

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

Consolidated financial statements

*for the year ended 31 December 2010*

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## Independent auditors' report

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

We have audited the accompanying consolidated financial statements of OJSC "The Agency for Housing Mortgage Lending" and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2010, consolidated statements of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from 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 auditors' 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 policies 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 audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

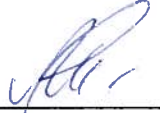
*Ernst & Young LLC*

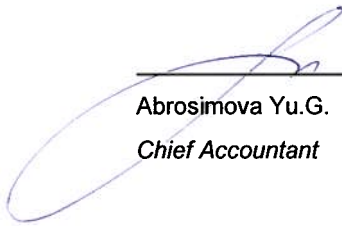
31 May 2011

**Consolidated statement of comprehensive income**  
**For the year ended 31 December 2010**  
(In thousands of Russian Roubles)

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
Interest income			
- due from credit institutions		4,002,613	6,745,722
- mortgage loans		13,927,068	10,444,277
- stabilization loans issued		354,268	23,790
- loans issued to banks		73,935	470
- investment securities		505,286	13,610
		<u>18,863,170</u>	<u>17,227,869</u>
Interest expense			
- bonds issued		(5,715,274)	(4,316,931)
- financing secured by mortgage loans		-	(141,571)
- bank loans		(198,391)	(613,048)
		<u>(5,913,665)</u>	<u>(5,071,550)</u>
<b>Net interest income</b>		<u>12,949,505</u>	<u>12,156,319</u>
Reversal of allowance (allowance) for mortgage loan impairment	15	1,639,498	(4,681,213)
Allowance for stabilization loan impairment	16	(173,838)	(473,004)
Reversal of allowance for losses under financial guarantees		10,556	2,967
<b>Total reversal of allowance (allowance) for impairment</b>		<u>1,476,216</u>	<u>(5,151,250)</u>
<b>Net interest income after allowance for impairment</b>		<u>14,425,721</u>	<u>7,005,069</u>
Fee and commission expense	8	(1,814,911)	(1,193,157)
Loss on initial recognition of mortgage and stabilization loans issued	7	(1,075,475)	-
Other income	9	264,990	276,425
<b>Operating income</b>		<u>11,800,325</u>	<u>6,088,337</u>
General and administrative expenses	10	(2,198,143)	(1,443,322)
<b>Profit before tax</b>		<u>9,602,182</u>	<u>4,645,015</u>
Income tax expense	11	(2,343,566)	(883,931)
<b>Net profit</b>		<u>7,258,616</u>	<u>3,761,084</u>
<b>Other comprehensive income</b>			
Unrealized losses from investment securities available-for-sale, net of taxes		(1,739)	-
<b>Other comprehensive income for the year, net of tax</b>		<u>(1,739)</u>	<u>-</u>
<b>Total comprehensive income for the year</b>		<u>7,256,877</u>	<u>3,761,084</u>
<b>Attributable to:</b>			
- shareholders of the Agency		7,256,866	3,761,084
- non-controlling interests		11	-

The consolidated financial statements presented as set out on pages 1 – 46 were approved for issue on 31 May 2011.

  
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Semenyaka A.N.  
General Director

  
\_\_\_\_\_  
Abrosimova Yu.G.  
Chief Accountant

**Consolidated statement of financial position****As at 31 December 2010***(In thousands of Russian Roubles)*

	<i>Notes</i>	<i>2010</i>	<i>2009 (adjusted)</i>	<i>2008 (adjusted)</i>
<b>Assets</b>				
Cash and cash equivalents	12	9,464,820	14,951,472	8,109,222
Due from credit institutions	13	44,219,712	49,817,180	46,378,132
Mortgage loans	15	131,905,203	91,611,572	76,635,523
Stabilization loans issued	16	1,197,678	315,335	–
Loans issued to banks	17	3,295,626	23,301	–
Investment securities:				
- available-for-sale	19	1,363,998	–	–
- held-to-maturity	18	3,425,812	3,424,610	–
Property held for sale	14	602,296	–	–
Property, equipment and intangible assets	21	223,090	255,261	276,502
Investment property		–	68,924	–
Current income tax asset		–	6,290	7,341
Deferred income tax assets	11	1,570,974	1,587,633	450,432
Other assets	20	189,119	162,072	251,149
<b>Total assets</b>		<b>197,458,328</b>	<b>162,223,650</b>	<b>132,108,301</b>
<b>Liabilities</b>				
Bonds issued	22	84,075,257	59,208,100	44,620,359
Financing secured by mortgage loans		–	–	2,737,655
Bank loans	23	2,092,309	2,612,715	8,183,351
Other borrowed funds	24	2,762,550	–	–
Current income tax liabilities		62,102	61,888	–
Other liabilities	25	1,608,238	333,445	320,523
<b>Total liabilities</b>		<b>90,600,456</b>	<b>62,216,148</b>	<b>55,861,888</b>
<b>Equity</b>				
Share capital	26	95,859,543	95,859,543	14,359,543
Additional share capital in the process of registration		–	–	60,000,000
Share premium		–	–	1,500,000
Revaluation reserve for investment securities available for sale		(1,739)	–	–
Retained earnings		10,999,502	4,147,954	386,870
<b>Total equity attributable to equity holder of the parent</b>		<b>106,857,306</b>	<b>100,007,497</b>	<b>76,246,413</b>
Non-controlling interests		566	5	–
<b>Total equity</b>		<b>106,857,872</b>	<b>100,007,502</b>	<b>76,246,413</b>
<b>Total liabilities and equity</b>		<b>197,458,328</b>	<b>162,223,650</b>	<b>132,108,301</b>

The accompanying notes on pages 5 to 46 are an integral part of these consolidated financial statements.

## Consolidated statement of cash flows for the year ended 31 December 2010

(In thousands of Russian Roubles)

	<i>Notes</i>	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities</b>			
Interest received		16,092,276	16,220,515
Interest paid		(5,946,469)	(4,034,013)
Fees and commissions paid		(1,814,911)	(1,193,157)
Other income received		264,990	276,425
General and administrative expenses paid		(1,938,216)	(1,344,917)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>6,657,670</b>	<b>9,924,853</b>
<i>Net (increase)/decrease in operating assets</i>			
Due from credit institutions		5,597,468	(2,309,378)
Mortgage loans		(35,418,614)	(19,731,796)
Stabilization loans issued		(1,734,027)	(788,339)
Loans issued to banks		(3,272,942)	(23,301)
Other assets		(40,275)	(10,700)
<i>Net increase/ (decrease) in operating liabilities</i>			
Other liabilities		360,692	17,329
<b>Net cash from operating activities before income tax</b>		<b>(27,850,028)</b>	<b>(12,921,332)</b>
Income tax paid		(2,320,402)	(1,958,193)
<b>Net cash from / (used in) operating activities</b>		<b>(30,170,430)</b>	<b>(14,879,525)</b>
<b>Cash flows from investing activities</b>			
Purchase of available-for-sale investments		(1,365,735)	(3,411,000)
Purchase of investments held to maturity		–	–
Purchase of property, equipment and intangible assets		(102,000)	(144,834)
Sale of property, equipment and intangible assets		7,768	35,697
<b>Net cash from / (used in) investing activities</b>		<b>(1,459,967)</b>	<b>(3,520,137)</b>
<b>Cash flows from financing activities</b>			
Bonds issued		26,470,252	13,479,567
Bonds repaid		(2,400,000)	–
Bank loans repaid		(520,000)	(5,500,000)
Other borrowed funds received		3,000,000	–
Shares issued		550	20,000,000
Financing secured by mortgage loans, repaid		–	(2,737,655)
Dividends paid		(407,057)	–
<b>Net cash flow from/ (used in) financing activities</b>		<b>26,143,745</b>	<b>25,241,912</b>
<b>Net increase in cash and cash equivalents</b>		<b>(5,486,652)</b>	<b>6,842,250</b>
Cash and cash equivalents, as at the beginning of the year (adjusted)	12	14,951,472	8,109,222
<b>Cash and cash equivalents, as at the end of the year (adjusted)</b>	12	<b>9,464,820</b>	<b>14,951,472</b>

The accompanying notes on pages 5 to 46 are an integral part of these consolidated financial statements.

**Consolidated statement of changes in equity**  
**For the year ended 31 December 2010**  
*(In thousands of Russian Roubles)*

	<i>Attributable to shareholders of the parent</i>						<i>Non-controlling interests RUR'000</i>	<i>Total equity RUR'000</i>
	<i>Share capital RUR'000</i>	<i>Additional share capital in the process of registration RUR'000</i>	<i>Share premium RUR'000</i>	<i>Revaluation reserve for investment securities available for sale</i>	<i>Retained earnings RUR'000</i>	<i>Total RUR'000</i>		
<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>
Comprehensive income for the period	–	–	–	–	3,761,084	3,761,084	–	<b>3,761,084</b>
Shares issued and registered	81,500,000	(60,000,000)	(1,500,000)	–	–	20,000,000	5	<b>20,000,005</b>
<b>Balance as at 31 December 2009</b>	<b>95,859,543</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>4,147,954</b>	<b>100,007,497</b>	<b>5</b>	<b>100,007,502</b>
Comprehensive income for the period	–	–	–	(1,739)	7,258,605	7,256,866	11	<b>7,256,877</b>
Shares issued and registered	–	–	–	–	–	–	550	<b>550</b>
Dividends paid to shareholders of the Group	–	–	–	–	(407,057)	(407,057)	–	<b>(407,057)</b>
<b>Balance as at 31 December 2010</b>	<b>95,859,543</b>	<b>–</b>	<b>–</b>	<b>(1,739)</b>	<b>10,999,502</b>	<b>106,857,306</b>	<b>566</b>	<b>106,857,872</b>

The accompanying notes on pages 5 to 46 are an integral part of these consolidated financial statements.

## 1 Introduction

### Principal activities

The principal activity of Open Joint-Stock Company "The Agency for Housing Mortgage Lending" (OJSC "AHML" or the "Agency") is wholesale purchases of mortgage loans and issuance of mortgage securities. The Agency purchases pools of mortgage loans from originators operating throughout the Russian Federation. The administration of mortgage loans is performed by authorized independent financial institutions (the "service agents"). The Agency provides methodological and technical support to the participants in the Russian mortgage market.

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

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

These consolidated financial statements for the year ended 31 December 2010 comprise the financial statements of the Agency, OJSC "ARHML", OJSC Insurance Company AHML, as well as financial statements of Closed Joint Stock Company "First Mortgage Agent of AHML", Closed Joint Stock Company "Second Mortgage Agent of AHML", Closed Joint Stock Company "Mortgage Agent of AHML 2008-1" and Closed Joint Stock Company "Mortgage Agent of AHML 2010 - 1" (together referred to as the "Group").

The major sources of the Group's funding are corporate and mortgage bonds issued and contributions to the share capital. As of 31 December 2010, 83% of the corporate bonds issued by the Group are guaranteed by the Government of the Russian Federation (31 December 2009: 96%).

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

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

As of 31 December 2010, the Group has 689 employees (31 December 2009: 493 employees).

### Russian business environment

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in a decline in the gross domestic product, capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia.

Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

## 2 Basis of preparation

### General

These consolidated financial statements for the year ended 31 December 2010 have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Group is required to maintain its records and prepare its financial statements for regulatory purposes in Russian Roubles in accordance with Russian accounting legislation and related instructions ("RAL"). These consolidated financial statements are based on the Group's RAL books and records, as adjusted and reclassified in order to comply with IFRS.

#### *Basis of measurement*

These consolidated financial statements have been prepared under the historical cost convention except that financial instruments at fair value through profit or loss and available-for-sale assets 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.

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

Financial information presented in these consolidated financial statements has been rounded to the nearest thousand.

## 3 Significant accounting policies

The following significant accounting policies have been consistently applied in preparing these consolidated financial statements. Changes in accounting policies are described at the end of this Note.

### Changes in accounting policies

The Group has adopted the following amended IFRS and new IFRIC Interpretations during the year. The principal effects of these changes are as follows:

#### *IAS 24 "Related party disclosures" (Revised)*

The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The Group has decided to early adopt the revised IAS 24 from 1 January 2010.

#### *Amendments to IAS 39 "Financial Instruments: recognition and measurement" – "Eligible Hedged Items"*

The amendment to IAS 39 was issued in August 2008, and becomes effective for annual periods beginning on or after 1 July 2009. The amendments address the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendments did not affect the Group's consolidated financial statements as the Group has not entered into any such hedges.

