

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE (1) QUALIFIED INSTITUTIONAL BUYERS (“QIBS”) PURCHASING IN RELIANCE ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), PROVIDED BY RULE 144A THEREUNDER OR PURSUANT TO ANOTHER EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OR (2) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT.

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You are reminded that this document has been delivered to you on the basis that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this document, electronically or otherwise, to any other person. If you receive this document by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the “Reply” function on your e-mail software, will be ignored or rejected. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. No action has been or will be taken in any jurisdiction by any of Open-Joint Stock Company NOMOS Bank (the “**Company**”), Deutsche Bank AG, London Branch, Credit Suisse Securities (Europe) Limited, Citigroup Global Markets Limited, VTB Capital plc or Erste Bank Group AG (collectively, the “**Banks**”) that would or is intended to, permit a public offering of the securities, or possession or distribution of this document (in preliminary, proof or final form) or any other offering or publicity material relating to the securities, in any country or jurisdiction where action for that purpose is required. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Banks or any affiliate of the Banks is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Banks or such affiliate on behalf of the Company in such jurisdiction.

This document is only addressed to and directed at persons in member states of the European Economic Area that have implemented the Prospectus Directive who are “qualified investors” within the meaning of Article 2(1)(e) of the Prospectus Directive (**“Qualified Investors”**). In addition, in the United Kingdom this document is being distributed only to, and is directed only at, Qualified Investors (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the **“Order”**) or who fall within Article 49(2)(a) to (d) of the Order, or (ii) to whom it may otherwise lawfully be communicated (all such persons being referred to as **“relevant persons”**). This document is directed only at relevant persons in the United Kingdom and Qualified Investors in any other member state of the European Economic Area and must not be acted on or relied on (i) in the United Kingdom, by persons who are not relevant persons, and (ii) in any member state of the European Economic Area other than the United Kingdom, by persons who are not Qualified Investors. Any investment or investment activity to which this document relates is available only to (i) in the United Kingdom, relevant persons, and (ii) in any member state of the European Economic Area other than the United Kingdom, Qualified Investors, and will be engaged in only with such persons.

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**NOMOS
BANK**

Offering of Ordinary Shares in the form of Shares and Global Depositary Receipts

Offer Price of \$35 per Share and \$17.50 per Global Depositary Receipt

OPEN JOINT-STOCK COMPANY “NOMOS-BANK”

(incorporated under the laws of the Russian Federation)

The Open Joint-Stock Company “NOMOS-BANK” (“NOMOS BANK”) has sought the approval of the United Kingdom Financial Services Authority (the “FSA”) in accordance with the prospectus rules (the “Prospectus Rules”) of the FSA made under section 73A of the Financial Services and Markets Act 2000 (the “FSMA”) only in relation to the global depositary receipts (the “GDRs”). Application has been made solely for the admission of the GDRs to the official list maintained by the FSA (the “Official List”) and to the regulated market for listed securities of London Stock Exchange plc (the “London Stock Exchange”), which is a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive). This prospectus (the “Prospectus”) has been prepared in connection with the application for the admission of the GDRs to the regulated market of the London Stock Exchange. Approval of the FSA has not been sought by NOMOS Bank for this document in relation to the ordinary shares of NOMOS Bank and no shares will be listed on the regulated market of the London Stock Exchange. There will be no public offering of the shares outside of Russia, though shares may be offered to institutional investors outside of Russia in accordance with applicable law. This document will be made available to the public in accordance with the Prospectus Rules.

This document relates to an offering (the “Offering”) by Crisandra Holdings Limited, Lobston Enterprises Limited, Russia Finance Corporation B.V., North Moon Ventures Limited and Viewrock Limited (together, the “Selling Shareholders”) of shares each with a nominal value of 50 roubles (“Ordinary Shares”), of NOMOS Bank, in the form of up to 3,374,998 shares (the “Shares”) and up to 34,298,004 GDRs (the GDRs together with the Shares, the “Securities”), with two GDRs representing an interest in one Ordinary Share. Shortly after the Offering, NOMOS Bank will offer for subscription 5,576,397 Ordinary Shares (the “New Shares”) to be placed through a closed subscription (the “Closed Subscription”). Russia Finance Corporation B.V. and Lordline Limited (beneficially owned by PPF Group N.V. and the ICT group of companies, respectively) (the “Subscribing Shareholders”) have agreed to participate in the placement of the New Shares and have committed to subscribe for the New Shares at a price per New Share equal to the Offer Price. Lobston Enterprises Limited and Crisandra Holdings Limited, beneficially owned by Roman Korbaka, will sell 16,390,550 Ordinary Shares in the Offering but not subscribe for New Shares in the Closed Subscription (assuming full exercise of the Over-Allotment Option).

In addition, Lobston Enterprises Limited has granted to Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch and VTB Capital plc (together, the “Joint Bookrunners”) an option exercisable within 30 days of the announcement of the Offer Price to purchase up to 5,144,700 additional GDRs at the Offer Price, solely to cover over-allotments, if any, in connection with the Offering (the “Over-Allotment Option”).

This document comprises a prospectus relating to NOMOS Bank and its consolidated subsidiaries, including Open Joint Stock Company “Bank of Khanty-Mansiysk” (together, “NOMOS”), prepared in accordance with the Prospectus Rules. Application has been made (1) to the FSA, in its capacity as competent authority under the FSMA, for a listing of up to 46,211,184 GDRs representing Ordinary Shares, all of which are existing as at the date of this document and properly registered with the Central Bank of the Russian Federation (the “CBR”), and, consisting of up to 34,298,004 GDRs to be issued on or about 26 April 2011 (the “Closing Date”), up to 5,144,700 GDRs to be issued pursuant to the Over-Allotment Option and up to 6,768,480 additional GDRs to be issued from time to time against the deposit of Ordinary Shares (to the extent permitted by law) with Deutsche Bank Aktiengesellschaft, as depositary (the “Depositary”), to be admitted to the Official List and (2) to the London Stock Exchange, for such GDRs to be admitted to trading on the regulated market of the London Stock Exchange. Conditional trading in the GDRs on the London Stock Exchange is expected to commence on an if-and-when-issued basis on or about 19 April 2011. Admission to the Official List and unconditional trading on the London Stock Exchange (“Admission”) is expected to take place on or about 27 April 2011. All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned. The GDRs are expected to be traded on the Regulated Market under the symbol “NMOS”.

The Shares and the GDRs are being offered in the United States to certain qualified institutional buyers (“QIBs”) as defined in, and in reliance on, Rule 144A (“Rule 144A”) under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or another exemption from the registration requirements of the Securities Act, and outside the United States and the Russian Federation in offshore transactions in reliance on Regulation S under the Securities Act (“Regulation S”). The Shares are also being offered in the Russian Federation to certain investors in reliance on Regulation S. See “Transfer Restrictions”.

The Shares are listed on the quotation list “V” on the Open Joint-Stock Company “Russian Trading System” Stock Exchange (“RTS”) and admitted to trading on the Closed Joint-Stock Company “MICEX Stock Exchange” (“MICEX”), in each case under the symbol “NMOS”. As at the date of this Prospectus, the Shares may be traded on RTS and MICEX. Prices for the Ordinary Shares traded on RTS and MICEX may not reflect the value of the GDRs. The Shares have been registered by the CBR under No. 10102209B. Prior to the Offering, there has been no public market for the Shares or the GDRs.

See “Risk Factors” beginning on page 8 to read about factors you should consider before buying the Shares and GDRs. The GDRs are of a special nature and should only be bought and traded by investors who are particularly knowledgeable in investment matters.

The Offering does not constitute an offer to sell, or solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The Shares and the GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States, except to persons reasonably believed to be QIBs or outside the United States in offshore transactions in reliance on Regulation S. Prospective purchasers are hereby notified that sellers of the Shares and the GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a discussion of certain restrictions on transfers of the Shares and the GDRs in other jurisdictions, see “Terms and Conditions of the Global Depositary Receipts” and “Transfer Restrictions”.

