expense of RUR 141 571 thousand paid to transferees is included in interest expense for the year ended 31 December 2009 (31 December 2008: RUR 406 717 thousand).

***Mortgage loans sold and derecognized***

As at 31 December 2009, 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, is RUR 2 569 977 thousand (31 December 2008: RUR 3 177 371 thousand). As at 31 December 2009, the Group recognized a liability to repurchase defaulted mortgage loans sold of RUR 16 137 thousand (31 December 2008: RUR 19 104 thousand).

***Loans pledged as collateral***

Included in mortgage loans as at 31 December 2009 are mortgage loans of RUR 1 638 662 thousand (31 December 2008: RUR 2 018 727 thousand) that were transferred by the Agency to Closed Joint Stock Company "First Mortgage Agent of AHML", a consolidated special purpose entity, against which an impairment allowance of RUR 3 823 thousand (31 December 2008: RUR 6 572 thousand) is recognized. These mortgage loans are included in the consolidated statement of financial position. The mortgage loans transferred to Closed Joint Stock Company "First Mortgage Agent of AHML" are pledged as collateral for mortgage-backed securities that were issued by Closed Joint Stock Company "First Mortgage Agent of AHML" in May 2007. Refer to note 14.

Included in mortgage loans as at 31 December 2009 are mortgage loans of RUR 7 323 781 thousand that were transferred by the Agency to Closed Joint Stock Company "Second Mortgage Agent of AHML", a consolidated special purpose entity (31 December 2008: RUR 8 661 692 thousand), against which an impairment allowance of RUR 52 986 thousand (31 December 2008: RUR 30 444 thousand) is recognized. These mortgage loans are included in the consolidated statement of financial position. The mortgage loans transferred to Closed Joint Stock Company "Second Mortgage Agent of AHML" are pledged as collateral for the mortgage-backed securities that were issued by Closed Joint Stock Company "Second Mortgage Agent of AHML" in February 2008. Refer to note 14.

Included in mortgage loans as at 31 December 2009 are mortgage loans of RUR 9 503 129 thousand that were transferred by the Agency to Closed Joint Stock Company "Mortgage Agent of AHML 2008-1", a consolidated special purpose entity (31 December 2008: RUR 10 907 123 thousand), against which an impairment allowance of RUR 128 737 thousand (31 December 2008: RUR 44 679 thousand) is recognized. These mortgage loans are included in the consolidated statement of financial position. The mortgage loans transferred to Closed Joint Stock Company "Mortgage Agent of AHML 2008-1" are pledged as collateral for the mortgage-backed securities that were issued by Closed Joint Stock Company "Mortgage Agent of AHML 2008-1" in November 2008. Refer to note 14.

Included in interest income for the year ended 31 December 2009 is interest income of RUR 2 454 052 thousand (2008: RUR 1 750 914 thousand) received from mortgage loans pledged as collateral.

***Significant mortgage loans exposures***

As at 31 December 2009 and 2008, 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 2009 and 2008 there are no service agents that are servicing a pool of mortgage loans with an aggregate amount exceeding 10% of total mortgage loans.

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

All mortgage loans are due from individual borrowers that 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 loan portfolio as at 31 December 2009 is as follows:

<b>RUR'000</b>	<b>Owned by the Agency</b>	<b>Pledged as collateral</b>	<b>Total mortgage loans</b>
Volga Federal region	21 563 180	7 154 628	28 717 808
Siberia Federal region	21 521 875	5 452 962	26 974 837
North-West Federal region	8 105 906	1 905 173	10 011 079
Ural Federal region	8 574 353	1 216 076	9 790 429
Central Federal region	6 008 646	1 149 719	7 158 365
South Federal region	4 773 548	791 931	5 565 479
Far-East Federal region	2 784 038	609 537	3 393 575
	<b>73 331 546</b>	<b>18 280 026</b>	<b>91 611 572</b>

Geographical analysis of the mortgage loan portfolio as at 31 December 2008 is as follows:

<b>RUR'000</b>	<b>Owned by the Agency</b>	<b>Sold but not derecognized</b>	<b>Pledged as collateral</b>	<b>Total mortgage loans</b>
Volga Federal region	15 469 155	721 412	8 503 209	24 693 776
Siberia Federal region	16 160 254	1 271 919	6 295 983	23 728 156
North-West Federal region	6 257 324	117 926	2 238 446	8 613 696
Ural Federal region	5 484 229	316 708	1 420 764	7 221 701
Central Federal region	3 364 972	106 782	1 387 035	4 858 789
South Federal region	3 406 924	181 291	927 810	4 516 025
Far-East Federal region	2 270 780	-	732 600	3 003 380
	<b>52 413 638</b>	<b>2 716 038</b>	<b>21 505 847</b>	<b>76 635 523</b>

### **Analysis of collateral**

Mortgage loans are secured by underlying housing real estate.