#### *IFRS 3 "Business Combinations" (Revised) and IAS 27 "Consolidated and Separate Financial Statements" (Revised)*

The revised standards were issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. The revised IFRS 3 introduces a number of changes in the accounting for business combinations that impact the amount of goodwill recognized, the reported financial results in the period that an acquisition occurs, and future reported financial results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by a subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards are applied prospectively.

#### *Amendments to IFRS 2 "Share-based Payment" - Group Cash-settled Share-based Payment Transactions*

The amendments to IFRS 2 were issued in June 2009 and become effective for annual periods beginning on or after 1 January 2010. The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. This amendment had no impact on the Group's consolidated financial statements.

### 3 Significant accounting policies (continued)

#### Changes in accounting policies (continued)

##### *IFRIC 17 "Distribution of Non-Cash Assets to Owners"*

IFRIC Interpretation 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions and requires that a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. IFRIC Interpretation 17 also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. This interpretation had no impact on the Group's consolidated financial statements.

##### *Improvements to IFRS*

In April 2009 the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. Amendments included in the April 2009 "Improvements to IFRS" did not have any impact on the accounting policies, financial position or performance of the Group, except the following amendments resulting in changes to accounting policies, as described below.

- ▶ IFRS 8 *Operating Segments*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group continued to disclose this information.
- ▶ IAS 7 *Statement of Cash Flows* explicitly states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities.
- ▶ IAS 36 *Impairment of Assets* clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment had no impact on the Group's financial statements as the annual impairment test is performed before aggregation.

##### *Basis of consolidation from 1 January 2010*

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date when control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses of a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

##### *Basis of consolidation prior to 1 January 2010*

In comparison to the above mentioned requirements which were applied on a prospective basis, the following differences applied:

- ▶ Losses incurred by the Group were attributed to the non-controlling interests until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interests had a binding obligation to cover these.
- ▶ Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date when control was lost.

### 3 Significant accounting policies (continued)

#### Business combinations

##### *Business combinations from 1 January 2010*

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

##### *Business combinations prior to 1 January 2010*

In comparison to the above mentioned requirements, the following differences applied:  
Business combinations were accounted for using the acquisition method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interests (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

##### *Acquisitions of subsidiaries from parties under common control*

Acquisitions of subsidiaries from parties under common control are accounted for using the uniting of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. Related goodwill inherent in the Predecessor's original acquisition is also recorded in these consolidated financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to the shareholders' equity.

These consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

### 3 Significant accounting policies (continued)

#### Financial assets

##### *Initial recognition*

Financial assets in the scope of IAS 39 are classified as either loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

##### *Date of recognition*

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

##### *Classification of financial instruments*

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 Group 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 derivative financial instruments held for trading that are in a net receivable position (positive fair value) as well as option contracts acquired are reported as financial assets held for trading. All derivative financial instruments held for trading that are in a net receivable position (negative fair value) as well as option contracts issued 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;
- ▶ the Group at initial recognition designates as at fair value through profit or loss;
- ▶ the holder may not substantially recover all of its initial investment, other than because of credit deterioration.

As at 31 December 2010 and 2009, 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 upon initial recognition designates as at fair value through profit or loss;
- ▶ the Group designates as available-for-sale; or
- ▶ meet the definition of loans and receivables.

*Available-for-sale financial assets* are those financial assets that are 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.

### 3 Significant accounting policies (continued)

#### Financial assets (continued)

##### *Measurement*

A financial asset or liability is initially measured at 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 classified as assets, are measured at their fair value, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- ▶ loans and receivables which are measured at amortized cost using the effective interest method;
- ▶ held-to-maturity investments which are measured at amortized cost using the effective interest method; and
- ▶ investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. such instruments are stated at historical 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 recognized immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognized 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 rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-based 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 remeasurement*

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 recognized 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, or through the amortization process.

##### *Offsetting*

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements 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 to realize the asset and settle the liability simultaneously.

### 3 Significant accounting policies (continued)

#### Financial assets (continued)

##### *Reclassification of financial assets*

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- ▶ a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- ▶ other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

##### *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 and short term amounts due from credit institutions.

##### *Borrowings*

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include loans issued to banks, other borrowings and bonds issued. After initial recognition, borrowings are measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated income statement when the borrowings are derecognized as well as through the amortization process.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognized in the consolidated statement of comprehensive income.

#### **Leases**

##### *Operating – Group as lessee*

Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into other operating expenses.

##### *Operating - Group as lessor*

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the consolidated statement of income on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

#### **Impairment of assets**

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

### 3 Significant accounting policies (continued)

#### Impairment of financial assets (continued)

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

Financial assets carried at amortized cost consist principally of loans and other receivables ("loans and receivables"). The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets 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 an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related impairment allowance) when the Group's management determines that the loan is uncollectible and when all efforts to collect the loan have been exhausted.

##### *Held-to-maturity financial investments*

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated statement of comprehensive income.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is recognized in profit or loss.

##### *Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of comprehensive income – is reclassified from other comprehensive income and recognized in the consolidated statement of comprehensive income. Impairment losses on equity investments are not reversed through the consolidated statement of comprehensive income; increases in their fair value after impairment are recognized directly in other comprehensive income.

### 3 Significant accounting policies (continued)

#### Impairment of financial assets (continued)

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated statement of comprehensive income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of comprehensive income, the impairment loss is reversed through the consolidated statement of comprehensive income.

##### *Renegotiated loans*

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- ▶ If the loan restructuring is not caused by the financial difficulties of the borrower, the Group uses the same approach as for financial liabilities described below;
- ▶ If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognizes the difference between the present value of the future cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case the loan is not impaired after restructuring, the Group recalculates the effective interest rate.

The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

#### Derecognition of financial assets and liabilities

##### *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in the statement of financial position where:

- ▶ the rights to receive cash flows from the asset have expired;
- ▶ the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- ▶ the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

##### *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

##### *Securitization*

As part of its operational activities, the Group securitizes financial assets, generally through the sale of these assets to special purposes entities which issue securities to investors. The transferred assets may qualify for derecognition in full or in part. Interests in the securitized financial assets may be retained by the Group and are primary classified as loans and receivables. Gains or losses on securitizations are based on the carrying amount of the financial assets derecognized and the retained interest, based on their relative fair values at the date of transfer.

In applying its policies on securitized financial assets, the Group 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.

### 3 Significant accounting policies (continued)

#### Derecognition of financial assets and liabilities (continued)

When the Group, in substance, controls the entity to which financial assets have been transferred, the entity is included in the consolidated financial statements and the transferred assets are recognized in the Group's consolidated statement of financial position.

When the Group transfers financial assets to another entity, but retains substantially all risks and rewards relating to the transferred assets, the assets are recognized in the Group's consolidated statement of financial position.

When the Group transfers substantially all risks and rewards relating to the transferred asset to an entity that it does not control, such assets are derecognized.

When the Group neither transfers financial assets to another entity nor retains substantially all risks and rewards relating to the transferred assets, the assets are derecognized from the consolidated statement of financial position provided that Agency has not retained control over such assets.

#### 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 amortization or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognized when losses are considered probable and can be measured reliably.

Financial guarantee liabilities are recognized within other liabilities.

#### Taxation

Income tax comprises current and deferred tax for the year. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized 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 Group's 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 unused tax 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.

Russia also has various operating taxes, that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

#### Property and equipment

##### *Owned assets*

Property and equipment are carried at cost, less accumulated depreciation and any accumulated impairment.

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.

### 3 Significant accounting policies (continued)

#### Property and equipment (continued)

##### *Depreciation*

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of 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
Furniture	4 to 10 years
Others	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 individual assets. The estimated useful lives range from 3 to 10 years.

#### Investment property

Investment property is property held by the Group to earn rentals or for capital appreciation rather than for use in its operating activities. Investment property is measured at fair value. Gains and losses from revaluation of investment property are carried at the consolidated statement of comprehensive income.

#### Property held for sale

The assets repossessed by the Group following legal proceedings for recovery of amounts due under mortgage loans and held for sale in the near term to cover losses arising from lending activities are classified as inventories in accordance with IAS 2. In accordance with IAS 2, the Group measures these assets at the lower of cost and net realizable value.

#### Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

#### 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 Group to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorized for issue.

#### 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 Group has three operating segments: wholesale purchases of mortgage loans, restructuring of mortgage loans, mortgage insurance.

### 3 Significant accounting policies (continued)

#### 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.

#### Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign exchange differences arising on translation are recognized in profit or loss, except for differences arising on translation on available-for-sale equity instruments.

Differences between the contractual exchange rate of a certain transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. As at 31 December 2010, the rates of exchange set by the Central bank of the Russian Federation and used for translating foreign currency balances were RUR 30.4769 to USD 1 and RUR 40.3331 to EUR 1 for US Dollar and Euro, respectively (31 December 2009: RUR 30.2442 to USD 1 and RUR 43.3883 to 1 EUR for US Dollar and Euro, respectively).

#### Future changes in accounting policies

##### *Standards and interpretations issued but not yet effective*

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

In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Group expects that these amendments will have no impact on the Group's consolidated financial statements.

##### *IFRS 9 "Financial Instruments" (first phase)*

In November 2009 and 2010, the IASB issued the first phase of IFRS 9 *Financial Instruments*. This Standard will eventually replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 becomes effective for annual periods beginning on or after 1 January 2013. Entities may early adopt the first phase. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial instruments. In particular, for subsequent measurement all financial assets are to be classified at amortized cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. There is a new requirement for financial liabilities recognized through profit or loss using a fair value option that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income. The Group now evaluates the impact of the adoption of new standard and considers the initial application date.

##### *IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"*

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

### 3 Significant accounting policies (continued)

#### Future changes in accounting policies (continued)

##### *IFRS 10 Consolidated Financial Statements*

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*, which provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. The standard sets out requirements for situations when control is difficult to assess, including cases involving potential voting rights, agency relationships, control of specified assets and circumstances in which voting rights are not the dominant factor in determining control. In addition IFRS 10 introduces specific application guidance for agency relationships. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation—Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* and becomes effective for annual reporting periods starting on or after 1 January 2013. Earlier application is permitted. The Group now evaluates possible effect of IFRS 10 on its financial position and financial results.

##### *IFRS 11 Joint Arrangements*

In May 2011, the IASB issued IFRS 11 *Joint Arrangements*, which improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognize its rights and obligations arising from the arrangement. The classification of a joint arrangement is determined by assessing the rights and obligations of the parties arising from that arrangement. There are only two types of arrangements provided in the standard - joint operation and joint venture. IFRS 11 also eliminates proportionate consolidation as a method to account for joint arrangements. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities—Non-monetary Contributions by Venturers* and becomes effective for annual reporting periods starting on or after 1 January 2013. Earlier application is permitted. The Group now evaluates possible effect of IFRS 11 on its financial position and financial results.

##### *IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 *Disclosure of Interests in Other Entities* issued in May 2011 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 becomes effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Adoption of the standard will require new disclosures to be made in the financial statements of the Group but will have no impact on its financial position or performance.

##### *IFRS 13 Fair Value Measurement*

IFRS 13 *Fair Value Measurement* defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The standard applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the IFRS 13 may have effect on the measurement of the Group's assets and liabilities accounted for at fair value. The Group now evaluates possible effect of IFRS 13 on its financial position and financial results.

##### *Improvements to IFRS*

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

- ▶ IFRS 3 *Business Combinations*: limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. As the amendment should be applied from the date the Group applies IFRS 3 Revised, it may be required to restate for effects incurred under IFRS 3 Revised, but before the adoption of this amendment. The Group expects that other amendments to IFRS 3 will have no impact on the consolidated financial statements of the Group.
- ▶ IFRS 7 *Financial Instruments: Disclosures*: introduces the amendments to quantitative and credit risk disclosures. The additional requirements are expected to have minor impact as information is expected to be readily available.

### 3 Significant accounting policies (continued)

#### Future changes in accounting policies (continued)

- ▶ IAS 34 *Interim Financial Reporting*: adds disclosure requirements about the circumstances affecting fair values and classification of financial instruments, about transfers of financial instruments between levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. Additional disclosures required will be introduced in interim financial statements of the Group.
- ▶ Amendments to IFRS 1, IAS 1, IAS 27 and IFRIC 13 will have no impact on the accounting policies, financial position or performance of the Group.

#### *Amendments to IFRS 7 "Financial Instruments: Disclosures"*

The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The Amendments introduce additional disclosure requirements for transferred financial assets that are not derecognized. The Group expects that these amendments will have no impact on the Group's financial position or performance.

#### *Amendments to IAS 12 "Income Taxes" – "Deferred tax: Recovery of Underlying Assets"*

In December 2010 the IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. IAS 12 has been updated to include a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. The Group now evaluates the impact of adopting these amendments.