The Shares and the GDRs are offered by the Joint Bookrunners when, as and if delivered to and accepted by the Joint Bookrunners and subject to their right to reject orders in whole or in part. The GDRs will be issued in global form. The GDRs offered and sold in the United States (the “Rule 144A GDRs”) will be evidenced by a Master Rule 144A Global Depositary Receipt Certificate (the “Master Rule 144A GDR Certificate”) registered in the name of Cede & Co., as nominee for The Depositary Trust Company (“DTC”), and the GDRs offered and sold outside the United States (the “Regulation S GDRs”) will be evidenced by a Master Regulation S Global Depositary Receipt Certificate (the “Master Regulation S GDR Certificate”) and, together with the Master Rule 144A GDR Certificate, the “Master GDR Certificates”) registered in the name of BT Globenet Nominees Limited, as nominee for Deutsche Bank AG, London Branch, as common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System (“Euroclear”), and Clearstream Banking, société anonyme (“Clearstream”). Except as described herein, beneficial interests in the Master GDR Certificates will be shown on, and transfers thereof will be effected only through the records of DTC with respect to the Rule 144A GDRs and Euroclear and Clearstream, Luxembourg with respect to the Regulation S GDRs. It is expected that delivery of the GDRs will be made against payment therefor in U.S. Dollars in same day funds through the facilities of DTC, Euroclear and Clearstream on or about the Closing Date. See “Clearing and Settlement”.

Joint Global Co-ordinators

CREDIT SUISSE

DEUTSCHE BANK

VTB CAPITAL

Joint Bookrunners

CITI

CREDIT SUISSE

DEUTSCHE BANK

VTB CAPITAL

Co-manager

ERSTE GROUP BANK

The date of this Prospectus is 19 April 2011

IMPORTANT INFORMATION ABOUT THIS DOCUMENT

By accepting delivery of this document, you agree to the following. This document is being furnished by NOMOS and the Selling Shareholders solely for the purpose of enabling a prospective investor to consider the purchase of the Shares and GDRs. Any reproduction or distribution of this document, in whole or in part, any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Shares and GDRs is prohibited, except to the extent that such information is otherwise publicly available.

None of the Joint Bookrunners make any representation, express or implied, nor accept any responsibility, with respect to the accuracy or completeness of any of the information in this Prospectus. This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of NOMOS, the Selling Shareholders or the Joint Bookrunners that any recipient of this Prospectus should subscribe for or purchase the Shares and GDRs. Each potential subscriber or purchaser of Shares and GDRs should determine for itself the relevance of the information contained in this Prospectus, and its subscription or purchase of GDRs should be based upon such investigation, as it deems necessary, including the assessment of risks involved and its own determination of the suitability of any such investment, with particular reference to their own investment objectives and experience and any other factors that may be relevant to such potential subscriber in connection with the purchase of the Shares or GDRs.

This Prospectus, including the financial information included herein, is in compliance with the Prospectus Rules of the FSA, which comply with the provisions of Directive 2003/71/EC (the “**Prospectus Directive**”) for the purpose of giving information with regard to NOMOS, the Selling Shareholders and the GDRs.

NOMOS accepts responsibility for the information contained in this Prospectus, and having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of NOMOS’s knowledge, in accordance with the facts and contains no omissions likely to affect its import.

This document does not constitute an offer to the public generally to purchase or otherwise acquire the Shares or the GDRs. In making an investment decision regarding the Shares and GDRs, you must rely on your own examination of NOMOS and the terms of the Offering, including the merits and risks involved. You should rely only on the information contained in this document. None of NOMOS, the Selling Shareholders or the Joint Bookrunners has authorised any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this document is accurate only as of its date. NOMOS’s business, financial condition, results of operations, prospects and the information set forth in this document may have changed since the date of this document.

NOMOS has included its own estimates, assessments, adjustments and judgments in preparing some market information, which has not been verified by an independent third party. Market information included herein is, therefore, unless otherwise attributed to a third party source, to a certain degree subjective. As far as NOMOS is aware and is able to ascertain, from the relevant publicly available information, no facts have been omitted that would render this information inaccurate or misleading. While NOMOS believes that its own estimates, assessments, adjustments and judgments are reasonable and that the market information prepared by NOMOS approximately reflects the industry and the markets in which NOMOS operates, there is no assurance that its own estimates, assessments, adjustments and judgments are the most appropriate for making determinations relating to market information or that market information prepared by other sources will not differ materially from the market information included herein.

The contents of the websites of NOMOS (including that of Open Joint-Stock Company “Bank of Khanty-Mansiysk” (“**BKM Bank**”)) do not form any part of this document.

You should not consider any information in this Prospectus to be investment, legal or tax advice. You should consult your own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding purchasing the Shares and GDRs. None of NOMOS, the Selling Shareholders or the Joint Bookrunners makes any representation to any offeree or purchaser of the Shares and GDRs regarding the legality of an investment in the Shares and GDRs by such offeree or purchaser under appropriate investment or similar laws.

The Joint Bookrunners are acting exclusively for NOMOS and the Selling Shareholders and no one else in connection with the Offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Offering.

In connection with the Offering, the Joint Bookrunners and any of their respective affiliates acting as an investor for its or their own account(s) may subscribe for or purchase, as the case may be, Shares and GDRs and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any other securities of NOMOS or other related investments in connection with the Offering or otherwise. Accordingly, references in this document to the Shares and GDRs being issued, offered, subscribed or otherwise dealt with should be read as including any issue or offer to, or subscription or dealing by, the Joint Bookrunners and any of their respective affiliates acting as an investor for its or their own account(s). The Joint Bookrunners do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

NOMOS may withdraw the Offering at any time prior to Admission, and NOMOS, the Selling Shareholders and the Joint Bookrunners reserve the right to reject any offer to purchase the Shares and GDRs, in whole or in part, and to sell to any prospective investor less than the full amount of the Shares and GDRs sought by such investor.

This Document does not constitute or form part of an offer to sell, or a solicitation of an offer to buy, any security other than the Shares and the GDRs. The distribution of this Prospectus and the offer and sale of the Shares and GDRs may be restricted by law in certain jurisdictions. You must inform yourself about, and observe any such restrictions. See “*Terms and Conditions of the Global Depositary Receipts*” and “*Transfer Restrictions*” elsewhere in this Prospectus. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the Shares and GDRs or possess or distribute this Prospectus and must obtain any consent, approval or permission required for your purchase, offer or sale of the Shares and GDRs under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. None of NOMOS, the Selling Shareholders or the Joint Bookrunners is making an offer to sell the Shares and GDRs or a solicitation of an offer to buy any of the Shares and GDRs to any person in any jurisdiction except where such an offer or solicitation is permitted or accepts any legal responsibility for any violation by any person, whether or not a prospective investor, or applicable restrictions.

In connection with the issue of the GDRs, Credit Suisse Securities (Europe) Limited (the “**Stabilising Manager**”) (or persons acting on behalf of any Stabilising Manager) may over-allot GDRs or effect transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on the date of adequate public disclosure of the final price of the GDRs and, if begun, may be ended at any time but must end no later than 30 calendar days thereafter (the “**Stabilisation Period**”). Any stabilisation action must be undertaken in accordance with applicable laws and regulations. Save as required by law or regulation, the Stabilising Manager does not intend to disclose the extent of any over-allotments made and/or stabilisation transactions concluded in relation to the Offering.