As at 31 December 2009, an average ratio of the carrying amount of a mortgage loan to the originally appraised value of collateral is approximately 54% (31 December 2008: 51%).

Management believes that the fair value of collateral for overdue or impaired mortgage loans is at least equal to 77% of the carrying amount of overdue or impaired mortgage loans as at 31 December 2009 (31 December 2008: 90%).

## **11 Held-to-maturity investments**

	<b>2009</b>	<b>2008</b>
	<b>RUR'000</b>	<b>RUR'000</b>
Mortgage-backed securities of CJSC "VTB-24"	<b>3 424 610</b>	-

As at 31 December 2009 held-to-maturity investments mature in December 2014 and carry a coupon rate of 9.70%.

## 12 Other assets

	<b>2009</b>	<b>2008</b>
	<b>RUR'000</b>	<b>RUR'000</b>
Prepayments	91 032	97 669
Other	47 443	31 014
	<b>138 475</b>	<b>128 683</b>

## 13 Property, equipment and intangible assets

The roll-forward of property, equipment and intangible assets from 1 January 2009 to 31 December 2009 is as follows:

<b>RUR'000</b>	<b>Equipment</b>	<b>Furniture</b>	<b>Other assets</b>	<b>Software</b>	<b>Total</b>
<b>Cost</b>					
<b>1 January 2009</b>	<b>207 802</b>	<b>34 475</b>	<b>6 728</b>	<b>136 739</b>	<b>385 744</b>
Additions	22 279	2 816	2 145	117 594	144 834
Disposals	(4 745)	(787)	(6 728)	(23 437)	(35 697)
<b>31 December 2009</b>	<b>225 336</b>	<b>36 504</b>	<b>2 145</b>	<b>230 896</b>	<b>494 881</b>
<b>Depreciation</b>					
<b>1 January 2009</b>	<b>(67 391)</b>	<b>(6 732)</b>	<b>(3 948)</b>	<b>(31 171)</b>	<b>(109 242)</b>
Depreciation charge	(67 249)	(6 627)	(3 257)	(88 942)	(166 075)
Disposals	4 745	787	6 728	23 437	35 697
<b>31 December 2009</b>	<b>(129 895)</b>	<b>(12 572)</b>	<b>(477)</b>	<b>(96 676)</b>	<b>(239 620)</b>
<b>Carrying value</b>					
<b>31 December 2009</b>	<b>95 441</b>	<b>23 932</b>	<b>1 668</b>	<b>134 220</b>	<b>255 261</b>

The roll-forward of property, equipment and intangible assets from 1 January 2008 to 31 December 2008 is as follows:

<b>RUR'000</b>	<b>Equipment</b>	<b>Furniture</b>	<b>Leased assets</b>	<b>Software</b>	<b>Total</b>
<b>Cost</b>					
<b>1 January 2008</b>	<b>111 253</b>	<b>33 420</b>	<b>4 350</b>	<b>52 962</b>	<b>201 985</b>
Additions	100 668	1 752	2 378	83 828	188 626
Disposals	(4 119)	(697)	-	(51)	(4 867)
<b>31 December 2008</b>	<b>207 802</b>	<b>34 475</b>	<b>6 728</b>	<b>136 739</b>	<b>385 744</b>
<b>Depreciation</b>					
<b>1 January 2008</b>	<b>(30 785)</b>	<b>(3 524)</b>	<b>(2 250)</b>	<b>(16 023)</b>	<b>(52 582)</b>
Depreciation charge	(40 725)	(3 905)	(1 698)	(15 199)	(61 527)
Disposals	4 119	697	-	51	4 867
<b>31 December 2008</b>	<b>(67 391)</b>	<b>(6 732)</b>	<b>(3 948)</b>	<b>(31 171)</b>	<b>(109 242)</b>
<b>Carrying value</b>					
<b>31 December 2008</b>	<b>140 411</b>	<b>27 743</b>	<b>2 780</b>	<b>105 568</b>	<b>276 502</b>