### 4 Significant accounting judgments and estimates

#### *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 the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### *Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

#### *Allowance for impairment of mortgage loans and stabilization loans*

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

## 5 Reclassifications

Since 31 December 2010, the Group classifies cash and cash equivalents as cash on hand and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances. Therefore, deposits with banks maturing in more than ninety days and restricted cash balances on the current accounts used for settlements under mortgage-backed bonds were reclassified to due from credit institutions.

As of 31 December 2010, the Group classified amounts due from service agents into other assets.

The Group reclassified comparative information presented in the financial statements as of 31 December 2009 to ensure data comparability:

	<b>31 December 2009 before reclassification RUR'000</b>	<b>Reclassification RUR'000</b>	<b>31 December 2009 after reclassification RUR'000 (adjusted)</b>
<b>Assets</b>			
Cash and cash equivalents	64,768,652	(49,817,180)	14,951,472
Due from credit institutions	–	49,817,180	49,817,180
Mortgage loans owned by the Agency unpledged	73,331,546	(73,331,546)	–
Mortgage loans pledged as collateral	18,280,026	(18,280,026)	–
Mortgage loans	–	91,611,572	91,611,572
Amounts due from service agents	23,597	(23,597)	–
Other assets	138,475	23,597	162,072

	<b>31 December 2008 before reclassification RUR'000</b>	<b>Reclassification RUR'000</b>	<b>31 December 2008 after reclassification RUR'000 (adjusted)</b>
<b>Assets</b>			
Cash and cash equivalents	54,487,354	(46,378,132)	8,109,222
Due from credit institutions	–	46,378,132	46,378,132
Mortgage loans owned by the Agency unpledged	52,413,638	(52,413,638)	–
Mortgage loans sold but recognized in the Group's consolidated statement of financial position	2,716,038	(2,716,038)	–
Mortgage loans pledged as collateral	21,505,847	(21,505,847)	–
Mortgage loans	–	76,635,523	76,635,523
Amounts due from service agents	122,466	(122,466)	–
Other assets	128,683	122,466	251,149

## 6 Segment information

For the management purposes the Group has three operating segments:

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

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

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

## 6 Segment information (continued)

Revenue and profit information for the operating segments of the Group for the years ended 31 December 2010 and 2009, respectively, is presented below:

<i>As at 31 December 2010</i>	<i>Purchase of mortgage loans, RUR'000</i>	<i>Restructuring of mortgage loans, RUR'000</i>	<i>Mortgage insurance, RUR'000</i>	<i>Unallocated, RUR'000</i>	<i>Elimination of intersegment operations, RUR'000</i>	<i>Total, RUR'000</i>
External interest income	18,069,508	693,244	100,418	–	–	18,863,170
Interest income from other segments	17,936	337,639	–	–	(355,575)	–
Interest expense	(5,913,665)	–	–	–	–	(5,913,665)
Interest expense from other segments	(337,639)	(17,936)	–	–	355,575	–
<b>Net interest income</b>	<b>11,836,140</b>	<b>1,012,947</b>	<b>100,418</b>	<b>–</b>	<b>–</b>	<b>12,949,505</b>
Reversal of allowance for mortgage/ stabilization loans impairment	1,492,842	(16,626)	–	–	–	1,476,216
<b>Net interest income after allowance for impairment</b>	<b>13,328,982</b>	<b>996,321</b>	<b>100,418</b>	<b>–</b>	<b>–</b>	<b>14,425,721</b>
Fee and commission expense	(1,718,195)	(96,710)	(6)	–	–	(1,814,911)
Other income	255,822	8,962	206	–	–	264,990
Loss on initial recognition of mortgage and stabilization loans issued	–	(1,075,475)	–	–	–	(1,075,475)
General and administrative expenses	(1,860,654)	(280,020)	(57,469)	–	–	(2,198,143)
<b>Segment profit before tax</b>	<b>10,005,955</b>	<b>(446,922)</b>	<b>43,149</b>	<b>–</b>	<b>–</b>	<b>9,602,182</b>
Income tax charge	–	–	–	(2,343,566)	–	(2,343,566)
<b>Net income</b>	<b>10,005,955</b>	<b>(446,922)</b>	<b>43,149</b>	<b>(2,343,566)</b>	<b>–</b>	<b>7,258,616</b>

<i>As at 31 December 2009</i>	<i>Purchase of mortgage loans, RUR'000</i>	<i>Restructuring of mortgage loans, RUR'000</i>	<i>Mortgage insurance, RUR'000</i>	<i>Unallocated, RUR'000</i>	<i>Elimination of intersegment operations, RUR'000</i>	<i>Total, RUR'000</i>
External interest income	16,705,216	522,653	–	–	–	17,227,869
Interest income from other segments	–	17,448	–	–	(17,448)	–
Interest expense	(5,071,013)	(537)	–	–	–	(5,071,550)
Interest expense from other segments	(17,448)	–	–	–	17,448	–
<b>Net interest income</b>	<b>11,616,755</b>	<b>539,564</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>12,156,319</b>
Allowance for mortgage/ stabilization loans impairment	(4,405,494)	(745,756)	–	–	–	(5,151,250)
<b>Net interest income after allowance for impairment</b>	<b>7,211,261</b>	<b>(206,192)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>7,005,069</b>
Fee and commission expense	(1,193,087)	(70)	–	–	–	(1,193,157)
Other income	276,425	–	–	–	–	276,425
Loss on initial recognition of mortgage and stabilization loans issued	–	–	–	–	–	–
General and administrative expenses	(1,256,105)	(187,217)	–	–	–	(1,443,322)
<b>Segment profit before tax</b>	<b>5,038,494</b>	<b>(393,479)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>4,645,015</b>
Income tax charge	–	–	–	(883,931)	–	(883,931)
<b>Net income</b>	<b>5,038,494</b>	<b>(393,479)</b>	<b>–</b>	<b>(883,931)</b>	<b>–</b>	<b>3,761,084</b>

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

	<i>Purchase of mortgage loans, RUR'000</i>	<i>Restructuring of mortgage loans, RUR'000</i>	<i>Mortgage insurance, RUR'000</i>	<i>Elimination of intersegment operations, RUR'000</i>	<i>Total, RUR'000</i>
<b>Segment assets</b>					
As at 31 December 2010	200,095,690	6,445,982	1,543,724	(10,627,068)	197,458,328
As at 31 December 2009	163,964,807	5,841,682	–	(7,582,839)	162,223,650

**7 Loss on initial recognition of mortgage and stabilization loans**

As of 31 December 2010, the loss on initial recognition of mortgage and stabilization loans issued included the following:

	<b>31 December 2010</b> <b>RUR'000</b>	<b>31 December 2009</b> <b>RUR'000</b>
Loss on initial recognition of mortgage loans (Note 15)	(381,817)	–
Loss on initial recognition of stabilization loans issued (Note 16)	(693,658)	–
<b>Total</b>	<b>(1,075,475)</b>	<b>–</b>

**8 Fee and commission expense**

	<b>2010</b> <b>RUR'000</b>	<b>2009</b> <b>RUR'000</b>
Service agent fees	(1,422,784)	(997,412)
Depository service fees	(392,127)	(194,669)
Other	–	(1,076)
	<b>(1,814,911)</b>	<b>(1,193,157)</b>

**9 Other income**

	<b>2010</b> <b>RUR'000</b>	<b>2009</b> <b>RUR'000</b>
Penalties received under overdue mortgage loans	202,062	79,278
Income from service of mortgage loans transferred	46,382	51,914
Advisory income	7,437	–
Gains from early redemption of financing secured by mortgage loans	–	76,216
Other	9,109	69,017
	<b>264,990</b>	<b>276,425</b>

**10 General and administrative expenses**

	<b>2010</b> <b>RUR'000</b>	<b>2009</b> <b>RUR'000</b>
Employee benefits	(1,335,601)	(712,632)
Professional fees	(327,433)	(217,395)
Depreciation and amortization	(126,403)	(166,075)
Rent	(112,031)	(105,989)
Taxes other than income tax	(87,433)	(60,710)
Communication and information services	(66,825)	(45,849)
Repairs and maintenance	(36,759)	(21,290)
Others	(105,658)	(113,382)
	<b>(2,198,143)</b>	<b>(1,443,322)</b>

**11 Income tax expense**

	<b>2010</b> <b>RUR'000</b>	<b>2009</b> <b>RUR'000</b>
Current income tax charge	(2,326,907)	(2,009,316)
Deferred tax charge	(16,659)	1,125,385
<b>Total income tax expense</b>	<b>(2,343,566)</b>	<b>(883,931)</b>

Russian legal entities must file individual tax declarations. The tax rate for profits other than on state securities was 20% for 2010 and 2009. The tax rate for interest income on state securities was 15% for Federal taxes.

**11 Income tax expense (continued)**

Calculation of the effective income tax rate.

	<i>2010</i> <i>RUR'000</i>	<i>2009</i> <i>RUR'000</i>
<b>Profit before tax</b>	<b>9,602,182</b>	<b>4,645,015</b>
Income tax based on the effective income tax rate	(1,920,436)	(929,003)
Non-deductible expenditures	(66,733)	(51,338)
Income at the lower tax rate	67,261	96,410
Unrecognized deferred tax assets of the Group's loss-bearing entities	(213,867)	–
Other	(209,791)	–
	<b>(2,343,566)</b>	<b>(883,931)</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 1,570,974 thousand as at 31 December 2010 (31 December 2009: net deferred tax asset of RUR 1,587,633 thousand).

**Movements in temporary differences in 2010**

<i>RUR'000</i>	<i>1 January 2010</i>	<i>Recognized in profit or loss</i>	<i>31 December 2010</i>
Other assets	2,098	(2,098)	–
Investment property	1,111	(1,111)	–
Property, equipment and intangible assets	4,698	(4,698)	–
Allowance for impairment of mortgage loans	1,807,171	(696,594)	1,110,577
Overdue interest	–	326,010	326,010
Penalties incurred	–	500,000	500,000
Property held for sale	–	23,124	23,124
Other	16,883	12,142	29,025
<b>Deferred tax asset</b>	<b>1,831,961</b>	<b>156,775</b>	<b>1,988,736</b>
Bonds issued	15,465	(47,444)	(31,979)
Investment in consolidated entities	(259,793)	(125,990)	(385,783)
<b>Deferred tax liability</b>	<b>(244,328)</b>	<b>(173,434)</b>	<b>(417,762)</b>
<b>Deferred income tax assets</b>	<b>1,587,633</b>	<b>(16,659)</b>	<b>1,570,974</b>

**Movements in temporary differences in 2009**

<i>RUR'000</i>	<i>1 January 2009</i>	<i>Recognized in profit or loss</i>	<i>31 December 2009</i>
Other assets	(8,328)	10,426	2,098
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
Others	14,401	2,482	16,883
<b>Deferred tax assets</b>	<b>648,358</b>	<b>1,199,068</b>	<b>1,847,426</b>
Investment in consolidated entities	(192,018)	(67,775)	(259,793)
Bank loans	5,908	(5,908)	–
<b>Deferred tax liability</b>	<b>(186,110)</b>	<b>(73,683)</b>	<b>(259,793)</b>
<b>Deferred income tax assets</b>	<b>462,248</b>	<b>1,125,385</b>	<b>1,587,633</b>

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

As at 31 December 2010, 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.

## 12 Cash and cash equivalents

Cash and cash equivalents comprise:

	<b>2010</b> <b>RUR'000</b>	<b>2009</b> <b>RUR'000</b> <b>(adjusted)</b>	<b>2008</b> <b>RUR'000</b> <b>(adjusted)</b>
Current accounts with Russian banks	5,486,723	1,464,372	1,377,670
Deposits with Russian banks maturing in less than three months	3,978,086	13,487,092	6,731,547
Petty cash	11	8	5
	<b>9,464,820</b>	<b>14,951,472</b>	<b>8,109,222</b>

## 13 Due from credit institutions

	<b>2010</b> <b>RUR'000</b>	<b>2009</b> <b>RUR'000</b> <b>(adjusted)</b>	<b>2008</b> <b>RUR'000</b> <b>(adjusted)</b>
Deposits with Russian banks maturing in more than three months	42,670,834	48,539,237	45,130,154
Restricted cash	1,548,878	1,277,943	1,247,978
	<b>44,219,712</b>	<b>49,817,180</b>	<b>46,378,132</b>

As at 31 December 2010, term deposits comprised RUR 40,217,024 thousand placed with ten major Russian banks (2009: RUR 33,217,551 thousand) which accounted for 94% (2009: 92%) the total amount due from credit institutions.

Restricted cash in the amount of RUR 1,548,878 thousand (2009: RUR 1,277,943 thousand) was placed as a reserve on the correspondent accounts at Russian banks and represent a collateral under the international and Russian securitization of the Group's mortgage loans.