NOTICE TO CERTAIN INVESTORS

Notice to UK and other EEA Investors

This Prospectus and the Offering are only addressed to and directed at persons in member states of the European Economic Area (the “EEA”), who are “qualified investors” (“**Qualified Investors**”) within the meaning of Article 2(1)(e) of the Prospectus Directive (including any relevant implementing measure in each relevant member state of the EEA). In addition, in the United Kingdom, this Prospectus is only being distributed to and is only directed at (1) Qualified Investors who are investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”) or high net worth entities falling within Article 49(2)(a)-(d) of the Order or (2) persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as “**relevant persons**”). The Shares and the GDRs are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, (1) in the United Kingdom, relevant persons and (2) in any member state of the EEA other than the United Kingdom, Qualified Investors. This Prospectus and its contents should not be acted upon or relied upon (1) in the United Kingdom, by persons who are not relevant persons or (2) in any member state of the EEA other than the United Kingdom, by persons who are not Qualified Investors.

This Prospectus has been prepared solely for the purpose of Admission of the GDRs and on the basis that all offers of the Shares and the GDRs following approval by the FSA will be made pursuant to an exemption under the Prospectus Directive, as implemented in the member states of the EEA, from the requirement to produce a Prospectus for offers of the Shares and the GDRs. Accordingly, any person making or intending to make any offer within the EEA of the Shares or the GDRs should only do so in circumstances in which no obligation arises for NOMOS, the Selling Shareholders or any of the Joint Bookrunners to produce a Prospectus for such offer. None of NOMOS, the Selling Shareholders or the Joint Bookrunners has authorised or authorises the making of any offer of the Shares or the GDRs through any financial intermediary, other than offers made by the Joint Bookrunners which constitute the final placement of the Shares and the GDRs contemplated in this Prospectus.

Notice to Investors in the Russian Federation

This Prospectus should not be considered as a public offer or advertisement of the Shares and the GDRs in the Russian Federation and is not an offer, or an invitation to make offers, to sell, purchase, exchange or otherwise transfer any GDRs to any persons in the Russian Federation. Neither the GDRs nor this Prospectus or other documents relating to them have been or are intended to be registered in Russia, with the Central Bank of the Russian Federation (the “**CBR**”) or with any other state bodies that may from time to time be responsible for such registration, and the GDRs are not intended for “placement” or “circulation” in the Russian Federation (as defined under Russian law), unless otherwise permitted under Russian law. Any information on the Shares and the GDRs in this Prospectus is intended for, and addressed only to persons outside of the Russian Federation. The GDRs are not being offered, sold or delivered in the Russian Federation or to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except as may be permitted by Russian law.

Notice to United States Investors

NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES NOR ANY OTHER U.S. REGULATORY AUTHORITY HAS APPROVED OR DISAPPROVED OF THE SHARES OR THE GDRs OR PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE SHARES OR THE GDRs OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

Notice to New Hampshire Residents Only

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA 421-B”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE

THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus are not historical facts and are “**forward-looking**” within the meaning of Section 27A of the Securities Act and Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”). Forward-looking statements include statements concerning plans, objectives, goals, strategies, economic and regulatory conditions affecting NOMOS, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words “believe,” “expect,” “anticipate,” “intend,” “estimate,” “forecast,” “project,” “will,” “may,” “should” and similar expressions identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements appear in a number of places in this Prospectus including, without limitation, “*Risk Factors*,” “*Business*” and “*Operating and Financial Review*”, and include statements regarding:

- strategies, outlook and growth prospects;
- future plans, expectations, projections and potential for future growth;
- plans or intentions relating to acquisitions;
- future revenues and performance;
- integration of NOMOS’s businesses, including recently acquired businesses;
- liquidity, capital resources and capital expenditures;
- economic outlook and industry trends;
- developments in markets in which NOMOS operates;
- the impact of regulatory initiatives;
- NOMOS’s competitive strengths and weaknesses; and
- the strengths of NOMOS’s competitors.

The forward-looking statements in this Prospectus are based upon various assumptions, many of which are based, in turn, upon further assumptions, including, without limitation, management’s examination of historical operating trends, data contained in its records and other data available from third parties. Although NOMOS believes that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and which are beyond its control, and NOMOS may not achieve or accomplish these expectations, beliefs or projections. The occurrence or non-occurrence of an assumption could cause NOMOS’s actual financial condition and results to differ from or fail to meet expectations expressed or implied by, such forward-looking statements. In addition to these important factors and matters discussed elsewhere herein, important factors that, in NOMOS’s view, could cause actual results to differ materially from those discussed in the forward-looking statements include:

- the condition of the Russian economy, including the condition of the Russian banking sector;
- NOMOS’s ability to increase or maintain market share for its products and services and control expenses;
- the effects of, and changes in, the policy of the federal government of the Russian Federation (the “**Russian government**”) and regulations promulgated by the CBR;
- the effects of changes in laws, regulations, taxation or accounting standards or practices and legal proceedings;
- NOMOS’s ability to comply with the CBR’s mandatory economic ratio requirements and continued participation in the system of mandatory insurance of retail bank deposits in Russia;

- the effects of the integration of BKM Bank and its consolidated subsidiaries (together, “**BKM**”) into NOMOS;
- any future expansion plans of NOMOS and the likelihood of such plans being successfully implemented;
- NOMOS’s expansion on its reserve requirements, cost base and margins;
- NOMOS’s ability to manage its loan portfolio and overall asset quality;
- inflation, interest rate and exchange rate fluctuations;
- NOMOS’s ability to meet its funding obligations and develop and maintain additional sources of financing;
- technological changes; and
- NOMOS’s success at managing the risks associated with the aforementioned factors.

This list of important factors is not exhaustive. When reviewing forward-looking statements, investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which NOMOS operates. Such forward-looking statements speak only as of the date on which they are made and are not intended to give any assurances as to future results. To the extent required by the listing rules of the FSA (the “**Listing Rules**”), the Prospectus Rules and the disclosure and transparency rules of the FSA (the “**Disclosure and Transparency Rules**”), and other applicable regulations, NOMOS will update or revise the information in this document. Otherwise NOMOS undertakes no obligation to update or revise any forward-looking statements made in this Prospectus whether as a result of new information, future events or otherwise and NOMOS assumes no other obligation to publish additional information. None of NOMOS, its management or the Joint Bookrunners can give any assurance regarding the future accuracy of the opinions set forth herein or as to the actual occurrence of any predicted developments. Accordingly, prospective purchasers of the Securities should not rely on the forward-looking statements in this Prospectus and investors are strongly advised to read this Prospectus in its entirety.

All subsequent written or oral forward-looking statements attributable to NOMOS, or persons acting on NOMOS’s behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Securities should not place reliance on these forward-looking statements and should specifically consider the factors identified in this Prospectus that could cause actual results to differ.

AVAILABLE INFORMATION

For so long as any Rule 144A GDRs or Shares are “**restricted securities**” within the meaning of Rule 144(a)(3) under the Securities Act, NOMOS will, during any period in which NOMOS is neither subject to Section 13 or Section 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted Rule 144A GDRs or Shares or to any prospective purchaser of such restricted Rule 144A GDRs or Shares designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto).

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

NOMOS’s presence and that of the Selling Shareholders outside the United States and the United Kingdom may limit your legal recourse against NOMOS. NOMOS Bank is incorporated under the laws of the Russian Federation and the Selling Shareholders are incorporated under the laws of Cyprus and The Netherlands. See “*Principal and Selling Shareholders*”. A majority of the directors and executive officers named in this Prospectus reside outside the United States and the United Kingdom, principally in the Russian Federation. The majority of the assets and almost all of the assets of the directors and executive officers are located outside the United States and the United Kingdom, principally in the Russian Federation. As a result, you may not be able to effect service of process within the United States or the United Kingdom upon NOMOS Bank, the Selling Shareholders or the respective directors and executive officers or to enforce U.S. or UK court judgments obtained against NOMOS, the Selling Shareholders or its respective directors and executive officers in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of U.S. securities laws. In

addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon U.S. or UK securities laws. See *“Risk factors — Risks relating to the Offering and the GDRs and Shares — Investors may have limited recourse against the Selling Shareholders, NOMOS or NOMOS Bank’s directors and executive officers because they generally conduct their operations outside the United States and United Kingdom and the officers reside outside the United States and the United Kingdom”*.