## 14 Bonds issued

Bonds issued by the Group as at 31 December 2009 comprise the following:

Issue number	Maturity	Coupon rate and period	Effective interest rate	Nominal RUR'000	Carrying value RUR'000
A2	1 February 2010	11.00%, paid semi-annually	11.53%	1 500 000	1 568 101
A3	15 October 2010	9.40%, paid quarterly	9.96%	900 000	916 381
A4	1 February 2012	8.70%, paid quarterly	9.15%	900 000	910 203
A5	15 July 2011 – 40% of the issue; 15 October 2012 – 60% of the issue	7.35%, paid quarterly	7.69%	2 200 000	2 228 335
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	2 532 494
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	4 057 162
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	5 006 998
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	5 035 927
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	6 049 284
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 on 15 September 2018	8.20%, paid quarterly	8.50%	10 000 000	10 013 466
A12	15 December 2013	Floating rate, paid semi-annually	13.54%	7 000 000	7 310 474
A13	15 April 2018	Floating rate, paid semi-annually	13.69%	3 900 001	4 073 443
A14	15 May 2023	Floating rate, paid semi-annually	13.69%	3 850 001	4 019 634
A15	15 September 2028	Floating rate, paid semi-annually	13.69%	3 865 188	4 052 779

<b>Issue number</b>	<b>Maturity</b>	<b>Coupon rate and period</b>	<b>Effective interest rate</b>	<b>Nominal RUR'000</b>	<b>Carrying value RUR'000</b>
FMA AHML -A	Pass-through redemption Final contractual maturity – 15 February 2039	6.94%, paid quarterly	8.50%	1 223 046	1 176 032
FMA AHML -B	Pass-through redemption Final contractual maturity – 15 February 2039	9.50%, paid quarterly	10.66%	264 000	257 387
				<b>58 102 236</b>	<b>59 208 100</b>

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 carrying floating coupon rate linked to the refinancing rate of the Central Bank of Russia.

The bonds of A2 and A3 issues are fully guaranteed by the Government of the Russian Federation.

The bonds of A4, A5, A6, A7, A8, A9, A10, A11, A12, A13, A14 and A15 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 at 31 December 2009 the mortgage-backed securities are secured by a pool of mortgage loans with a carrying value of RUR 1 634 839 thousand (31 December 2008: RUR 2 012 155 thousand). Refer to note 10.

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. 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. During the year ended 31 December 2009 the Agency repurchased all the mortgage-backed securities of this issue from the third parties. As at 31 December 2009 the mortgage-backed securities are secured by a pool of mortgage loans with a carrying value of RUR 7 270 795 thousand (31 December 2009: RUR 8 631 248 thousand). Refer to note 10.

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 variable coupon rate. Both tranches of these mortgage-backed securities were retained by the Group and therefore these securities are not included in these consolidated financial statements. As at 31 December 2009 the mortgage-backed securities are secured by a pool of mortgage loans with a carrying value of RUR 9 374 392 thousand (31 December 2009: RUR 10 862 444 thousand). Refer to note 10.

Bonds issued by the Group as at 31 December 2008 comprise the following:

Issue number	Maturity	Coupon rate and period	Effective interest rate	Nominal RUR'000	Carrying value RUR'000
A2	1 February 2010	11.00%, paid semi-annually	11.53%	1 500 000	1 565 121
A3	15 April 2009 – 30% of the issue; 15 October 2010 – 40% of the issue	9.40%, paid quarterly	9.96%	1 575 000	1 602 672
A4	1 February 2012	8.70%, paid quarterly	9.15%	900 000	909 109
A5	15 July 2011 – 40% of the issue; 15 October 2012 – 60% of the issue	7.35%, paid quarterly	7.69%	2 200 000	2 226 109
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	2 530 929
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	4 055 931
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	5 005 248
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	5 034 101
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	6 047 955
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 on 15 September 2018	8.20%, paid quarterly	8.50%	10 000 000	10 011 377
FMA AHML -A	Pass-through redemption Final contractual maturity - 15 February 2039	6.94%, paid quarterly	8.50%	1 641 023	1 590 268
FMA AHML -B	Pass-through redemption Final contractual maturity - 15 February 2039	9.50%, paid quarterly	10.66%	264 000	256 454
SMA AHML -A	Pass-through redemption Final contractual maturity - 15 February 2040	8.50%, paid quarterly	8.56%	3 742 114	3 785 085
				<b>44 322 137</b>	<b>44 620 359</b>

## 15 Bank loans

	<b>2009</b>	<b>2008</b>
	<b>RUR'000</b>	<b>RUR'000</b>
Principal amount	2 600 000	8 100 000
Interest accrued	12 715	83 351
	<b>2 612 715</b>	<b>8 183 351</b>

Bank loans as at 31 December 2009 comprise fixed rate loans from one bank.