## 14 Property held for sale

As of 31 December 2010, property held for sale repossessed by the Group following 2010 legal proceedings for recovery of amounts due under mortgage loans is classified as inventory in accordance with IAS 2. Property held for sale is measured at the lower of cost and net realizable value and amounts to RUR 602,296 thousand (2009: nil).

## 15 Mortgage loans

Mortgage loans include the following:

	<b>31 December 2010</b> <b>RUR'000</b>	<b>31 December 2009</b> <b>RUR'000</b>
Restructured mortgage loans	2,276,391	594,753
Mortgage loans	135,454,570	98,579,931
<b>Total mortgage loans</b>	<b>137,730,961</b>	<b>99,174,684</b>
Impairment allowance	(5,825,758)	(7,563,112)
<b>Net mortgage loans</b>	<b>131,905,203</b>	<b>91,611,572</b>

### Mortgage loan impairment

The Group assessed its portfolio of mortgage loans for impairment on a collective basis as at 31 December 2010 and recognized an impairment allowance of RUR 5,825,758 thousand (31 December 2009: RUR 7,563,112 thousand).

	<b>Mortgage loans</b> <b>RUR'000</b>	<b>Restructured mortgage</b> <b>loans RUR'000</b>	<b>Total</b> <b>RUR'000</b>
<b>Balance as at 1 January 2009</b>	<b>(2,881,899)</b>	-	<b>(2,881,899)</b>
Charge for the year	(5,210,711)	(272,752)	<b>(5,483,463)</b>
Reversal for the year	802,250	-	<b>802,250</b>
<b>Balance as at 1 January 2010</b>	<b>(7,290,360)</b>	<b>(272,752)</b>	<b>(7,563,112)</b>
Charge for the year	(1,182,371)	(80,379)	<b>(1,262,750)</b>
Reversal for the year	2,664,657	237,591	<b>2,902,248</b>
Amounts written off	97,857	-	<b>97,857</b>
<b>Balance as at 31 December 2010</b>	<b>(5,710,217)</b>	<b>(115,540)</b>	<b>(5,825,757)</b>

## 15 Mortgage loans (continued)

### Concentration of mortgage loans

As of 31 December 2010 and 2009, the Group did not have borrowers or groups of related borrowers whose debt exceeds 10% of the total mortgage loans payable. As of 31 December 2010 and 2009, no service agent provided support for mortgage loans exceeding 10% of the total mortgage loans payable.

### Collateral of mortgage loans

Mortgage loans are secured by collateral of respective residential real estate. As of 31 December 2010, average ratio of outstanding mortgage loan payables to estimated value of collateral as of the date of the mortgage loan issuance approximates 51% (31 December 2009: 54%). According to the Group's estimates, fair value of collateral for mortgage loans overdue for more than 90 days or impaired mortgage loans amounts at least 73% of the total mortgage loans overdue for more than 90 days or impaired mortgage loans as of 31 December 2010 (31 December 2009: 77%).

Restructured mortgage loans comprise the Group's own restructured mortgage loans and restructured mortgage loans purchased by the Group.

### Group's own restructured mortgage loans

As of 31 December 2010, the Group's own restructured mortgage loans totaled RUR 423,542 thousand (31 December 2009: RUR 554,730 thousand); the Group made an allowance for impairment of such assets of RUR 49,362 thousand (31 December 2009: RUR 254,489 thousand).

### Restructured mortgage loans purchased by the Group

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

As of 31 December 2010, the Group repurchased restructured non-performing mortgage loans of RUR 1,852,849 thousand (31 December 2009: RUR 39,823 thousand), which were recognized at fair value as of the date of recognition of the financial assets. As of 31 December 2010 the Group created an allowance for of impairment of RUR 481,486 thousand (31 December 2009: RUR 39,823 thousand) in the amount of totaling RUR 66,178 thousand (31 December 2009: 18,263 thousand).

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

The difference between the fair value of purchased restructured non-performing mortgage loans and the fair value of the reimbursement under purchases of these mortgage loans amounted to RUR 381 817 thousand (Note 7) and was recognized as loss on initial recognition of mortgage loans in the statement of comprehensive income for the year ended 31 December 2010.

### Loans transferred to third parties or pledged

#### *Mortgage loans sold and derecognized in Consolidated statement of financial position*

As of 31 December 2010, the total outstanding balance of mortgage loans sold in transactions that qualify for derecognition under IFRS, for which the Agency has an obligation to repurchase defaulted mortgage loans overdue for more than 90 days, is RUR 2,050,056 thousand (31 December 2009: RUR 2,569,977 thousand). As at 31 December 2010, the Group recognized an allowance for repurchase of defaulted mortgage loans sold of RUR 5,581 thousand (31 December 2009: RUR 16 137 thousand).

### Mortgage loans pledged as collateral

Included in mortgage loans as of 31 December 2010 are mortgage loans pledged as collateral for mortgage-backed bonds that were issued by Closed Joint Stock Company "First Mortgage Agent of AHML" in May 2007 (Note 22) totaled RUR 1,148,884 thousand (31 December 2009: RUR 1,491,182 thousand). The Group made an allowance for impairment of these mortgage loans in the amount of RUR 1,549 thousand (31 December 2009: RUR 3,440 thousand).

Included in mortgage loans as at 31 December 2010 are mortgage loans pledged as collateral for mortgage-backed bonds that were issued by Closed Joint Stock Company "Second Mortgage Agent of AHML" in February 2008 (Note 22) totaled RUR 3,427,045 thousand (31 December 2009: nil). The Group made an allowance for impairment of these mortgage loans in the amount of RUR 11,119 thousand (31 December 2009: nil).

## 15 Mortgage loans (continued)

### Mortgage loans pledged as collateral (continued)

Included in mortgage loans as at 31 December 2010 are mortgage loans pledged as collateral for mortgage-backed bonds that were issued by Closed Joint Stock Company "Mortgage Agent of AHML 2008-1" in November 2008 (Note 22) totaled RUR 4,485,856 thousand (31 December 2009: nil). The Group made an allowance for impairment of these mortgage loans in the amount of RUR 32,503 thousand (31 December 2009: nil).

Included in mortgage loans as at 31 December 2010 are mortgage loans pledged as collateral for mortgage-backed bonds that were issued by Closed Joint Stock Company "Mortgage Agent of AHML 2010-1" in July 2010 (Note 22) totaled RUR 4,767,304 thousand (31 December 2009: nil). The Group made an allowance for impairment of these mortgage loans in the amount of RUR 31,768 thousand (31 December 2009: nil).

## 16 Stabilization loans

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

As at 31 December 2010, the carrying amount of stabilization loans less of the allowance and loss on initial recognition was RUR 1,197,678 thousand (31 December 2009: RUR 315,335 thousand). As at 31 December 2010, the total amount of stabilization loans was RUR 2,538,178 thousand (31 December 2009: RUR 788,339 thousand) against which a loss from initial recognition of loans issued by the Group in 2010 under non-market interest rates was recognized in the amount of RUR 693,658 thousand (Note 7) and an impairment allowance of RUR 646,842 thousand (31 December 2009: RUR 473,004 thousand) was created. The Group uses its judgment to estimate impairment allowance for stabilization loans based on its experience in the mortgage industry.

## 17 Loans issued to banks

	<i>2010</i> <i>RUR'000</i>	<i>2009</i> <i>RUR'000</i>
Financing of banks under Stimul governmental program	2,948,735	23,301
Financing of banks pledged by collateral of mortgage loans	346,891	-
	<b>3,295,626</b>	<b>23,301</b>

At the end of 2009, the Group developed Stimul program (a set of crisis management measures to support affordable housing construction). The Group and the participating banks enter into funding agreements for certain construction projects. Terms of financing are standard and the same for all banks: maturity of two years and interest rate of 8.0% p.a. As of 31 December 2010, eleven banks received the Group's support under Stimul program totaling RUR 2,948,735 thousand (31 December 2009: RUR 23,301 thousand). Loans granted to the banks under the program were carried at fair value as of the date of recognition.

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

## 18 Held-to-maturity investments

	<i>2010</i> <i>RUR'000</i>	<i>2009</i> <i>RUR'000</i>
Mortgage-backed securities of CJSC "VTB-24"	3,425,812	3,424,610

As at 31 December 2010 held-to-maturity investments mature on 10 December 2014 and carry a coupon rate of 9.70% p.a.

**19 Available-for-sale securities**

	<b>31 December 2010 RUR'000</b>	<b>31 December 2009 RUR'000</b>
Mortgage-backed bonds	1,292,994	–
Other bonds	71,004	–
<b>Total available-for-sale securities</b>	<b>1,363,998</b>	<b>–</b>

As of 31 December 2010, available-for-sale securities mainly included mortgage-backed securities of CJSC Mortgage Agent of Moscow Bank for Reconstruction & Development (95% of the total available-for-sale securities) maturing on 20 December 2038 and bearing a coupon rate of 8.0% p.a.

**20 Other assets**

	<b>2010 RUR'000</b>	<b>2009 RUR'000 (adjusted)</b>
Returned restructured mortgage loans receivable	71,023	–
Advances issued	67,267	91,030
Prepaid expenses	22,546	22,843
Prepaid taxes other than income tax	16,084	432
Amounts due from service agents	7,759	23,597
Other	4,440	24,170
<b>Total other assets</b>	<b>189,119</b>	<b>162,072</b>

At the end of 2009, the Group started to purchase restructured non-performing mortgage loans from primary lenders (Note 15). In accordance with the contractual terms, in the course of the mortgage loan review the Group may return mortgage loans that do not comply with the Group's criteria. After the reporting date, the Group rejected to recognize restructured non-performing mortgage loans of RUR 1,650,671 thousand as non-compliant with the Group's criteria and returned them to the primary lender. As of 31 December 2010, the Group recognized a claim to primary lenders for a return of previously paid RUR 71,023 thousand.

**21 Property, equipment and intangible assets**

Movements in property, equipment and intangible assets for the period from 1 January to 31 December 2010 are as follows:

RUR'000	<b>Equipment</b>	<b>Furniture</b>	<b>Others</b>	<b>Software</b>	<b>Total</b>
<b>Cost</b>					
<b>As of 1 January 2010</b>	<b>225,336</b>	<b>36,504</b>	<b>2,145</b>	<b>230,896</b>	<b>494,881</b>
Additions	37,825	290	17,348	46,537	102,000
Disposals	(1,095)	(9,371)	(4,404)	(10,128)	(24,998)
<b>As of 31 December 2010</b>	<b>262,066</b>	<b>27,423</b>	<b>15,089</b>	<b>267,305</b>	<b>571,883</b>
<b>Amortization</b>					
<b>As of 1 January 2010</b>	<b>(129,895)</b>	<b>(12,572)</b>	<b>(477)</b>	<b>(96,676)</b>	<b>(239,620)</b>
Charge (Note 10)	(55,984)	(4,352)	(11,293)	(54,774)	(126,403)
Disposals	1,095	1,603	4,404	10,128	17,230
<b>As of 31 December 2010</b>	<b>(184,784)</b>	<b>(15,321)</b>	<b>(7,366)</b>	<b>(141,322)</b>	<b>(348,793)</b>
<b>Carrying value</b>					
<b>As of 31 December 2010</b>	<b>77,282</b>	<b>12,102</b>	<b>7,723</b>	<b>125,983</b>	<b>223,090</b>

Movements in property, equipment and intangible assets for the period from 1 January to 31 December 2009 are as follows:

RUR'000	<b>Equipment</b>	<b>Furniture</b>	<b>Leased assets</b>	<b>Software</b>	<b>Total</b>
<b>Cost</b>					
<b>As of 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>As of 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>Amortization</b>					
<b>As of 1 January 2009</b>	<b>(67,391)</b>	<b>(6,732)</b>	<b>(3,948)</b>	<b>(31,171)</b>	<b>(109,242)</b>
Charge (Note 10)	(67,249)	(6,627)	(3,257)	(88,942)	(166,075)
Disposals	4,745	787	6,728	23,437	35,697
<b>As of 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>As of 31 December 2009</b>	<b>95,441</b>	<b>23,932</b>	<b>1,668</b>	<b>134,220</b>	<b>255,261</b>