Judgments rendered by a court in any jurisdiction outside the Russian Federation are likely to be recognised by courts in the Russian Federation if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country in which the judgment is rendered, and/or a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgments.

There is currently no treaty between the United States and the Russian Federation or the United Kingdom and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. However, NOMOS is aware of at least two instances in which Russian courts have recognised and enforced a foreign court judgment (an English court judgment in one instance and a Dutch court judgment in the other instance), on the basis of a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation, and both The Netherlands and the Russian Federation, respectively, are parties. The courts determined that such treaties, as well as comity between nations constituted grounds for the recognition and enforcement of the relevant foreign court judgment in Russia. In the absence of established court practice, however, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognise and enforce a foreign court judgment on these grounds. In addition, Russian courts have limited experience in the enforcement of foreign court judgments. These limitations may deprive you of effective legal recourse for claims related to your investment in the Shares or GDRs. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958, but it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including limited experience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favour of foreign investors, Russian courts’ inability to enforce such orders and corruption. The possible need to re-litigate in the Russian Federation a judgment obtained in a foreign court on the merits may also significantly delay the enforcement of such judgment.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

This Prospectus contains:

- NOMOS's audited consolidated financial statements as at and for the years ended 31 December 2008, 2009 and 2010 (the "**NOMOS Financial Statements**") prepared in accordance with International Financial Reporting Standards ("**IFRS**") as promulgated by the International Accounting Standards Board ("**IASB**"), which have been audited by ZAO "Deloitte & Touche CIS" ("**Deloitte & Touche CIS**") as set forth in their report thereon on page F-5 of this Prospectus;
- BKM's audited consolidated financial statements as at and for the year ended 31 December 2010 (the "**BKM Financial Statements**") prepared in accordance with IFRS, with an audit report from Deloitte & Touche CIS in respect of the BKM Financial Statements, as set forth in their report thereon on page F-115 of this Prospectus; and
- Unaudited consolidated pro forma financial information in respect of the financial year ended 31 December 2010 consisting of (1) a pro forma unaudited consolidated statement of financial position at 31 December 2010 prepared to exclude the impacts of the acquisition by NOMOS of control of BKM on 16 December 2010 to allow for an analysis of the organic growth of NOMOS (the "**Pro Forma Statement of Financial Position**") and (2) a pro forma unaudited consolidated income statement for the year ended 31 December 2010 to show the effects on the income statement of NOMOS for the year ended 31 December 2010 of the acquisition of BKM as if the acquisition had occurred on 1 January 2010 (the "**Pro Forma Income Statement**") and (3) NOMOS's pro forma unaudited consolidated equity attributable to equity holders of the parent as at 31 December 2010 to show the effects on equity attributable to equity holders of the parent of the acquisition of BKM as if the acquisition had occurred on 1 January 2010 (together with the Pro Forma Income Statement and the Pro Forma Statement of Financial Position, the "**Pro Forma Financial Information**"). The Pro Forma Financial Information was prepared for illustrative purposes only and the basis of preparation of the Pro Forma Consolidated Financial Information is detailed on pages 65, 67 and 68.

The NOMOS Financial Statements and the BKM Financial Statements are collectively referred to herein as the "**Financial Statements**".

The Pro Forma Financial Information was not prepared in accordance with the requirements of Regulation S-X or the Securities Act or any generally accepted accounting standards. Neither the assumptions underlying the pro forma adjustments nor the resulting Pro Forma Financial Information have been audited or reviewed in accordance with any generally accepted auditing Standards.

Furthermore, the Pro Forma Statement of Financial Position and the pro forma ratios included in this Prospectus would also be considered a non-GAAP financial measure in the United States of America. NOMOS's management believes this information, along with comparable IFRS measures, is useful to investors because it provides a basis for measuring NOMOS's organic operating performance in 2010. NOMOS's management uses these financial measures, along with the most directly comparable IFRS financial measures, in evaluating NOMOS's operating performance and value creation. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with IFRS. Non-GAAP financial measures as reported by NOMOS may not be comparable to similarly titled amounts reported by other companies.

The credit ratings included in the financial statements in this Prospectus are ratings assigned by NOMOS because IFRS requires NOMOS to disclose certain credit quality information. NOMOS is not a credit rating agency established in the EU, nor is it registered under the CRA Regulation, and it has not applied to be registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EU and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the EU before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration has not been refused. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating.

Reclassifications

For the description of reclassifications made to the NOMOS's consolidated financial statements as at and for the year ended 31 December 2009 in the NOMOS Financial Statements, see "*NOMOS Financial Statements — Selected Explanatory Notes to the Consolidated Financial Statements for the Years Ended 31 December 2010, 2009 and 2008 — 3. Significant Accounting Policies — Reclassifications*".

Market Data

Market data used in this Prospectus, including statistics in respect of NOMOS's market share, has been extracted from official and industry sources and other sources NOMOS believes to be reliable. This information appears throughout the Prospectus including, without limitation, in the sections headed "*Operating and Financial Review*", "*The Banking Sector and Banking Regulation in Russia*" and "*Business*", and is sourced in the text or in footnotes where it appears. Such information, data and statistics may be approximations or estimates or use rounded numbers.

In particular, NOMOS has cited the following governmental sources of market data: the CBR and the Federal State Statistics Service of the Russian Federation ("**Rosstat**"). NOMOS confirms that this information, including that from the CBR and Rosstat, has been accurately reproduced and that, as far as NOMOS is aware and is able to ascertain from information published by these public sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. NOMOS notes that neither these independent sources nor the Joint Bookrunners accept liability for the accuracy of any such information, and prospective investors are advised to consider such information with caution. NOMOS has relied on the accuracy of this information without independent verification.

Some of the market data contained in this document has been derived from the official data of Russian government agencies, including the CBR and Rosstat. The official data published by Russian federal, regional and local governments are substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this Prospectus are, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The veracity of some official data released by the Russian government may be questionable.

When NOMOS states that NOMOS is the eighth largest banking group in Russia by total assets and the tenth largest banking group in Russia by own capital, these rankings are based on data as at 31 December 2010 for individual banks that constitute Russian banking groups published by Interfax-Centre for Economic Analysis ("**Interfax-CEA**"). To calculate rankings for banking groups rather than individual banks, total assets and own capital of certain banks were combined. Total assets of NOMOS were calculated as the sum of total assets of NOMOS and BKM, and own capital of NOMOS was calculated as the sum of own capital of NOMOS and BKM. Total assets and own capital of other banking groups were also calculated by aggregating data for individual banks that constitute such banking groups. Data for VTB Bank was combined with data for VTB 24, Bank VTB North-West, TransCreditBank and Bank of Moscow, while data for Rosbank was combined with data for Bank Societe General Vostok, Rusfinance Bank and Deltacredit Bank. Interfax-CEA uses financial information prepared in accordance with the Russian Accounting Standards ("**RAS**") and calculates total assets and own capital based on its own proprietary methodology that differs from CBR methodology and IFRS. For example, own capital as calculated by Interfax-CEA does not include any subordinated debt. Investors should rely on the Financial Statements and Pro Forma Financial Information when reviewing the assets and capital position of NOMOS.