## 16 Other liabilities

	<b>2009</b>	<b>2008</b>
	<b>RUR'000</b>	<b>RUR'000</b>
Liabilities to service agents	117 252	102 571
Payables to employees	70 331	-
Amounts due to transferees in respect of loans transferred and derecognized, which are serviced by the Agency	64 651	161 975
Liability to repurchase defaulted loans (note 10)	16 137	19 104
Tax payables	13 276	15 880
Other	51 798	20 993
	<b>333 445</b>	<b>320 523</b>

### *Analysis of provision for liability to repurchase defaulted mortgage loans*

Movements in provision for liability to repurchase defaulted loans are as follows:

	<b>2009</b>	<b>2008</b>
	<b>RUR'000</b>	<b>RUR'000</b>
Balance at the beginning of the year	19 104	10 759
Net (recovery) charge for the year	(2 967)	8 345
<b>Balance at the end of the year</b>	<b>16 137</b>	<b>19 104</b>

## 17 Share capital

### *Share capital*

The share capital of the Agency as at 31 December 2009 comprises 38 236 000 ordinary issued, fully paid and registered shares (31 December 2008: 5 636 000 ordinary issued, fully paid and registered shares). All ordinary shares have a nominal value of RUR 2 500.

During 2008 the Agency issued and registered 2 000 000 shares with a nominal value of RUR 5 000 000 thousand. This share issue was registered in 2008.

During 2008 the Agency issued 24 000 000 shares with a nominal value of RUR 60 000 000 thousand that were paid but not registered as of 31 December 2008. This share issue was registered in 2009.

During 2009 the Agency issued and registered 8 000 000 shares with a nominal value of RUR 20 000 000 thousand. The shares were paid in 2009.

During 2009 the Agency issued and registered 600 000 shares with a nominal value of RUR 1 500 000 thousand. The shares were paid by an allocation of the share premium to the share capital.

Movements in the number of ordinary shares registered for 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Number of ordinary shares at the beginning of the year	5 636 000	3 636 000
Shares registered during the year	<u>32 600 000</u>	<u>2 000 000</u>
<b>Number of ordinary shares at the end of the year</b>	<b><u>38 236 000</u></b>	<b><u>5 636 000</u></b>

The structure of the share capital is as follows:

	<u>2009</u>	<u>2008</u>
	<u>RUR'000</u>	<u>RUR'000</u>
Share capital at nominal value	95 590 000	14 090 000
Additional share capital in the process of registration	-	60 000 000
Inflation adjustment	<u>269 543</u>	<u>269 543</u>
	<b><u>95 859 543</u></b>	<b><u>74 359 543</u></b>

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

#### ***Retained earnings and dividends***

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

In accordance with the current dividend policy of the Agency approved by the sole shareholder, the current year profit determined in accordance with legislation of the Russian Federation only may be distributed as dividends. Current year profit of the Agency determined in accordance with legislation of the Russian Federation is RUR 8 141 106 thousand (unaudited).

In accordance with the legislation of the Russian Federation dividends payable are limited by the amount of retained earnings, determined in accordance with the legislation of the Russian Federation. As at 31 December 2009, reserves available for distribution are RUR 9 860 095 thousand (unaudited) (31 December 2008: RUR 1 782 234 thousand (unaudited)).

During the year ended 31 December 2009 the Agency did not declare and pay dividends (2008: RUR 119 560 thousand).

## **18 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 risk management policies aim to identify, analyse and manage the risks faced by the Group, 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 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 is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Head of the Risk Management Department 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 that 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, limit approvals for service agents and the establishment of a Credit Committee, which actively monitors the credit risk. The credit policies are reviewed and approved by the Management Board.

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

The Group establishes the maximum loan limit, which as at 31 December 2009 is RUR 4 000 thousand.

The Group does not require life or job insurance on the borrower. However the interest rates for loans to borrowers who do not have such insurance are higher.