## 22 Bonds issued

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

<i>Issue number</i>	<i>Maturity</i>	<i>Coupon rate and period</i>	<i>Effective interest rate</i>	<i>Nominal RUR'000</i>	<i>Carrying value RUR'000</i>
A4	1 February 2012	8.70%, paid quarterly	9.15%	900,000	912,523
A5	15 July 2011 – 40% of the issue; 15 October 2012 – 60% of the issue	7.35%, paid quarterly	7.69%	2,200,000	2,234,451
A6	15 July 2011 – 20% of the issue; 15 July 2013 – 40% of the issue; 15 July 2014 – 40% of the issue	7.40%, paid quarterly	7.70%	2,500,000	2,539,418
A7	15 October 2013 – 50% of the issue; 15 July 2015 – 25% of the issue; 15 July 2016 – 25% of the issue	7.68%, paid quarterly	7.95%	4,000,000	4,065,806
A8	15 June 2012 – 40% of the issue; 15 March 2014 – 30% of the issue; 15 June 2017 – 15% of the issue; 15 June 2018 – 15% of the issue The Group has a right for early redemption of the bonds on 15 March 2014	7.63%, paid quarterly	7.91%	5,000,000	5,019,118
A9	15 February 2013 – 40% of the issue; 15 February 2015 – 20% of the issue; 15 February 2016 – 20% of the issue; 15 February 2017 – 20% of the issue. The Group has a right for early redemption of the bonds on 15 February 2015	7.49%, paid quarterly	7.76%	5,000,000	5,047,711
A10	15 November 2014 – 50% of the issue; 15 November 2016 – 25% of the issue; 15 November 2018 – 25% of the issue. The Group has a right for early redemption of the bonds on 15 November 2016	8.05%, paid quarterly	8.34%	6,000,000	6,061,785
A11	15 September 2015 – 30% of the issue; 15 September 2016 – 20% of the issue; 15 September 2017 – 20% of the issue; 15 September 2018 – 10% of the issue; 15 September 2019 – 10% of the issue; 15 September 2020 – 10% of the issue. The Group has a right for early redemption of the bonds on 15 September 2017 or 15 September 2018	8.20%, paid quarterly	8.50%	10,000,000	10,036,386
A12	15 December 2013	Floating rate, paid semi-annually	11.75%	7,000,000	6,976,938
A13	15 April 2018	Floating rate, paid semi-annually	11.09%	3,900,001	3,924,507
A14	15 May 2023	Floating rate, paid semi-annually	10.79%	3,850,001	3,895,780
A15	15 September 2028	Floating rate, paid semi-annually	10.91%	4,968,430	5,047,907
A16	15 September 2017 – 40% of the issue; 15 September 2019 – 35% of the issue; 15 September 2020 – 15% of the issue; 15 September 2021 – 10% of the issue	8.25%, paid quarterly	8.51%	8,725,000	9,088,896
A 20	15 December 2027	8.6%, paid quarterly	8.96%	5,000,000	5,003,524
FMA AHML-A	Pass-through redemption Final contractual maturity – 15 February 2039	6.94%, paid quarterly	8.83%	852,310	850,844
FMA AHML-B	Pass-through redemption Final contractual maturity – 15 February 2039	9.50%, paid quarterly	10.89%	264,000	270,148
SMA AHML-A	Pass-through redemption Final contractual maturity – 15 March 2040	8.5%, paid quarterly	9.13%	3,348,364	3,401,419
MA 2008- 1- A	Pass-through redemption Final contractual maturity – 20 February 2041	10.5%, paid quarterly	11.24%	4,505,588	4,607,183
MA 2010- 1- A1	Pass-through redemption Final contractual maturity – 20 November 2042	9.0%, paid quarterly	9.70%	4,997,379	5,090,913
				<b>83,011,073</b>	<b>84,075,257</b>

## 22 Bonds issued (continued)

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

<i>Issue number</i>	<i>Maturity</i>	<i>Coupon rate and period</i>	<i>Effective interest rate</i>	<i>Nominal RUR'000</i>	<i>Carrying value RUR'000</i>
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 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
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 floating coupon rate linked to the refinancing rate of the Central Bank of Russia.

As of 31 December 2009, the bonds of A2 and A3 issues are fully guaranteed by the Government of the Russian Federation.

As of 31 December 2010, the bonds of A4, A5, A6, A7, A8, A9, A10, A11, A12, A13, A14, A15, A16 and A20 issues are guaranteed by the Government of the Russian Federation up to their nominal amounts.

In May 2007, the Group issued mortgage-backed securities with a total nominal value of RUR 3,294,794 thousand secured by a pool of mortgage loans. These mortgage-backed securities were issued by Closed Joint Stock Company "First Mortgage Agent of AHML", a consolidated special purpose entity. Two tranches of these mortgage-backed securities were sold to third parties, and the third (subordinated) tranche with a total nominal value of RUR 130,794 thousand was retained by the Group and therefore it is not included in these consolidated financial statements. Mortgage-backed securities are subject to pass-through redemption as the underlying mortgage loans are being repaid, and they may be repaid before contractual repayment dates in case of earlier repayment of underlying mortgage loans. The final repayment date of mortgage-backed securities is February 2039. As at 31 December 2010, the mortgage-backed securities with a nominal value of RUR 1,116,310 thousand (31 December 2009: RUR 1,487,046 thousand) are secured by a pool of mortgage loans with a carrying value of RUR 1,148,884 thousand (31 December 2009: RUR 1,491,182 thousand).

## 22 Bonds issued (continued)

In February 2008, the Group issued mortgage-backed securities with a total nominal value of RUR 10,727,617 thousand secured by a pool of mortgage loans. These mortgage-backed securities were issued by Closed Joint Stock Company "Second Mortgage Agent of AHML", a consolidated special purpose entity. Tranches B and C of these mortgage-backed securities were retained by the Group and therefore these securities are not included in these consolidated financial statements. Mortgage-backed securities are subject to pass-through redemption as the underlying mortgage loans are being repaid, and they may be repaid before contractual repayment dates in case of earlier repayment of underlying mortgage loans. The final repayment date of mortgage-backed securities is March 2040. As at 31 December 2010, the mortgage-backed securities with a nominal value of RUR 3,348,364 thousand (31 December 2009: nil) are secured by a pool of mortgage loans with a carrying value of RUR 3,427,045 thousand (31 December 2009: nil).

At the end of December 2008 the Group issued two tranches of mortgage-backed securities with a total nominal value of RUR 11,331,828 thousand secured by a pool of mortgage loans. These mortgage-backed securities were issued by Closed Joint Stock Company "Mortgage Agent of AHML 2008-1", a consolidated special purpose entity. Bonds included in the tranche A have final contractual maturity on 20 February 2041 and carry a fixed coupon rate. Bonds included in the tranche B have final contractual maturity on 20 February 2041 and carry a floating coupon rate. Tranche B of these mortgage-backed securities was retained by the Group and therefore these securities are not included in these consolidated financial statements. As at 31 December 2010, the mortgage-backed securities with a nominal value of RUR 4,505,588 thousand (31 December 2009: nil) are secured by a pool of mortgage loans with a carrying value of RUR 4,485,856 thousand (31 December 2009: nil).

At the end of June 2010 the Group issued three tranches of mortgage-backed securities with a total nominal value of RUR 13,546,706 thousand secured by a pool of mortgage loans. These mortgage-backed securities were issued by Closed Joint Stock Company "Mortgage Agent of AHML 2010-1", a consolidated special purpose entity. Bonds included in the tranches A1 and A2 have final contractual maturity on 20 November 2042 and carry a fixed coupon rate of 9.0% and 6.5%, respectively. Bonds included in the tranche B have final contractual maturity on 20 November 2042 and carry a floating coupon rate. Tranches A2 and B of these mortgage-backed securities were retained by the Group and therefore these securities are not included in these consolidated financial statements. As of 31 December 2010, the mortgage-backed securities in the amount of RUR 4,997,379 thousand were secured by a pool of mortgage loans with a carrying value of RUR 4,767,304 thousand (31 December 2009: nil).

## 23 Bank loans

As of 31 December 2010, bank loans comprise a loan issued by a large Russian bank and recognized at amortized cost of RUR 2,092,309 thousand (31 December 2009: RUR 2,612,715 thousand). The loan matures in November 2011 and bears a fixed interest rate of 8.5% p.a.

## 24 Other borrowed funds

In December 2010, the Group raised a loan from the Vnesheconombank in the amount of RUR 3,000,000 thousand. The loan matures in May 2020 and bears an interest rate of 6.5% p.a. As of 31 December 2010, the amortized cost of the loan amounted to RUR 2,762,550 thousand. The Group recognized the loan in accordance with IAS 20. The Group also recognized a government grant of RUR 221,209 thousand within other liabilities (Note 25).

## 25 Other liabilities

	<b>2010</b> <b>RUR'000</b>	<b>2009</b> <b>RUR'000</b>
Payments for purchased non-performing mortgage loans made by installments (Note 15)	771,117	–
Amounts payable to personnel	207,535	70,331
Amounts payable to service agents	299,745	117,252
Government grant issued by Vnesheconombank (Note 24)	221,209	–
Repurchase of defaulted mortgage loans	52,484	64,651
Taxes payable	15,954	13,276
Sold and derecognized mortgage loans (serviced by the Agency) payable	5,581	16,137
Others	34,613	51,798
	<b>1,608,238</b>	<b>333,445</b>

In December 2010, the Group received a loan from Vnesheconombank (Note 24) for the purpose of financial support to banks under Stimul program (Note 15). The difference between the initial carrying amount of the loan (its fair value) and the actual proceeds received is accounted for as a government grant in accordance with IAS 20, namely as deferred income. As of 31 December 2010, the amount of the government grant received was RUR 221,209 thousand.

## 26 Share capital

### Share capital

The share capital of the Agency as at 31 December 2010 comprises 38,236,000 ordinary issued, fully paid and registered shares (31 December 2009: 38,236,000 ordinary issued, fully paid and registered shares). All ordinary shares have a nominal value of RUR 2,500. As of 31 December 2010, the aggregate effect of inflation on the share capital amounted to RUR 269,543 thousand (31 December 2009: RUR 269,543 thousand).

The Group decided to pay dividends for 2009 in the amount of RUR 407,057 thousand. The dividends were paid in August 2010.

### Capital management

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

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

	<b>31 December 2010 RUR'000</b>	<b>31 December 2009 RUR'000</b>
Share capital, RUR'000	95,859,543	95,859,543
Retained earnings, RUR'000	10,999,502	4,147,954
Revaluation reserve for investment securities available for sale	(1,739)	–
Non-controlling interests	566	5
<b>Total equity, RUR'000</b>	<b>106,857,872</b>	<b>100,007,502</b>
Total assets, RUR'000	197,458,328	162,223,650
<b>Total equity expressed as percentage of assets, %</b>	<b>54%</b>	<b>61,6%</b>

## 27 Financial risk management

Management of risk is an essential element of the Group's financing and operating activities. The major risks undertaken by the Group are credit risk and counterparty risk, market risk, liquidity risk and operational risk.

### Risk management structure

#### *Supervisory Board*

The Supervisory Board bears responsibility for the proper operation of the risk management controls, management of key risks as well as approval of the risk management policies and large transactions.

#### *Management Board's Risk Management Committee*

The Management Board's Risk Committee is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters.

#### *Risk Management and Asset Management Department*

The Head of the Risk Management and Asset Management Department is responsible for the overall risk management and control over common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks.

#### *Internal audit*

The primary objective of the Internal audit function is to ensure effective operation of the Group's management bodies through the internal audit of the Group's activities and independent and objective recommendations enhancing internal controls, risk management and corporate governance. The function's specialists are the Group's full-time employees, and the function itself is an independent business unit, which functionally subordinates to the Group's Supervisory Board. Head of the function reports to the Supervisory Board's Audit Committee.

#### *Supervisory Board's Audit Committee*

The aim of the Committee is to create comprehensive and reasonable recommendations for the Agency's Supervisory Board so that it could maintain control over financial and operational activities of the Group, its internal controls and risk management.

## 27 Financial risk management (continued)

### Risk management policies and procedures

Risk management policy is aimed at performance improvement, continued business processes and high level of internal creditworthiness as well as absolute fulfillment of the Group's obligations.

Existing risk management policies are to provide for identification, analysis and management of risks exposed by the Group, for establishment of risk limits and respective controls, as well as continued measurement of risk level and compliance with the set limits. Risk management policies and procedures are reviewed regularly to reflect changing situation on the financial markets and previous experience of the Group.

### Credit risk

#### *Credit risk associated with mortgage loans*

Credit risk associated with mortgage loans is the risk of financial loss resulting from default by a borrower or counterparty on their obligation to the Bank.

Credit risk policies and procedures include requirements to purchased mortgage loans and assessment of the borrowers' creditworthiness, refinancing limits for mortgage loan suppliers, requirements to service agents providing service of the Group's mortgage loans, recommendations in respect to concentration limits of the loan portfolio.