Average Balance Sheet and Interest Rate Data

This Prospectus includes average balances of assets and liabilities for (i) NOMOS for the years ended 31 December 2010, 2009 and 2008 which are calculated on a quarterly basis, and (iii) BKM for the years ended 31 December 2010 and 2009 which are calculated on an annual basis (the "**Average Balances**"). In order to eliminate the distortion caused by the acquisition of BKM on 16 December 2010 and properly calculate the average balance sheet and interest rate data for NOMOS, the Pro Forma Statement of Financial Position was used in computing the average balances of assets and liabilities in 2010. The quarterly information for NOMOS was extracted without material adjustment from its unaudited interim quarterly financial information prepared in accordance with IFRS. The annual information for NOMOS and BKM was extracted without material adjustment from their respective audited financial statements prepared under IFRS.

The results of the analysis for each of NOMOS and BKM would likely be different if alternative or more frequent averaging methods were used and such differences could be material. Prospective investors are cautioned that the average balances and related data presented in this Prospectus are based on materially less frequent average methods than those used by other banks in the United States, Western Europe and other jurisdictions in connection with similar offers of securities.

Currency

In this Prospectus, the following currency terms are used:

- “**RUB**” or “**rouble**” means the lawful currency of the Russian Federation;
- “**U.S. Dollar**”, “**Dollar**”, or “**U.S.\$**” means the lawful currency of the United States; and
- “**EUR**” or “**euro**” means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended from time to time.

Exchange Rate Information

The rouble has been selected as the presentation currency for the Financial Statements, as the majority of NOMOS’s transactions are denominated, measured, or funded in roubles.

The following table sets forth, for the periods indicated, the high, low, average and year end official rates set by the CBR in each case for the purchase of roubles, all expressed per U.S. Dollar. These translations should not be construed as representations that rouble amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the rate indicated as at any of the dates mentioned in this Prospectus or at all.

	<u>High</u>	<u>Low</u>	<u>Average⁽¹⁾</u>	<u>Period End</u>
	<u>(RUB per U.S.\$)</u>			
2011 (up to and including 1 April 2011)	30.63	28.16	29.26	28.52
2010	31.78	28.93	30.38	31.48
2009	36.43	28.67	31.76	30.24
2008	29.38	23.19	24.98	29.38
2007	26.58	24.26	25.49	24.55
2006	28.48	26.18	27.09	26.33

- (1) The average of the exchange rates on the last calendar day of each month for the relevant annual period, and on each calendar day for any other period.

Monetary assets and liabilities denominated in U.S. Dollars are translated into roubles at the rate of RUB 30.48 per U.S.\$1.00 as at 31 December 2010, RUB 30.24 per U.S.\$1.00 as at 31 December 2009, RUB 29.38 to U.S.\$1.00 as at 31 December 2008 for all figures in the Financial Statements.

Rounding

Some numerical figures included in this Prospectus have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them.

CONTENTS

	<u>Page</u>
SUMMARY	1
RISK FACTORS	8
THE OFFERING	31
USE OF PROCEEDS	36
DIVIDEND POLICY	37
CAPITALISATION AND INDEBTEDNESS	38
BUSINESS	39
PRO FORMA FINANCIAL INFORMATION	65
SELECTED CONSOLIDATED FINANCIAL AND OTHER INFORMATION	70
OPERATING AND FINANCIAL REVIEW	73
ASSET, LIABILITY AND RISK MANAGEMENT	111
MANAGEMENT AND CORPORATE GOVERNANCE	130
PRINCIPAL AND SELLING SHAREHOLDERS	139
RELATED PARTY TRANSACTIONS	142
THE BANKING SECTOR AND BANKING REGULATION IN RUSSIA	148
DESCRIPTION OF SHARE CAPITAL AND APPLICABLE RUSSIAN LEGISLATION	168
TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS	188
TAXATION	210
PLAN OF DISTRIBUTION AND SELLING RESTRICTIONS	221
TRANSFER RESTRICTIONS	224
CLEARING AND SETTLEMENT	230
INFORMATION RELATING TO THE DEPOSITARY	233
LEGAL MATTERS	234
INDEPENDENT AUDITORS	235
GENERAL INFORMATION	236
INDEX TO FINANCIAL STATEMENTS	F-1

SUMMARY

Following the implementation of the relevant provisions of the Prospectus Directive in each member state of the EEA, no civil liability will attach to those persons who are responsible for this summary in any such member state solely on the basis of this summary, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a member state of the EEA, the claimant may, under the national legislation of that member state, be required to bear the costs of translating this prospectus before legal proceedings are initiated.

The following summary information should be read as an introduction to the more detailed information appearing elsewhere in this Prospectus, including the Financial Statements and the accompanying notes beginning on page F-2 of this Prospectus. Any decision to invest in the Shares or GDRs should be based on consideration of this Prospectus as a whole, including the information discussed in “Forward-Looking Statements” and “Risk Factors,” and not solely on this summarised information.

Overview

NOMOS is a leading privately-owned Russian universal bank offering a wide range of banking products and services to corporate, small business and retail clients across the most economically developed regions of Russia. NOMOS also provides investment banking services. NOMOS is the eighth largest banking group in Russia by total assets and the tenth largest banking group in Russia by own capital as of the date of this Prospectus based on end 2010 data for individual banks that constitute Russian banking groups from Interfax-CEA². It was also the second largest privately-held Russian banking group by total assets as of the same date.

NOMOS has four principal areas of business:

- Corporate banking, which includes lending, deposit taking, trade and project finance, issuance of guarantees, settlement and cash operations, factoring and payroll services for corporate clients, with a focus on mid-sized corporates;
- Small business banking, which includes lending to small businesses and individual entrepreneurs, deposit taking, settlement and cash services, issuance of guarantees, payroll services and trade finance;
- Retail banking, which includes lending to retail clients (including consumer loans, credit cards and mortgage loans), deposit taking (current accounts and term deposits) and debit cards, settlement and cash services, as well as private banking; and
- Investment banking, which includes interbank lending, repo operations, proprietary securities trading, foreign exchange trading, brokerage services, capital markets origination, custody services and debt market research.

NOMOS services its clients through an extensive distribution network. As at 31 December 2010, NOMOS's branch network consisted of its head office in Moscow, 51 branches and 249 other outlets in 41 regions throughout the Russian Federation. In addition, as at that date, NOMOS distributed its products and services through 1,480 ATMs and remote access channels, such as Internet banking and telephone banking. NOMOS's geographic focus is principally on the following five areas of the Russian Federation: (i) Moscow and the Moscow region, (ii) the Tyumen region, including the Khanty-Mansiysk autonomous district (“**KMAD**”) and the Yamalo-Nenets autonomous districts, (iii) St. Petersburg and the Leningrad region, (iv) the Novosibirsk region and (v) the Khabarovsk territory. In November – December 2010, NOMOS completed the acquisition of a 51.29 per cent. interest in BKM Bank. As at 31 December 2010, NOMOS's client base included approximately 8,900 corporate clients, approximately 64,000 small business clients and approximately 1.4 million retail clients.

As at 31 December 2010, NOMOS's total assets, net loans to customers and total customer accounts amounted to RUB 530 billion, RUB 339 billion and RUB 313 billion, respectively, and it had total equity of RUB 57,935 million. In 2010, NOMOS posted net profit of RUB 7,426 million. Assuming its acquisition of the controlling stake in BKM Bank had taken place on 1 January 2010, pro forma net profit of NOMOS in 2010 would have been RUB 10,445 million.³

2 Source: *Interfax-CEA. Interfax-100. Banks in Russia. Principal operational indicators*. See “Presentation of Financial and Other Information — Market Data”.

3 The pro forma information provided above has been extracted without material adjustment from the pro forma financial information in the section “Pro Forma Financial Information”.

Competitive Strengths

- NOMOS is well positioned as a long-term consolidator in the attractive Russian banking sector;
- Resilient corporate banking business model and solid platform for future expansion;
- Strong platform for small business banking growth;
- Strong platform for retail banking growth;
- Profitable and resilient investment banking business;
- Solid financial standing and conservative risk management demonstrated across the economic cycle; and
- Experienced management team, strong corporate governance and shareholder support.