The Group requires that the property that serves as collateral for mortgage loans is insured by qualified insurance companies.

The Group 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 Group monitors the timeliness of mortgage loans repayments and identifies overdue individual mortgage loans on a monthly basis. The Group 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 Group 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 10 "Mortgage loans".

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

The Group monitors prices on the real estate market by regions within the Russian Federation to control the risk of a decrease in real estate prices. The Group performs stress tests and recognizes additional allowances if necessary.

In 2009 the Group introduced the following changes in its risk management policies in order to control the growth of overdue loans:

- Since 1 July 2009 the Group requires that the originators of mortgage loans repurchase mortgage loans sold to the Group if either the first or the second installment due after the date of the sale is not paid by the borrower in time. This requirement was introduced since 1 January 2009 for certain originators that have high delinquency rates (low rated mortgage loan suppliers) and was extended to all originators/mortgage loan suppliers.
- Since 1 July 2009 the following limits were introduced by the Group:
  - a) maximum loan balance is RUR 4 000 thousand
  - b) maximum loan to collateral value ratio for loans secured by the pledge of a flat is 70% and for loans secured by the pledge of a house is 60%
  - c) maximum payment to income ratio (all mortgage payments including insurance payments to total borrower/borrowers income) is 45%
  - d) only residential premises that are the sole residence of a borrower may be pledged under a mortgage loan
  - e) income from self-employment should not be more than 50% of total joint income of the borrowers.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on and off the statement of financial position, except that for mortgage-backed securities the mortgage loans pledged as collateral are the sole source of repayment, and, therefore, the exposure to credit risk is limited to the mortgage-backed securities retained by the Agency. The impact of possible netting of other 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 liquidity policy is reviewed and approved by the Management Board.

The Group 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 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 uses a medium term cash flows planning model to forecast its cash flows. The Agency considers various scenarios when making its cash flow forecasts. The model includes projections of expected cash flows from mortgage loans, debt issues and repayments and other operations.

The model uses historical information for the mortgage loan portfolio, statistics collected by the Information Policy Department, statistics of Rosstat and other available sources of information.

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

The following tables show the undiscounted cash flows on financial assets and liabilities on the basis of their earliest possible contractual maturity except for mortgage loans that are presented based on expected maturity. The total gross amount inflow (outflow) disclosed in the table is the contractual, undiscounted cash flows on the financial assets or liabilities. The actual cash flows on these financial assets and liabilities may vary significantly from this analysis.

The position as at 31 December 2009 is as follows:

	<u>Less than 1 month</u>	<u>1-3 months</u>	<u>3 months to 1 year</u>	<u>1 years to 5 years</u>	<u>More than 5 years</u>	<u>Total gross amount inflow/ (outflow)</u>	<u>Carrying amount</u>
<b>Assets</b>							
Cash and cash equivalents	10 274 188	27 208 092	28 748 282	-	-	66 230 562	64 768 652
Receivables from service agents	23 597	-	-	-	-	23 597	23 597
Held-to-maturity investments	-	82 478	247 434	3 740 912	-	4 070 824	3 424 610
Mortgage loans	1 927 081	3 815 392	16 522 890	76 266 524	43 651 252	142 183 139	91 611 572
Stabilization loans issued	-	38	88 406	302 027	751 954	1 142 425	315 335
Loans issued	228	433	2 019	23 961	-	26 641	23 301
Other assets	6 168	17 535	-	-	-	23 703	23 703
<b>Total assets</b>	<b>12 231 262</b>	<b>31 123 968</b>	<b>45 609 031</b>	<b>80 333 424</b>	<b>44 403 206</b>	<b>213 700 891</b>	<b>160 190 770</b>
<b>Liabilities</b>							
Bonds issued	(1 789 073)	(932 174)	(5 827 047)	(41 167 062)	(45 307 390)	(95 022 746)	(59 208 100)
Bank loans	-	(54 493)	(664 346)	(2 242 269)	-	(2 961 108)	(2 612 715)
Current income tax liability	-	(61 888)	-	-	-	(61 888)	(61 888)
Other liabilities	(120 015)	(145 495)	(67 551)	(384)	-	(333 445)	(333 445)
<b>Total liabilities</b>	<b>(1 909 088)</b>	<b>(1 194 050)</b>	<b>(6 558 944)</b>	<b>(43 409 715)</b>	<b>(45 307 390)</b>	<b>(98 379 187)</b>	<b>(62 216 148)</b>
<b>Net position</b>	<b>10 322 174</b>	<b>29 929 918</b>	<b>39 050 087</b>	<b>36 923 709</b>	<b>(904 184)</b>	<b>115 321 704</b>	<b>97 974 622</b>