The Group purchases mortgage loans issued for the purpose of the acquisition or construction of residential real estate, which comply with the certain requirements. All mortgage loans are secured by the pledge of the underlying residential real estate. Value of collateral is determined in the course of independent valuation made by a licensed independent appraiser. Requirements to purchased mortgage loans also include compliance with a present value range of mortgage loan to collateral ratio that is confirmed by an independent valuation. The Group does not require that a borrower must obtain life and job insurance. However, if the borrower fails to obtain such an insurance, interest rate borne by a loan or borrowing is increased. 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 amount of the loan and monthly repayment amount depending on borrower's financial position.

The Group regularly analyzes all types of its products and their risk characteristics, makes decisions related to breakdown of the portfolio by types of products and suspension of refinancing of products bearing high risk. Also the Group regularly reviews maximum loan and borrowing amounts for certain products, depending on mortgage loan to collateral ratio.

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.

#### *Credit risk associated with the counterparties*

Credit risk associated with the counterparties is the risk of financial loss occurring as a result of insolvency and default by a counterparty, partner of the Group or a debt security issuer on their obligation to the Group.

The Group's major counterparties which expose the Group to the credit risk are as follows:

- ▶ credit organizations where the Group places its deposits and in securities of which the Group invests;
- ▶ credit organizations participating in mortgage loan refinancing program through issuance of loans secured by new mortgage product portfolios to the market participants involved in residential mortgage lending.
- ▶ organizations acting as borrowers and sales guarantors in the incentive program for issuance of loans (borrowings) for housing construction and acquisition.

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.

To measure and monitor financial stability of credit and non-credit organizations, the Group uses its internal credit ratings when making deposits or purchasing securities, entering into mortgage loan service agreements with regional operators (service agents), issuance of loans under housing construction incentive program. Pursuant to most of the agreements, the Group retains the right to early terminate them or amend terms of loan issuance at its sole discretion.

It is the Group's policy to maintain accurate and consistent ratings for each counterparty. The rating system is supported by a variety of financial analytics combined with processed market information to provide the main inputs for the measurement of counterparty risk. The attributable risk ratings are assessed and updated regularly.

## 27 Financial risk management (continued)

### Credit risk (continued)

#### Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the items of the statement of financial position. The maximum risk exposure is shown in gross amount, before the effect of mitigation through the use of master netting and collateral agreements.

	<i>Notes</i>	<i>Maximum risk exposure 2010</i>	<i>Maximum risk exposure 2009</i>
Cash and cash equivalents	12	9,464,820	14,951,472
Due from credit institutions	13	44,219,712	49,817,180
Mortgage loans	15	131,905,203	91,611,572
Stabilization loans issued	16	1,197,678	315,335
Loans issued to banks	17	3,295,626	23,301
Investment securities:			
- available-for-sale	19	1,363,998	-
- held-to-maturity	18	3,425,812	3,424,610
Other assets	20	189,119	162,072
		<b>195,061,968</b>	<b>160,305,542</b>
Financial commitments and contingencies	29	27,743,482	1,811,338
<b>Total exposure to credit risk</b>		<b>222,805,450</b>	<b>162,116,880</b>

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum loss that could arise in the future as a result of changes in values.

For more details on the maximum exposure to credit risk for each class of financial instrument, reference is made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

#### Classification of financial assets by credit risk

The Group uses the classification of financial assets by credit risk through internal credit ratings system. The table below shows the credit risk by class of asset for loan-related components of the statement of financial position, based on the Group's credit rating system.

	<i>2010</i>						<i>Past due</i>	<i>Total</i>	
	<i>Neither past due nor impaired</i>					<i>Past due</i>			<i>Total</i>
	<i>Very low</i>	<i>Low</i>	<i>Standard</i>	<i>High</i>	<i>Very high</i>				
<b>Due from credit institutions</b>	<b>15,923,212</b>	<b>22,563,951</b>	<b>5,732,549</b>	-	-	-	<b>44,219,712</b>		
<b>Mortgage loans, including</b>									
Restructured mortgage loans	-	-	-	-	334,845	1,941,546	<b>2,276,391</b>		
Mortgage loans	44,130,315	28,788,645	30,170,855	10,520,683	10,037,039	11,807,033	<b>135,454,570</b>		
Stabilization loans	-	-	-	-	1,564,382	280,138	<b>1,844,520</b>		
Loans issued to banks	-	2,194,825	755,757	345,044	-	-	<b>3,295,626</b>		
Investment securities available for sale	1,363,998	-	-	-	-	-	<b>1,363,998</b>		
Investment securities held-to-maturity	3,425,812	-	-	-	-	-	<b>3,425,812</b>		
<b>Total financial assets exposed to credit risk</b>	<b>64,843,337</b>	<b>53,547,421</b>	<b>36,659,161</b>	<b>10,865,727</b>	<b>11,936,266</b>	<b>14,028,717</b>	<b>191,880,629</b>		
	<i>2009</i>						<i>Past due</i>	<i>Total</i>	
	<i>Neither past due nor impaired</i>					<i>Past due</i>			<i>Total</i>
	<i>Very low</i>	<i>Low</i>	<i>Standard</i>	<i>High</i>	<i>Very high</i>				
<b>Due from credit institutions</b>	<b>24,655,298</b>	<b>13,512,481</b>	<b>11,649,401</b>	-	-	-	<b>49,817,180</b>		
<b>Mortgage loans, including</b>									
Restructured mortgage loans	-	-	-	-	22,696	572,057	<b>594,753</b>		
Mortgage loans	32,956,591	14,848,559	13,801,315	10,686,371	15,100,392	11,186,703	<b>98,579,931</b>		
Stabilization loans	-	-	-	-	788,339	-	<b>788,339</b>		
Loans issued to banks	-	23,301	-	-	-	-	<b>23,301</b>		
Investment securities held-to-maturity	3,424,610	-	-	-	-	-	<b>3,424,610</b>		
<b>Total financial assets exposed to credit risk</b>	<b>61,036,499</b>	<b>28,384,341</b>	<b>25,450,716</b>	<b>10,686,371</b>	<b>15,911,427</b>	<b>11,758,760</b>	<b>153,228,114</b>		

## 27 Financial risk management (continued)

### Credit risk (continued)

The groups presented in the above tables have been determined in compliance with the Group's policy for assessing credit risk. This classification is based on the statistical analysis of overdue amounts and expected financial losses using the Group's historical data. For investing into securities of third party issuers credit ratings by international or Russian rating agencies are used.

According to this policy, for mortgage loans the Group considers the type of product and its risk exposure, the interval between the current ratio of the mortgage loan amount to the collateral amount taking into account the property revaluation (hereinafter – the "mortgage loan to collateral value ratio"), mortgage loan amount by regions, presence or absence of current overdue amounts, presence or absence of historical overdue amounts, availability or absence of restructuring, availability or absence of mortgage insurance.

The primary criterion for mortgage loans allocation is the level of the mortgage loan to collateral value ratio: mortgage loans with the level of the mortgage loan to collateral value ratio no more than 50% are included in the very low risk category, in the range of 50% - 60% - in the low risk category, in the range of 60% - 70% - in the standard risk category, in the range of 70% - 80% - in the high risk category, more than 80% - in the very high risk category. If mortgage insurance effective until the end of the lending period is available, the credit risk is lowered by one grade. Such factors as payment schedule restructuring, historical overdue over 30 days or current overdue up to 30 days, mortgage loan amount exceeding the maximum amount established for such the mortgage loan to collateral value ratio and region, increase the risk category by one grade.

For other financial assets exposed to credit risk, risk categories are assigned using the rating system based on the internal methodology for assessing financial stability and determining credit ratings of counterparties. The Group's scale of internal ratings and assets' risk categories are comparable to ratings assigned by international rating agencies as follows: internal rating of 0 according to 0-7 scale and a very low risk category correspond to BBB+/Baa1/BBB+ and higher rating by S&P / Moody's / Fitch, internal ratings of 5-6 according to 0-7 scale and very high risk category correspond to B-/B3/B- and lower by S&P / Moody's / Fitch. In there is no rating assigned by an international agency, the Group determines the counterparty's rating using other factors of the counterparty's financial stability such as risk diversification, risk concentration, liquidity level, profitability, quality of assets.

Overdue financial assets include assets overdue by more than 30 days. An analysis of overdue loans, by age, is provided below. The majority of such overdue financial assets are not considered to be impaired.

In this disclosure the total amount of loan is considered overdue if any payments under the loan are overdue.

#### *Aging analysis of past due assets per class of financial assets*

	<b>2010</b>			<b>Total</b>
	<b>30 to 90 days</b>	<b>90 to 180 days</b>	<b>More than 180 days</b>	
<b>Mortgage loans</b>				
Restructured mortgage loans	46,086	12,047	1,883,413	<b>1,941,546</b>
Mortgage loans	1,432,181	840,321	9,534,531	<b>11,807,033</b>
Stabilization loans	118,898	99,639	61,601	<b>280,138</b>
<b>Total financial assets exposed to credit risk</b>	<b>1,597,165</b>	<b>952,007</b>	<b>11,479,545</b>	<b>14,028,717</b>
	<b>2009</b>			
	<b>30 to 90 days</b>	<b>90 to 180 days</b>	<b>More than 180 days</b>	<b>Total</b>
<b>Mortgage loans</b>				
Restructured mortgage loans	–	–	572,057	<b>572,057</b>
Mortgage loans	1,298,394	1,168,728	8,719,581	<b>11,186,703</b>
Stabilization loans	–	–	–	–
<b>Total financial assets exposed to credit risk</b>	<b>1,298,394</b>	<b>1,168,728</b>	<b>9,291,638</b>	<b>11,758,760</b>

Mortgage loans have been collectively assessed for impairment. Details of impairment allowance for mortgage loan portfolio are disclosed in Note 15.

As at 31 December 2010, non-performing mortgage loans of RUR 1,871,703 thousand (31 December 2009: RUR 572,057 thousand) purchased from other lenders for further restructuring were classified as overdue for more than 180 days for the purposes of aging analysis of overdue mortgage loans. Restructured overdue mortgage loans owned by the Group in the amount of RUR 423,524 thousand are disclosed by the actual period overdue following the restructuring.

## 27 Financial risk management (continued)

### Credit risk (continued)

#### *Impairment assessment*

The main considerations for the impairment assessment of financial assets exposed to credit risk include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment of financial assets exposed to credit risk in two areas: individually assessed allowances and collectively assessed allowances. Mortgage loans, stabilization loans are collectively assessed for impairment.

#### *Collectively assessed allowances*

Allowances are assessed collectively for losses on mortgage loans that are not individually significant. Allowances are assessed on each reporting date. Management uses its judgment to estimate the amount of impairment losses incurred on mortgage and stabilization loans. 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 value 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 an average discount of 30% to the originally appraised value indexed to changes in housing prices since the date of mortgage loan origination.

#### *Individually assessed allowances*

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the counterparty's ability to improve performance once financial difficulties have arisen, projected receipts should bankruptcy occur, the availability of other financial support and the realizable value of collateral and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date unless unforeseen circumstances require more careful attention. At the reporting date the Group had no individually assessed assets.

Financial guarantees are also assessed for impairment and a provision is made in a similar manner as for loans.

#### *Carrying value of renegotiated financial assets, by class*

As at 31 December 2010 the total amount of mortgage loans restructured by the Group amounted to RUR 2,276,391 thousand (31 December 2009: RUR 594,753 thousand) (Note 15). Restructuring provided for changes in the terms for purchased mortgage loans. For example, extending the period of borrowings, changing the interest rate on the mortgage loan, setting a new mortgage loan repayment schedule, establishing a grace period, when borrowers will only have to pay interest accrued on loans.

As at 31 December 2010, the carrying value of restructured stabilization loans less the loss on initial recognition was RUR 366,935 thousand (31 December 2009: RUR 0 thousand). Restructuring terms provided for the decrease in the interest rate on stabilization loans. The Group established a set of eligibility criteria for borrowers, which shall be complied with in order to perform such restructuring.

### Liquidity risks

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk occurs when the maturities of assets and liabilities do not match. The Group maintains necessary liquidity levels with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. It also manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. The liquidity management policy is reviewed and approved by the Management Board.

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

## 27 Financial risk management (continued)

### Liquidity risk (continued)

The Group manages the liquidity risk as follows:

- ▶ monitors economic, political and other factors influencing the liquidity;
- ▶ maintains a diversified funding base comprising bonds issued, loans and borrowings, amounts received from sales of mortgage loans and securitization;
- ▶ forecasts the Issuer's ability to meet liquidity needs;
- ▶ performs financial planning and models parameters of bonds considering the projected cash flows for different macroeconomic development scenarios;
- ▶ maintains the portfolio of highly liquid assets;
- ▶ monitors current cash flows and liabilities on a daily basis and ensures that the current liquidity ratio will be not less than 1 in the next 6 months;
- ▶ creates provision for the settlement of obligations by monthly charges from annuity proceeds.