Strategy

- Enhance corporate banking relationships and continue to focus on profitable segments;
- Leverage the potential of small business banking in Russia;
- Expand the retail banking business;
- Develop investment banking by cross selling to the existing client base; and
- Capture synergies from the consolidation with BKM and continue acting as a consolidator.

Recent Developments

LLC “Promgazkomplekt”, a wholly owned subsidiary of NOMOS Bank, completed the acquisition of all of the outstanding 12,100,000 registered preferred shares of NOMOS Bank, each with a nominal value of RUB 50, in February 2011. These shares were purchased by LLC “Promgazkomplekt” at a cost of approximately RUB 788 million. NOMOS currently has no plans to resell these preferred shares in the short or medium term.

The Russian real estate developer PIK repaid its outstanding loan to NOMOS in full in the beginning of 2011. This loan was one of NOMOS’s largest loans as at 31 December 2010. NOMOS acquired this U.S.\$262 million loan from The State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank) (“VEB”) at face value in November 2009. Subsequently, a portion of the loan in the amount of U.S.\$131 million was assigned to a third party under a sub-participation agreement for cash consideration. However, under Russian regulatory rules, NOMOS was required to record the full principal amount of U.S.\$262 million on its balance sheet.

In March 2011, NOMOS acquired a controlling stake in LLC “non-banking credit organisation payment system Rapida” (“**Rapida**”), which has been licensed by the CBR to arrange and make payments of individuals and legal entities, and three of its affiliates for a total consideration of RUB 380 million.

Risk Factors

An investment in the Shares or GDRs involves risks, including those relating to or arising from NOMOS’s business, Russian Banking industry, political, social, economic, legislative and legal risks associated with the Russian Federation and risks arising from the nature of the Shares and GDRs and the markets upon which they are or are expected to be traded, including the following risks:

Risks Relating to NOMOS

- The quality of NOMOS’s loan portfolio has been adversely affected by the impact of the recent global financial and economic crisis and may be adversely affected in the future by a deterioration in the state of the Russian economy;
- Concentration of NOMOS’s loan portfolio subjects it to risks from default by its largest borrowers;
- NOMOS is sensitive to fluctuations in the market prices of the securities in its securities portfolio;
- NOMOS may not be able to successfully integrate BKM or other acquired banks or assets;
- NOMOS may not be successful in implementing its strategy;

- NOMOS is exposed to a potential outflow of deposits and is reliant on the availability of wholesale funding;
- NOMOS is dependent on highly-qualified employees;
- NOMOS faces increased levels of competition in the Russian banking industry;
- NOMOS may be unable to adequately assess the credit risk of borrowers and counterparties;
- NOMOS may experience a decline in the value of, or liquidity of, the collateral securing NOMOS's loans;
- NOMOS's risk management policies and procedures may be ineffective;
- NOMOS may be adversely affected by interest rate volatility;
- NOMOS is subject to risk of exchange rate fluctuations;
- NOMOS faces risks associated with complex information technology systems, including risks associated with integrating information technology systems of BKM or other acquired banks or assets;
- Russian mandatory offer provisions can be interpreted in a way affecting the acquisition of BKM Bank;
- NOMOS operates in a highly regulated banking industry;
- Violation of covenants in documentation related to NOMOS's outstanding Eurobonds could lead to materially adverse consequences for its future operations;
- NOMOS may be unable to meet capital adequacy requirements; and
- The interests of NOMOS's principal shareholders may conflict with those of other shareholders.

Risks Relating to the Russian Federation

- Emerging markets such as the Russian Federation are subject to greater risks than more developed markets and a financial crisis could have a particularly significant adverse effect on banks, including NOMOS, operating in emerging markets such as the Russian Federation.

Political Risks

- Political and governmental instability in the Russian Federation; and
- Political, social and military conflicts, acts of terrorism or natural disasters could have an adverse effect on the global or Russian financial markets and economy.

Economic Risks

- Economic instability in the Russian Federation;
- Instability of global financial markets impacting upon the Russian economy and banking sector; and
- NOMOS could be adversely affected by significant systemic liquidity problems, losses or defaults by other financial institutions and counterparties.

Social Risks

- Crime and corruption could adversely affect the value of investments.

Legal Risks

- Risks related to the Russian legal system and legislative weaknesses;
- Unlawful or arbitrary government actions;
- Enforcement of NOMOS's rights in Russia, including the enforcement of security or guarantee arrangements in Russia may be time consuming or impossible;
- Legislation to protect against nationalisation and expropriation may not be enforced in the event of a nationalisation or expropriation of NOMOS's assets;

- Shareholder liability under Russian law could cause NOMOS Bank to be liable for the obligations of its subsidiaries;
- There are weaknesses in legal protections for non-controlling shareholders and in corporate governance standards under Russian law;
- Russian tax legislation is relatively undeveloped and subject to frequent changes;
- The approaches to tax law enforcement and interpretation of legislation are unstable, not well developed and may be unpredictable and selective;
- Repeated tax audits and extension of liability beyond the limitation period may result in additional tax assessments;
- Russian transfer pricing legislation is unclear and is subject to further changes;
- The rights of NOMOS Bank's shareholders' and the Russian public reporting requirements and Russian accounting regulations to which NOMOS is subject, differ significantly from those applicable to comparable companies in other jurisdictions; and
- Difficulty of enforcing foreign court judgments or arbitral awards.

Risks Relating to the Offering and the GDRs and Shares

- Failure or invalidation of the issue of the New Shares may prevent NOMOS from receiving or retaining the proceeds from the Offering;
- Holders of the GDRs may not be able to exercise their pre-emptive rights;
- The trading price of the Shares and the GDRs may be highly volatile and an active and liquid market for the Shares and the GDRs may not develop;
- Future issuances or sales of the Securities or other similar securities may affect their market price;
- The Shares may be de-listed from RTS, the FSFM permission for the GDR programme may be revoked, and the GDR facilities may have to be terminated;
- Investors in the Offering will suffer substantial dilution in combined net asset value per Ordinary Share;
- NOMOS may decide not to pay dividends in the future, and its ability to pay dividends will depend upon the level of dividends and distributions, if any, received from its operating subsidiaries and other factors;
- Because the Depositary may be considered the owner of the Ordinary Shares underlying the GDRs, these Shares may be arrested or seized in legal proceedings in Russia against the Depositary;
- If the Depositary is unable to provide NOMOS Bank with ownership information of GDR holders, this may result in sanctions being imposed on NOMOS Bank;
- Voting rights with respect to the Ordinary Shares represented by the GDRs are limited by the terms of the deposit agreement between NOMOS Bank and the Depositary (the “**Deposit Agreement**”) for the GDRs and relevant requirements of Russian law;
- Following the Offering, investors may not be able to deposit the Ordinary Shares in the GDR programme in order to receive GDRs, and changes in Russian regulatory policy with respect to the placement and circulation of the Ordinary Shares outside Russia in the form of GDRs or otherwise may negatively affect the market for the Shares and GDRs offered in the Offering;
- If any newly issued Ordinary Shares are deposited in the GDR programme in a follow-on offering or otherwise, GDR holders will not be able to withdraw the Ordinary Shares underlying the GDRs prior to the registration of a placement report for such newly issued Ordinary Shares, and the failure to register this placement report could result in the newly issued Ordinary Shares underlying the GDRs being cancelled;

- NOMOS Bank may be classified as a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. investors;
- Investors may be unable to repatriate their earnings from distributions made on the Shares and GDRs; and
- Investors may have limited recourse against the Selling Shareholders, NOMOS or NOMOS Bank's directors and executive officers because they generally conduct their operations outside the United States and the United Kingdom and most of the current directors and executive officers reside outside the United States and the United Kingdom.