The position as at 31 December 2008 is as follows:

	<u>Less than 1 month</u>	<u>1-3 months</u>	<u>3 months to 1 year</u>	<u>1 years to 5 years</u>	<u>More than 5 years</u>	<u>Total gross amount outflow</u>	<u>Carrying amount</u>
Bonds issued	(258 005)	(1 001 200)	(9 083 581)	(24 962 528)	(31 213 334)	(66 518 648)	(44 620 359)
Financing secured by mortgage loans	(54 264)	(86 819)	(375 426)	(1 870 779)	(3 774 266)	(6 161 554)	(2 737 655)
Bank loans	-	(114 000)	(5 857 625)	(2 907 347)	-	(8 878 972)	(8 183 351)
Other liabilities	(257 699)	(52 444)	(10 380)	-	-	(320 523)	(320 523)
<b>Total</b>	<b>(569 968)</b>	<b>(1 254 463)</b>	<b>(15 327 012)</b>	<b>(29 740 654)</b>	<b>(34 987 600)</b>	<b>(81 879 697)</b>	<b>(55 861 888)</b>

For further information on the exposure to liquidity risk as at 31 December 2009 refer to note 24.

### ***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 income or the value of 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.

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 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 net interest margin to various standard and non-standard interest rate scenarios. The Group also issues bonds that have an early redemption option, which provides the Group with an 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 2009 and 2008, the Group is not exposed to significant price risk.

### ***Interest rate risk***

Interest rate risk is the risk that movements in interest rates will affect the income or the value of 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 Group manages interest rate risk using the following procedures:

- establishing a moratorium on the early repayment of loans for a period of 6 months from the date of the issue
- determining maturity of debts issued based on an expected average life of the mortgage loan portfolio
- issuing bonds with the option of early repayment
- estimating cash flows from early repayment of mortgage loans
- performing financial planning and developing models to optimise the terms of bonds issued
- estimating durations of bonds issued and mortgage loan portfolios
- monitoring spread of yields for its bond issued in comparison to government bonds yields
- considering various scenarios in its financial planning and performing regular stress tests.

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

An analysis of sensitivity of net profit (loss) 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 2009 and 2008 is as follows:

	<b>2009</b> <b>RUR'000</b>	<b>2008</b> <b>RUR'000</b>
100 bp parallel fall	340 567	197 343
100 bp parallel rise	(340 567)	(197 343)

As the Group does not have any interest-bearing assets or liabilities at fair value through profit or loss or available for sale as at 31 December 2009 and 2008, the Group is not exposed to significant fair value interest rate risk.

#### Currency risk

The majority of assets, liabilities, income and expenses are denominated in Russian Rubles. Therefore management believes that as at 31 December 2009 and 2008, 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 activities and is a risk faced by all business organizations. Operational risk includes legal risk.

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

#### **Capital management**

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

	<b>31 December 2009</b>	<b>31 December 2008</b>
Share capital, RUR'000	95 859 543	14 359 543
Additional share capital in the process of registration, RUR'000	-	60 000 000
Share premium, RUR'000	-	1 500 000
Retained earnings, RUR'000	4 147 954	386 870
Minority interest, RUR'000	5	-
<b>Total equity, RUR'000</b>	<b>100 007 502</b>	<b>76 246 413</b>
Total assets, RUR'000	162 223 650	132 108 301
<b>Total equity expressed as percentage of assets, %</b>	<b>61.6%</b>	<b>57.7%</b>

## **19 Leases**

Non-cancelable operating lease rentals are payable as follows:

	<b>2009</b> <b>RUR'000</b>	<b>2008</b> <b>RUR'000</b>
Less than one year	95 433	79 382
Between one and five years	79 759	83 524
	<b>175 192</b>	<b>162 906</b>

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 2009 RUR 105 989 thousand was recognized as an expense in profit or loss in respect of operating leases (2008: RUR 84 541 thousand).

## 20 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 property or relating to its 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 operations and financial position.