The Group uses a medium term cash flows planning model to forecast its cash flows. The Group 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 on the mortgage loan portfolio, statistics of the Federal State Statistics Service 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 average life of mortgage loans when issuing bonds. 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 following table shows the undiscounted cash flows on financial assets and liabilities on the basis of their earliest possible contractual maturity. The total gross amount inflow (outflow) disclosed in the table is the contractual, undiscounted cash flows on the financial assets or liabilities. Actual cash flows on such financial assets and liabilities may differ significantly from the below analysis.

As at 31 December 2010, the Group's position on undiscounted cash flows was as follows:

**27 Financial risk management (continued)****Liquidity risk (continued)**

*Maturity analysis of financial assets and liabilities as at 31 December 2010:*

	<b>Less than 1 month</b>	<b>1 to 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Overdue and expected cash flows related to principal repayments for overdue assets (+30)</b>	<b>Total amount of cash inflow/outflow</b>	<b>Carrying value</b>
<b>Assets</b>								
Cash and cash equivalents	4,495,743	5,015,695	–	–	–	–	9,511,438	9,464,820
Due from credit institutions	1,245,816	12,400,823	31,908,653	189,058	–	–	45,744,350	44,219,712
Mortgage loans	2,929,625	6,374,020	15,730,667	74,865,715	143,838,060	25,553,473	269,291,560	131,905,203
Stabilization loans	45,818	91,633	412,350	2,199,202	6,001,990	1,567,064	10,318,057	1,197,678
Loans issued to banks	26,157	86,453	813,385	2,428,960	1,040,647	–	4,395,602	3,295,626
Investment securities:								
- available for sale	1,363,998	–	–	–	–	–	1,363,998	1,363,998
- held-to-maturity	–	82,485	247,456	4,401,134	–	–	4,731,075	3,425,812
Other assets	189,119	–	–	–	–	–	189,119	189,119
<b>Total assets</b>	<b>10,296,276</b>	<b>24,051,109</b>	<b>49,112,511</b>	<b>84,084,069</b>	<b>150,880,697</b>	<b>27,120,537</b>	<b>345,545,199</b>	<b>195,061,968</b>
<b>Liabilities</b>								
Bonds issued	398,173	1,787,144	7,163,126	52,147,023	110,851,365	–	172,346,831	84,075,257
Bank loans	14,532	1,063,493	1,094,251	–	–	–	2,172,276	2,092,309
Other borrowed funds	16,562	31,521	146,918	780,534	3,860,670	–	4,836,205	2,762,550
Other liabilities	837,120	–	149,393	522,875	318,762	–	1,828,150	1,608,238
<b>Total liabilities</b>	<b>1,266,387</b>	<b>2,882,158</b>	<b>8,553,688</b>	<b>53,450,432</b>	<b>115,030,797</b>	<b>–</b>	<b>181,183,462</b>	<b>90,538,354</b>
<b>Net position</b>	<b>9,029,889</b>	<b>21,168,951</b>	<b>40,558,823</b>	<b>30,633,637</b>	<b>35,849,900</b>	<b>27,120,537</b>	<b>164,361,737</b>	<b>104,523,614</b>

## 27 Financial risk management (continued)

### Liquidity risk (continued)

Maturity analysis of financial assets and liabilities as at 31 December 2009:

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Overdue and expected cash flows related to principal repayments for overdue assets (+30)	Total amount of cash outflow	Carrying value
<b>Assets</b>								
Cash and cash equivalents	5,363,936	9,872,266	–	–	–	–	15,236,202	14,951,472
Due from credit institutions	4,910,252	17,335,826	28,748,282	–	–	–	50,994,360	49,817,180
Mortgage loans	1,927,081	3,815,392	5,585,888	25,783,397	14,757,163	90,314,218	142,183,139	91,611,572
Stabilization loans	–	38	88,406	302,027	751,954	–	1,142,425	315,335
Loans issued to banks	228	433	2,019	23,961	–	–	26,641	23,301
Held-to-maturity investments	–	82,478	247,434	3,740,912	–	–	4,070,824	3,424,610
Other assets	144,537	17,535	–	–	–	–	162,072	162,072
<b>Total assets</b>	<b>12,346,034</b>	<b>31,123,968</b>	<b>34,672,029</b>	<b>29,850,297</b>	<b>15,509,117</b>	<b>90,314,218</b>	<b>213,815,663</b>	<b>160,305,542</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 liabilities	–	61,888	–	–	–	–	61,888	61,888
Other liabilities	120,015	145,495	67,551	384	–	–	333,445	333,445
<b>Total</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>–</b>	<b>98,379,187</b>	<b>62,216,148</b>
<b>Net position</b>	<b>10,436,946</b>	<b>29,929,918</b>	<b>28,113,085</b>	<b>(13,559,418)</b>	<b>(29,798,273)</b>	<b>90,314,218</b>	<b>115,436,476</b>	<b>98,089,394</b>

## 27 Financial risk management (continued)

### Liquidity risk (continued)

The table below presents contractual maturities of the Group's commitments and contingencies:

	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
2010	195,133	1,808,870	23,928,141	1,811,338	<b>27,743,482</b>
2009	–	–	–	1,811,338	<b>1,811,338</b>

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

### Market risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables. Market risks comprise currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments exposed to general and specific market movements and changes in the level of volatility of market prices. The Group analyzes only the risk for the non-trading portfolio. Non-trading positions are managed and monitored using sensitivity analysis. The Group has no significant concentrations of market risk.

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

#### **Market risk – non - trading portfolio**

##### *Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The management of interest rate risk component of market risk by monitoring interest rate gaps is supplemented by monitoring the sensitivity of the Group's net interest margin to various standard and non-standard interest rate scenarios. The Group also issues bonds that have an early redemption option, which provides the Group with an additional instrument to manage its interest rate risk.

The Group manages its market risk by setting open position limits in relation to the portfolio of certain financial instruments and the term for interest rate changes, which are monitored on a regular basis, and reviewed and approved by the Management Board.

The Group manages its interest rate risk using the following procedures:

- ▶ Choosing parameters for corporate bonds issue considering the expected average life of the mortgage loans portfolio;
- ▶ Issuing bonds with an option of partial early redemption;
- ▶ Forecasting the level of early repayment of mortgage loans;
- ▶ Performing financial planning and developing models to optimize the terms of bonds issuance;
- ▶ Estimating durations of bonds issued by the Agency and the mortgage loan portfolio;
- ▶ Monitoring spread of yields for its issued mortgage bonds in comparison to government bonds yields;
- ▶ Considering various scenarios in its financial planning and performing regular stress tests.

The majority of Group's assets and liabilities are fixed rate assets and liabilities maturing after one year from the reporting date. But the Group's statement of financial position includes corporate bonds with renegotiated interest rates and assets with renegotiated interest rates, namely, military mortgage loans and mortgage loans under Variable rate program. Thus, the sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2010 and 31 December 2009. An analysis of sensitivity based on a simplified scenario of a 100 basis point parallel fall or rise in all yield curves and revised positions on interest-bearing assets and liabilities existing as of 31 December 2010 and 2009 may be presented as follows:

## 27 Financial risk management (continued)

### Market risk (continued)

	<b>Sensitivity of income before tax, 2010 RUR'000</b>
100 bp parallel fall	191,577
100 bp parallel rise	(191,577)
	<b>Sensitivity of income before tax, 2009 RUR'000</b>
100 bp parallel fall	340,567
100 bp parallel rise	(340,567)

Such investment securities were assessed by the Group through a sensitivity analysis. The sensitivity of the fair value of such instruments includes the effect of the reasonably possible changes in risk-free interest rates on the fair value for one year. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets as of 31 December 2010 and 31 December 2009 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

	<b>Sensitivity of equity, 2010 RUR'000</b>
100 bp parallel fall	20,766
100 bp parallel rise	(20,766)
	<b>Sensitivity of equity, 2009 RUR'000</b>
100 bp parallel fall	–
100 bp parallel rise	–

#### *Price risk*

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, irrespective of the fact whether these changes are due to 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 2010 and 31 December 2009, the Group was not exposed to significant price risk.

#### *Prepayment risk*

Prepayment risk is the risk that the Group will incur a financial loss resulting from its clients and counterparties repay or demand repayment of obligations earlier or later than expected, such as fixed rate mortgages when interest rates fall.

Prepayments have a significant effect on the allocation of cash flows arising on the mortgage portfolio and the amount of net interest income. Prepayment scenario modeling is one of the main risk management functions.

The Group identified based on the analysis of the terms of mortgage loans repayment that 11.3% of the mentioned financial instruments were repaid early during 2010, including partial and full early repayment (2009 – 8.3%).

Full early repayments are related to refinancing to a great extent and are determined, mainly, by changes in market interest rates. Partial early repayments are related, mainly, to additional income received by borrowers including both regular (salary increase) and irregular (for example, cash from Parent's capital) income.

The Group's management estimates that if there were no early repayment the Group's interest income could have increased by RUR 1.2 billion in 2010 (2009: RUR 1 billion).

#### *Currency risk*

The majority of Group's assets, liabilities, income and expenses are denominated in Russian Roubles. Therefore, management believes that as at 31 December 2010 and 2009, the Group is not exposed to significant currency risk.

## 27 Financial risk management (continued)

### Operational risk

Operational risk is the risk of loss arising from fraud, unauthorized activities, error, omission, inefficiency or systems failure. It arises from all activities of the Group and is faced by all companies. Operational risk includes legal risk.

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

## 28 Leases

The Group's non-cancelable operating lease rentals are as follows:

	<b>2010</b> <b>RUR'000</b>	<b>2009</b> <b>RUR'000</b>
Not later than 1 year	83,593	95,433
1 to 5 years	97,969	79,759
	<b>181,562</b>	<b>175,192</b>

The Group leases a number of premises and equipment under operating lease agreements. Such agreements are typically entered into for the period from one to five years, with an option to renew the lease upon expiration.

During 2010 RUR 112,031 thousand was recognized as operating lease expense in profit or loss (2009: RUR 105,989 thousand).

## 29 Commitments and contingencies

### Insurance

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

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

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

	<b>2010</b> <b>RUR'000</b>	<b>2009</b> <b>RUR'000</b>
<b>Financial commitments and contingencies</b>		
Guarantees issued	1,811,338	1,811,338
Loan agreements	25,932,144	-
	<b>27,743,482</b>	<b>1,811,338</b>

Loan agreements are the Group's lending commitments and contingencies in accordance with the established tranches to banks participating in the "Impetus" program (Note 17).

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

## 29 Commitments and contingencies (continued)

### 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 rulings, which may have retroactive effect and which are often unclear, contradictory and subject to varying interpretation by tax authorities. There is little practice of tax legislation application to operations with mortgage loans performed by non-banking mortgage organizations. Taxes are subject to review and detailed inspection by authorities, which may impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities for the next three calendar years; however, under certain circumstances a tax year may remain open for a longer period. 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 rulings. However, the interpretations of the relevant authorities may differ from the management's opinion and the effect on the financial performance of the Group, in case of applying enforcement measures by regulators, could be significant.

## 30 Related party transactions

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

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

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

	<u>2010</u>	<u>2009</u>
	<i><b>Total transactions with the Government of the Russian Federation and legal entities controlled by the Government of the Russian Federation RUR'000</b></i>	<i><b>Total transactions with the Government of the Russian Federation and legal entities controlled by the Government of the Russian Federation RUR'000</b></i>
Cash and cash equivalents	3,605,458	504,752
Amounts due from credit institutions at 1 January	30,955,823	51,884,767
Amounts due from credit institutions received during the year	62,031,632	121,478,714
Amounts due from credit institutions repaid during the year	(88,640,726)	(142,407,658)
Amounts due from credit institutions at 31 December	4,346,730	30,955,823
Investment securities available-for-sale	63,800	-
Investment securities held-to-maturity	3,425,812	3,424,610
Other borrowed funds at 1 January	-	2,612,680
Other borrowed funds received during the year	2,762,550	-
Other borrowed funds repaid during the year	-	(2,612,680)
Other borrowed funds outstanding at 31 December	2,762,550	-
Other liabilities	221	-
Interest income from amounts due from state-owned credit institutions	1,466,903	5,781,688
Interest income on securities held-to-maturity	330,825	13,610
Interest income on securities available for sale	959	-
Interest expense on borrowed funds from state-owned banks	2,137	280,000
Loss on initial recognition of mortgage loans	75,293	-

Bonds issued by the Group with a total carrying value of RUR 69,854,723 thousand (31 December 2009: RUR 55,290,199 thousand) are fully guaranteed by the Government of the Russian Federation.