Summary of the Offering and Closed Subscription

The Offering

The Offering comprises (i) an offering of Shares in the Russian Federation and (ii) an institutional offering of GDRs and Shares outside of the Russian Federation, in each case, by the Selling Shareholders. The Shares and GDRs are being offered outside the United States in reliance on Regulation S and within the United States to QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, registration under the Securities Act. The Selling Shareholders are offering Ordinary Shares in the form of up to 3,374,998 Shares and up to 39,442,704 GDRs assuming full exercise of the Over-Allotment Option, with two GDRs representing one Ordinary Share.

The Closed Subscription

Following completion of the Offering, NOMOS Bank will offer 5,576,397 New Shares to the Subscribing Shareholders in the Closed Subscription. Under Russian law, the Closed Subscription is a process whereby certain shareholders determined and approved by a meeting of NOMOS's shareholders (the "**General Shareholders' Meeting**") may subscribe for the newly issued shares. The Closed Subscription was unanimously approved by NOMOS Bank's General Shareholders' Meeting on 13 January 2011. The date of commencement of the Closed Subscription is to be determined by NOMOS's supervisory board (the "**Supervisory Board**"). The placement will end at the earlier of 30 business days after its commencement or when all the New Shares have been subscribed for. After registration of the placement report with the CBR with regard to the New Shares, the New Shares will be identical to, and fully fungible with, NOMOS Bank's currently issued and outstanding ordinary shares.

NOMOS expects to receive net proceeds of RUB 5,500 million from the Closed Subscription, assuming that all the New Shares subscribed for by the Subscribing Shareholders in the Closed Subscription are purchased and paid for.

Summary Consolidated Financial and Other Information

The summary financial information set forth below shows NOMOS's (i) historical audited financial information extracted without material adjustment from the audited NOMOS Financial Statements as of and for the years ended 31 December 2008, 2009 and 2010, (ii) Pro Forma Financial Information for the year ended 31 December 2010 extracted without material adjustment from the section "*Pro Forma Financial Information*" on page 66 of this document, (iii) unaudited selected financial ratios including income statement items and (iv) other selected financial ratios and should be read in conjunction with "*Operating and Financial Review*". The Average Balances used to calculate the ratios included herein were calculated as described in "*Average Balance Sheet and Interest Rate Data*" on page viii.

NOMOS's Summary Income Statement Data

	Year ended 31 December			
	2008 (audited)	2009 (audited) (in millions of roubles)	2010 (audited)	2010 Pro Forma ⁽¹⁾ (unaudited)
Net interest income before provisions for impairment losses on interest bearing assets	13,195	17,520	14,362	20,446
Provisions for impairment losses on interest bearing assets	(5,275)	(12,048)	(4,148)	(4,423)
Net interest income	7,920	5,472	10,214	16,023
Net fee and commission income	1,606	1,753	2,116	3,870
Net other non-interest income	220	5,671	5,015	6,349
Operating income	9,746	12,896	17,344	26,242
Operating expenses	(5,480)	(6,369)	(8,018)	(12,848)
Impairment of buildings and constructions	(78)	(987)	(116)	(402)
Operating profit before income tax	4,188	5,540	9,211	12,991
Income tax expense	(957)	(1,279)	(1,785)	(2,546)
Profit from continuing operations	3,231	4,261	7,426	10,445
Income from discontinued operations	256	—	—	—
Net profit	3,487	4,261	7,426	10,445
Attributable to:				
Equity holders of the parent	3,470	4,253	7,385	8,962
Non-controlling interest	17	8	41	1,483

- (1) The pro forma information provided above has been extracted without material adjustment from the pro forma financial information in the section “Pro Forma Financial Information” on page 66 of this document.

NOMOS's Selected Financial Ratios Involving Income Statement Line Items

	Year ended 31 December			
	2008 (unaudited)	2009 (unaudited) (%)	2010 (unaudited)	2010 Pro Forma ⁽¹⁾ (unaudited)
Profitability				
Net interest margin ⁽²⁾	6.6	7.7	5.6	5.3
Net interest income as a percentage of revenue ⁽³⁾	85.3	69.6	67.6	66.3
Net fee and commission income as a percentage of revenue	10.4	7.0	10.0	12.5
Cost income ratio ⁽⁴⁾	35.9	29.2	38.3	43.0
Return on average equity (“RoAE”) ⁽⁵⁾	11.8	12.2	18.1	21.1
Return on average assets (“RoAA”) ⁽⁶⁾	1.5	1.6	2.5	2.3
Asset quality				
Cost of risk ratio ⁽⁷⁾	3.0	6.1	1.8	1.3

- (1) NOMOS pro forma values included herein have been calculated as explained below; income statement information used in the calculations has been extracted without material adjustments from the Pro Forma Financial Information.
- (2) Net interest margin is calculated as net interest income before provision for impairment losses on interest bearing assets (presented on page 70 of this document) divided by the Average Balance of such interest bearing assets (presented on page 79 of this document). The 2010 pro forma net interest margin was calculated as pro forma net interest income before provision for impairment losses on interest bearing assets (presented on page 66 of this document) divided by the sum of the Average Balances of NOMOS's and BKM's interest bearing assets (presented on pages 79 and 89 of this document, respectively).
- (3) Revenue is calculated as operating income excluding provision for impairment losses on interest bearing assets and allowance for impairment losses on other transactions (presented on page 70 of this document for historical numbers and on page 66 for pro forma numbers).

- (4) The cost/income ratio represents the sum of operating expenses and impairment of buildings and constructions divided by the sum of operating income excluding provision for impairment losses on interest bearing assets and allowance for impairment losses on other transactions (presented on page 70 of this document for historical numbers and on page 66 for pro forma numbers).
- (5) RoAE is calculated as NOMOS's net profit attributable to equity holders of the parent (presented on page 70 of this document) divided by the Average Balance of equity attributable to equity holders of the parent (presented on page 79 of this document). The pro forma RoAE was calculated as pro forma net profit attributable to equity holders of the parent (presented on page 66 of this document) divided by the average of NOMOS's total equity attributable to equity holders of the parent extracted from the audited financial statements as at 31 December 2009 (presented on page 72 of this document) and the Pro Forma Financial Information (presented on page 69 of this document), respectively.
- (6) RoAA is calculated as NOMOS's net profit for the year (presented on page 70 of this document) divided by the Average Balance of its total assets (presented on page 79 of this document). For the purpose of calculating 2010 pro forma RoAA, pro forma net profit (presented on page 66 of this document) was divided by the sum of the Average Balances of NOMOS's and BKM's total assets (presented on pages 79 and 89 of this document, respectively).
- (7) The cost of risk ratio represents the provision on impaired loans to customers (presented on page 83 of this document) divided by the Average Balance of gross loans to customers in the same year (presented on page 79 of this document). The pro forma cost of risk ratio was calculated by dividing the pro forma provision on impaired loans to customers (presented on page 66 of this document) by the sum of the Average Balances of NOMOS's and BKM's gross loans to customers (presented on pages 79 and 89 of this document, respectively).