### *Commitments*

During 2009, the Group issued a financial guarantee in respect of Class A mortgage-backed securities issued by CJSC "The Mortgage Agent of MBRR". As at 31 December 2009 the total outstanding amount of Class A mortgage-backed securities issued by CJSC "The Mortgage Agent of MBRR" covered by the Group's guarantee is RUR 1 811 338 thousand. This guarantee is provided as an additional security for the obligations of CJSC "The Mortgage Agent of MBRR" under its Class A mortgage-backed securities and any claims can be raised against the Group only in case of default under the securities guaranteed. Mortgage-backed securities guaranteed are secured by the underlying housing real estate.

The contractual amounts of commitments are set out in the following table. The amounts reflected in the table represent the maximum accounting loss that will be recognized and reflected in the consolidated financial statements if the counterparties fail completely to perform as contracted.

	<b>2009</b> <b>RUR'000</b>	<b>2008</b> <b>RUR'000</b>
<b>Commitments</b>		
Guarantees and contingent commitments	1 811 338	-
	<b>1 811 338</b>	<b>-</b>

The above commitments may expire or terminate without being funded in part or in full. Thus, they do not necessarily represent the expected cash outflow.

### *Litigation*

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

### *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. There is little practice of application of tax legislation to operations with mortgage loans by non-banking wholesale mortgage entities. 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.

## 21 Related party transactions

During the year ended 31 December 2009 total remuneration of the members of the Management Board and the Supervisory Board, including salary, bonuses and other discretionary compensations, amounts to RUR 33 672 thousand (2008: RUR 40 403 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.

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

The outstanding balances, the related average interest rates and related profit or loss amounts for transactions with other related parties are as follows:

	2009 RUR'000	Average effective interest rate, %	2008 RUR'000	Average effective interest rate, %
Current accounts and deposits with state-owned banks	31 460 576	10.78%	51 988 502	11.97%
Interest income on deposits with banks	5 781 688	-	393 162	-
Held-to-maturity investments in securities issued by state-owned banks	3 424 610	9.70%	-	-
Interest income on held-to-maturity investments	13 610	-	-	-
Bank loans received from state-owned banks	-	-	2 612 680	8.50%
Interest expense on loans from state-owned banks	280 000	-	12 680	-

During the year ended 31 December 2009, the Group paid commissions to Russian state-owned banks of RUR 4 587 thousand (2008: RUR 8 271 thousand) for services related to issues of the Group's bonds. These expenses are deferred and are amortized over the life of the bonds.

Bonds issued by the Group with a total carrying value of RUR 2 484 482 thousand (31 December 2008: RUR 3 167 793 thousand) are fully guaranteed by the Federal Government of the Russian Federation.

Bonds issued by the Group with a total carrying value of RUR 55 290 199 thousand (31 December 2008: RUR 35 820 759 thousand) are guaranteed by the Federal Government of the Russian Federation up to their nominal amounts. Refer to note 14.

Included in general administrative expenses are rent expenses of RUR 40 773 thousand paid to a state-owned entity (31 December 2008: RUR: 32 684 thousand).

## 22 Fair value of financial instruments

The Group performed an assessment of the fair value 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 2009 the estimated fair value of bonds issued is RUR 53 644 669 thousand (31 December 2008: RUR 31 234 717 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 reporting 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 reporting date.

As at 31 December 2009 the estimated fair value of mortgage loans is RUR 87 100 542 thousand (31 December 2008: RUR 60 998 141 thousand).

As at 31 December 2008 the estimated fair value of bank loans is RUR 7 568 872 thousand.

As at 31 December 2008 the estimated fair value of financing secured by mortgage loans was RUR 2 308 613 thousand.

Based on the assessment made, management concluded that fair values of the other financial instruments are not materially different from their carrying values as at 31 December 2009 and 2008.

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.

### 23 Average effective interest rates

The table below shows interest bearing assets and liabilities, as at 31 December 2009 and 31 December 2008, 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.