### 30 Related party transactions (continued)

In December 2010, the Group raised a loan from Vnesheconombank in the amount of RUR 3,000,000 thousand. As at 31 December 2010, the loan was carried at amortized cost of RUR 2,762,550 thousand. The Group recognized a government grant of RUR 221 million within other liabilities. (Note 21).

In 2010 the Group paid fees and commissions to state-owned companies in the amount of RUR 21,714 thousand (2009: RUR 4,587 thousand) for transactions related to the Group's bonds issuance. Such payments have been recognized as deferred expense and shall be amortized during the term before the maturity of bonds.

Included in general and administrative expenses are rent expenses of RUR 38,720 thousand paid to a state-owned entity (31 December 2009: RUR: 40,773 thousand).

Total remuneration of the members of the Management Board and the Supervisory Board, including salary, bonuses and other compensations, recognized in 2010 financial statements amounts to RUR 93,777 thousand (2009: RUR 33,672 thousand). Total remuneration of the members of the Management Board and the Supervisory Board for 2010 also includes bonuses of the members of the Management Board for 2009 and bonuses of the members of the Supervisory Board for 2009 and 2008, approved for payment in 2010 in the total amount of RUR 24,815 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.

In June 2010, the Group purchased non-performing mortgage loans on non-arms' length basis from CIT Finance Investment Bank, its related party. As at 31 December 2010, the purchased non-performing mortgage loans amounted to RUR 423,013 thousand. As of the transaction date, the loans were recognized at fair value of RUR 347,720 thousand. The difference between the fair value of purchased restructured non-performing mortgage loans and the fair value of the obligation to deliver bonds of RUR 75,293 thousand (Note 7) was recognized as loss on initial recognition of mortgage loans in 2010 statement of comprehensive income.

### 31 Fair value of financial instruments

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- ▶ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- ▶ Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- ▶ Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

<b>31 December 2010</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Investment securities available for sale	71,004	1,292,994	–	1,363,998
	<b>71,004</b>	<b>1,292,994</b>	<b>–</b>	<b>1,363,998</b>

As at 31 December 2010 and 31 December 2009, the Group had no Level 3 assets.

As at 31 December 2010 and 2009, there were no transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets and liabilities which are recorded at fair value.

#### *Financial instruments recorded at fair value*

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

#### *Investment securities available for sale*

Investment securities available for sale valued using a valuation technique primarily consist of unquoted debt securities valued using data observable in the market.

### 31 Fair value of financial instruments (continued)

*Financial instruments not recorded at fair value in the statement of financial position*

Set out below is a comparison, by class, of the carrying values and fair values of the Group's financial instruments that are not recorded at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2010			2009		
	<i>Present value</i>	<i>Fair value</i>	<i>Unrecognized gain / (loss)</i>	<i>Present value</i>	<i>Fair value</i>	<i>Unrecognized gain / (loss)</i>
<b>Financial assets</b>						
Cash and cash equivalents	9,464,820	9,464,820	–	14,951,472	14,951,472	–
Due from credit institutions	44,219,712	44,219,712	–	49,817,180	49,817,180	–
Mortgage loans	131,905,203	128,690,920	3,214,283	91,611,572	87,100,542	4,511,030
Stabilization loans issued	1,197,678	1,197,678	–	315,335	315,335	–
Loans issued to banks	3,295,626	3,295,626	–	23,301	23,301	–
Investment securities:						
- held-to-maturity	3,425,812	3,505,120	(79,308)	3,424,610	3,424,610	–
<b>Total assets</b>	<b>193,508,851</b>	<b>190,373,876</b>	<b>3,134,975</b>	<b>160,143,470</b>	<b>155,632,440</b>	<b>4,511,030</b>
<b>Financial liabilities</b>						
Bonds issued	84,075,257	85,007,665	(932,408)	59,208,100	53,644,669	5,563,431
Bank loans	2,092,309	2,092,309	–	2,612,715	2,612,715	–
Other borrowed funds	2,762,550	2,762,550	–	–	–	–
<b>Total liabilities</b>	<b>88,930,116</b>	<b>89,862,524</b>	<b>(932,408)</b>	<b>61,820,815</b>	<b>56,257,384</b>	<b>5,563,431</b>

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

For financial assets and financial liabilities that are liquid or having a short term maturity it is assumed that the carrying values approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

For quoted debt securities fair values are calculated based on quoted market prices. For non-quoted debt, a discounted cash flow model is used. Cash flows are discounted at the current interest rate, taking into account the remaining maturity of debt instruments with similar terms and credit risk.

Fair values of other financial assets and liabilities are calculated using discounted cash flow techniques based on expected 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-based rate for similar instruments at the reporting date.

### 32 Maturity analysis of assets and liabilities

The following tables provide an analysis of assets and liabilities by the remaining period from the reporting date to the contractual maturity date: Due to the fact that the majority of financial instruments bear fixed interest rates, remaining contractual maturity dates generally represent the contractual interest rate repricing dates.

**32 Maturity analysis of assets and liabilities (continued)**

	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>Total less than 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total more than 1 year</i>	<i>Past due</i>	<i>No stated maturity</i>	<i>Total</i>
<b>Assets</b>										
Cash and cash equivalents	4,486,570	4,978,250	–	9,464,820	–	–	–	–	–	9,464,820
Due from credit institutions	1,234,620	12,275,414	30,524,678	44,034,712	185,000	–	185,000	–	–	44,219,712
Mortgage loans	1,473,334	3,525,427	5,060,568	10,059,329	27,770,029	85,107,023	112,877,052	8,968,822	–	131,905,203
Stabilization loans	120	251	1,328	1,699	17,328	977,386	994,714	201,265	–	1,197,678
Loans issued to banks	4,818	42,850	626,674	674,342	2,275,011	346,273	2,621,284	–	–	3,295,626
Investment securities										
- available-for-sale	1,363,998	–	–	1,363,998	–	–	–	–	–	1,363,998
- held-to-maturity	–	14,498	–	14,498	3,411,314	–	3,411,314	–	–	3,425,812
Property held for sale	–	–	–	–	–	–	–	–	602,296	602,296
Property, equipment and intangible assets	–	–	–	–	–	–	–	–	223,090	223,090
Deferred income tax assets	–	–	–	–	–	–	–	–	1,570,974	1,570,974
Other assets	189,119	–	–	189,119	–	–	–	–	–	189,119
<b>Total assets</b>	<b>8,752,579</b>	<b>20,836,690</b>	<b>36,213,248</b>	<b>65,802,517</b>	<b>33,658,682</b>	<b>86,430,682</b>	<b>120,089,364</b>	<b>9,170,087</b>	<b>2,396,360</b>	<b>197,458,328</b>
<b>Liabilities</b>										
Bonds issued	371,301	1,344,790	2,277,275	3,993,366	30,875,829	49,206,062	80,081,891	–	–	84,075,257
Bank loans	12,309	–	2,080,000	2,092,309	–	–	–	–	–	2,092,309
Other borrowed funds	–	–	–	–	–	2,762,550	2,762,550	–	–	2,762,550
Current income tax liabilities	62,102	–	–	62,102	–	–	–	–	–	62,102
Other liabilities	837,121	–	116,242	953,363	406,847	248,028	654,875	–	–	1,608,238
<b>Total liabilities</b>	<b>1,282,833</b>	<b>1,344,790</b>	<b>4,473,517</b>	<b>7,101,140</b>	<b>31,282,676</b>	<b>52,216,640</b>	<b>83,499,316</b>	<b>–</b>	<b>–</b>	<b>90,600,456</b>
<b>Net position as at 31 December 2010</b>	<b>7,469,746</b>	<b>19,491,900</b>	<b>31,739,731</b>	<b>58,701,377</b>	<b>2,376,006</b>	<b>34,214,042</b>	<b>36,590,048</b>	<b>9,170,087</b>	<b>2,396,360</b>	<b>106,857,872</b>

**32 Maturity analysis of assets and liabilities (continued)**

	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>Total less than 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total more than 1 year</i>	<i>No stated maturity</i>	<i>Total</i>
<b>Assets</b>									
Cash and cash equivalents	5,324,097	9,627,375	–	14,951,472	–	–	–	–	14,951,472
Due from credit institutions	4,887,364	17,199,140	27,730,676	49,817,180	–	–	–	–	49,817,180
Mortgage loans	394,538	997,935	4,195,109	5,587,582	22,119,570	63,904,420	86,023,990	–	91,611,572
Stabilization loans	–	5	30,425	30,430	117,795	167,110	284,905	–	315,335
Loans issued to banks	–	–	–	–	23,301	–	23,301	–	23,301
Held-to-maturity investments	13,610	–	–	13,610	3,411,000	–	3,411,000	–	3,424,610
Property, equipment and intangible assets	–	–	–	–	–	–	–	255,261	255,261
Investment property	–	–	–	–	–	–	–	68,924	68,924
Current income tax asset	–	–	6,290	6,290	–	–	–	–	6,290
Deferred income tax assets	–	–	–	–	–	–	–	1,587,633	1,587,633
Other assets	54,925	14,629	81,104	150,658	11,414	–	11,414	–	162,072
<b>Total assets</b>	<b>10,674,534</b>	<b>27,839,084</b>	<b>32,043,604</b>	<b>70,557,222</b>	<b>25,683,080</b>	<b>64,071,530</b>	<b>89,754,610</b>	<b>1,911,818</b>	<b>162,223,650</b>
<b>Liabilities</b>									
Bonds issued	156,924	1,945,436	1,562,433	3,664,793	12,581,114	42,962,193	55,543,307	–	59,208,100
Bank loans	–	–	524,238	524,238	2,088,477	–	2,088,477	–	2,612,715
Current income tax liabilities	61,888	–	–	61,888	–	–	–	–	61,888
Other liabilities	120,015	145,495	67,551	333,061	384	–	384	–	333,445
<b>Total liabilities</b>	<b>338,827</b>	<b>2,090,931</b>	<b>2,154,222</b>	<b>4,583,980</b>	<b>14,669,975</b>	<b>42,962,193</b>	<b>57,632,168</b>	<b>–</b>	<b>62,216,148</b>
<b>Net position as at 31 December 2009</b>	<b>10,335,707</b>	<b>25,748,153</b>	<b>29,889,382</b>	<b>65,973,242</b>	<b>11,013,105</b>	<b>21,109,337</b>	<b>32,122,442</b>	<b>1,911,818</b>	<b>100,007,502</b>

### 32 Maturity analysis of assets and liabilities (continued)

Assets and liabilities by the expected maturity are grouped on the basis of their earliest possible contractual maturity. Total amounts of assets and liabilities repaid are represented by contractual cash flows on financial assets and liabilities. Actual cash flows on such financial assets and liabilities may differ significantly from the above analysis.

For the purposes of this analysis past due assets and liabilities are disclosed only in the amount of the carrying value of past due assets and liabilities in accordance with the repayment schedule. The Group's ability to repay its liabilities depends on its ability to realize an equivalent amount of assets within the definite period of time.

### 33 Subsequent events

In February and April 2011 OJSC "AHML" issued non-convertible documentary coupon bonds, including Series A17 in the amount of RUR 8,000,000 thousand, coupon rate of 9.05%, Series A18 in the amount of RUR 7,000,000 thousand, coupon rate of 8%, Series A19 in the amount of RUR 6,000,000 thousand, coupon rate of 7.7%. These bonds are guaranteed by the Government of the Russian Federation up to their nominal amounts.

In March 2011 the Agency sold mortgage loans in the amount of RUR 16,694,307 thousand to special-purpose company Closed Joint Stock Company "Mortgage Agent 2011-2" established for the purpose of issuing mortgage bonds.

For the purposes of developing the Russian residential property market, forming innovation instruments for mortgage refinancing and developing the Russian mortgage securities market, the Agency has launched OJSC "AHML" program for the purchase of mortgage-backed securities maturing by the end of 2012. Under this Program the Agency intends to purchase senior tranches of mortgage-backed bonds issued by market players for the total amount not exceeding RUR 20 billion, to consider the possibility of providing guarantees for mortgage securities issued under the Program and providing issuers with bridge financing for mortgage pool accumulation.

The originator shall pay the Agency a non-recurring fee for a guaranteed obligation to purchase senior tranches of mortgage securities. As at 31 May 2011 in the course of the Program implementation 4 agreements for issuing activities totaling RUR 12.6 billion were signed. It is expected that the Agency will fulfill its obligations on the purchase of senior tranches of mortgage securities in the fourth quarter of 2011 in the amount not exceeding RUR 5 billion and in 2012 in the amount not exceeding RUR 8.6 billion.