	2009		2008	
	Carrying value RUR'000	Average effective interest rate	Carrying value RUR'000	Average effective interest rate
<b>Interest Bearing Assets</b>				
Current accounts with banks	2 355 242	0.00 - 8.00%	2 625 613	0.00 - 5.37%
Short-term deposits with banks	62 413 402	10.63%	51 861 736	11.97%
Held-to-maturity investments	3 424 610	9.70%	-	-
Mortgage loans				
- owned by the Agency	73 331 546	13.14%	52 413 638	13.03%
- sold but not derecognized	-	-	2 716 038	13.73%
- pledged as collateral	18 280 026	12.95%	21 505 847	12.42%
Stabilization loans issued	315 335	12.14%	-	-
Loans issued	23 301	11.50%	-	-
<b>Interest Bearing Liabilities</b>				
Bonds issued	59 208 100	9.94%	44 620 359	8.60%
Financing secured by mortgage loans	-	-	2 737 655	11.73%
Bank loans	2 612 715	8.50%	8 183 351	8.89%

## 24 Maturity analysis

The following table shows the assets and liabilities by remaining contractual maturity dates as at 31 December 2009. Due to the fact that as at 31 December 2009 substantially all the financial instruments are fixed rated contracts, remaining contractual maturity dates also represents the contractual interest rate repricing dates, except for a part of bonds issued by the Group carrying floating rate. Refer to note 14.

	<b>Less than 1 month</b>	<b>1-3 months</b>	<b>3 months to 1 year</b>	<b>1 year to 5 years</b>	<b>More than 5 years</b>	<b>No maturity</b>	<b>Total</b>
<b>Assets</b>							
Cash and cash equivalents	10 229 461	26 808 515	27 730 676	-	-	-	64 768 652
Receivables from service agents	23 597	-	-	-	-	-	23 597
Held-to-maturity investments	-	13 610	-	3 411 000	-	-	3 424 610
Mortgage loans	394 538	997 935	4 195 109	22 119 570	63 904 420	-	91 611 572
Stabilization loans issued	-	5	30 425	117 795	167 110	-	315 335
Loans issued	-	-	-	23 301	-	-	23 301
Property, equipment and intangible assets	-	-	-	-	-	255 261	255 261
Investment property	-	-	-	-	-	68 924	68 924
Other assets	31 328	14 629	81 104	11 414	-	-	138 475
Deferred tax asset	-	-	-	-	-	1 587 633	1 587 633
Current income tax asset	-	-	6 290	-	-	-	6 290
<b>Total assets</b>	<b>10 678 924</b>	<b>27 834 694</b>	<b>32 043 604</b>	<b>25 683 080</b>	<b>64 071 530</b>	<b>1 911 818</b>	<b>162 223 650</b>
<b>Liabilities</b>							
Bonds issued	156 924	1 945 436	1 562 433	12 581 114	42 962 193	-	59 208 100
Bank loans	-	-	524 238	2 088 477	-	-	2 612 715
Current income tax liability	61 888	-	-	-	-	-	61 888
Other liabilities	120 015	145 495	67 551	384	-	-	333 445
<b>Total liabilities</b>	<b>338 827</b>	<b>2 090 931</b>	<b>2 154 222</b>	<b>14 669 975</b>	<b>42 962 193</b>	<b>-</b>	<b>62 216 148</b>
<b>Net position as at 31 December 2009</b>	<b>10 340 097</b>	<b>25 743 763</b>	<b>29 889 382</b>	<b>11 013 105</b>	<b>21 109 337</b>	<b>1 911 818</b>	<b>100 007 502</b>
<b>Net position as at 31 December 2008</b>	<b>6 915 951</b>	<b>5 280 747</b>	<b>39 833 945</b>	<b>11 962 734</b>	<b>11 526 013</b>	<b>727 023</b>	<b>76 246 413</b>

## **25 Subsequent events**

The Group is undertaking further actions aimed to strengthen the mortgage loan industry in Russia. Such actions may include the issuance of guarantees to banks originating mortgage loans, the repurchase of default mortgage loans, the issuance of financing to construction companies, etc.

The Group contributed RUR 1 500 000 thousand to the share capital of Open Joint-Stock Company "Insurance company AHML" that was registered in January 2010.

During March 2010 the Group transferred mortgage loans of RUR 13 761 633 thousand to Closed Joint Stock Company "Mortgage Agent of AHML 2010-1".

In May 2010 corporate bonds of Open Joint-Stock Company "The Agency for Restructuring of Housing Mortgage Lending" with a total nominal value of RUR 1 200 000 thousand were registered. The bonds were not issued at the date of release of these consolidated financial statements.

In May 2010 corporate bonds of Open Joint-Stock Company "The Agency for Housing Mortgage Lending" with a total nominal value of RUR 36 000 000 thousand were registered. The bonds were not issued at the date of release of these consolidated financial statements.