NOMOS's Summary Balance Sheet Data

	As at 31 December		
	2008	2009	2010
	(in millions of roubles)		
Net loans to customers	187,721	162,650	339,302
Total assets	277,795	277,111	530,217
Customer accounts	116,071	134,204	313,376
Total liabilities	245,290	240,499	472,282
Total equity	32,505	36,612	57,935

NOMOS's Other Selected Financial Ratios

	As at 31 December		
	2008	2009	2010
	(%)		
Asset quality			
NPL ⁽¹⁾ ratio ⁽²⁾	1.6	6.2	2.4 ⁽³⁾
NPL coverage ratio ⁽⁴⁾	371.4	153.2	182.3 ⁽³⁾
Capital adequacy (Basel I)			
Tier 1 ratio ⁽⁵⁾	11.2	13.8	10.6
Total capital ratio ⁽⁵⁾	14.9	22.6	15.6
Liquidity			
Net loans to deposits ratio	161.7	121.2	108.3

- (1) Non-performing loans to customers, or NPLs, are loans that are overdue by more than 90 days.
- (2) Ratio of non-performing loans to customers (presented on page 98 of this document) to gross loans to customers (presented on page 95 of this document) as at 31 December of the respective year.
- (3) In connection with the acquisition of control of BKM by NOMOS all loans of BKM were recorded at fair value and included in the performing loan portfolio consistent with requirements of IFRS 3. The fair value amounts include the provision for loan losses recorded in BKM's audited financial statements.
- (4) Ratio of allowance for impairment losses on loans to customers (presented on page 95 of this document) to non-performing loans to customers (presented on page 98 of this document) to as at 31 December of the respective year.
- (5) See "Operating and Financial Review — Capital — Capital Adequacy" on page 108 of this document.

RISK FACTORS

Investment in Securities involves a high degree of risk. Investors may lose the value of their entire investment or part of it and should carefully review this Prospectus in its entirety. In particular, investors should consider all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. Prospective investors should be aware that the value of the Securities and any income from them may go down as well as up and that investors may not be able to realise their initial investment. These risk factors, individually or together, could have a material adverse effect on NOMOS, its business, financial condition, results of operations, liquidity, cash flows, prospects, and/or the rights under the Securities of the holders of such Securities.

Prospective investors should note that the risks described below are not the only risks NOMOS faces. These are the risks NOMOS currently considers to be material. There may be additional risks that NOMOS currently considers to be immaterial or of which it is currently unaware, and any of these risks could have similar effects to those set forth below.

Risks Relating to NOMOS

The quality of NOMOS's loan portfolio has been adversely affected by the impact of the recent global financial and economic crisis and may be adversely affected in the future by a deterioration in the state of the Russian economy

NOMOS is subject to risks regarding the credit quality and recovery of loans to customers and market counterparties. Changes in the creditworthiness of NOMOS's borrowers and counterparties, or in their behaviour, or arising from systemic risks in the Russian or global financial systems, could significantly reduce the value of NOMOS's assets and increase NOMOS's write-downs and provisions for impairment losses. As is the case with nearly all other Russian banks, the recent global financial and economic crisis had an adverse impact on NOMOS's and BKM's loan portfolios and certain other types of assets, giving rise to significantly increased impairment charges. Clients of NOMOS and BKM were adversely affected by the deterioration in economic conditions in the second half of 2008 and in 2009, which impacted the ability of many clients to repay their loans. For example, the proportion of non-performing loans as a percentage of NOMOS's gross loans to customers increased to 6.2 per cent. as at 31 December 2009 as compared to 1.6 per cent. as at 31 December 2008.

Reflecting these developments, NOMOS's provision charges for impairment losses on loans to customers increased to RUB 11,549 million in 2009 from RUB 5,090 million in 2008, and its allowance for impairment losses on loans to customers increased to RUB 17,027 million as at 31 December 2009 from RUB 11,696 million as at 31 December 2008.

If the current economic recovery in the Russian Federation falters and the state of the Russian economy deteriorates again, this may lead to weakening consumer spending, falling corporate profitability and increased insolvencies, in which case the quality of NOMOS's loan portfolios is likely to deteriorate and NOMOS may be required to make greater provisions in respect of its loan portfolio, which could have a material adverse effect on its business, results of operations, financial condition and prospects.

Concentration of NOMOS's loan portfolio subjects it to risks from default by its largest borrowers

NOMOS's loan portfolio has relatively high industry and borrower concentration. As at 31 December 2010, loans to industrial manufacturing and wholesale and retail trade sectors amounted, in the aggregate, to RUB 106,031 million, or 29.9 per cent. of NOMOS's gross loan portfolio. As of that date, total loans extended to the NOMOS's ten largest borrowers accounted for 17.6 per cent. of the total loan portfolio excluding loans under reverse repurchase agreements. In addition, as at 31 December 2010, NOMOS's loan portfolio consisted entirely of loans made to Russian borrowers, and 55.2 per cent. of its gross loan portfolio consisted of loans made by the head office located in Moscow and by Moscow's branches and other outlets. NOMOS's financial condition is sensitive to downturns in the sectors in which its largest borrowers operate, as well as to adverse changes in such borrowers' business and financial condition. Although NOMOS continues to take measures to diversify its loan portfolio, there can be no assurance that it will be able to achieve or maintain an appropriate level of diversification. NOMOS's failure to do so may have a material adverse effect on its business, results of operations, financial condition or prospects.

NOMOS is sensitive to fluctuations in the market prices of the securities in its securities portfolio

NOMOS is exposed to the movement in market values in its securities portfolio, including the risk of unfavourable market price changes relative to its long or short positions, a decline in the market liquidity of securities, volatility in market prices, interest rates or foreign currency exchange rates relating to these positions and the risk that instruments NOMOS chooses to hedge certain positions do not track the market value of those positions. NOMOS trades various financial instruments and other assets as both agent and principal. Securities included in financial assets at fair value through profit or loss represented 9.9 per cent. of NOMOS's total assets as at 31 December 2010. Although NOMOS recognised a RUB 3.5 billion gain on its securities portfolio included in financial assets and liabilities at fair value through profit or loss in 2009 followed by a RUB 1.7 billion gain in 2010, in 2008, NOMOS incurred a RUB 424 million loss on its securities portfolio in financial assets and liabilities at fair value through profit or loss due to the deteriorating performance of the Russian securities markets principally as a result of the onset of the global financial and economic crisis in the autumn of 2008. If prices of securities held by NOMOS decrease significantly or the market becomes more volatile, NOMOS may not make profits on, or incur substantial losses from, these securities, and suffer losses which could have a material adverse affect on its business, results of operations, financial condition and prospects.

NOMOS may not be able to successfully integrate BKM or other acquired banks or assets

There can be no assurance that NOMOS will be able to fully or effectively integrate BKM or any other entities it has acquired or which it acquires in the future. NOMOS strives to achieve revenue and cost synergies, operating efficiencies, business growth opportunities as well as other benefits from any acquisition. The integration of any such acquisition into NOMOS, however, may be complex and expensive and may present a number of challenges for management. In addition, expected business growth opportunities, revenue and cost synergies, operational efficiencies and other benefits may not materialise, in part because the assumptions upon which NOMOS determined to proceed with any such acquisition may prove to be incorrect. It is the policy of NOMOS to complete extensive diligence in relation to any potential acquisition, but there can be no guarantee that such diligence has been or would be sufficient to uncover all material issues or that the quality of assets acquired will not negatively impact upon NOMOS's overall portfolio. As a result, if anticipated synergies or other benefits of an acquisition are not achieved, or those achieved are materially different from those that were expected to be achieved prior to the acquisition, then this could have a material adverse effect on NOMOS's business, results of operations, financial condition or prospects.

Following the acquisition of BKM, NOMOS has developed and started implementing an integration plan to improve the performance of the two institutions. The integration of BKM will require a significant allocation of management time and commitment, as well as changes and upgrading of its information technology and other systems, enhancement of NOMOS's risk management systems, additional training and recruitment of management and other key personnel. As a result, the integration process is expected to be costly and may not be successful in the near future, or at all.

NOMOS may not be successful in implementing its strategy

According to its strategy, NOMOS plans to further expand its revenue base through an increased emphasis on retail banking and small business banking as well as enhancement of its corporate banking operations. NOMOS also plans to expand its presence in certain regions. The expansion of NOMOS's business activities exposes it to a number of risks and challenges, including, among others, the following:

- new business activities may experience less growth and/or generate smaller profits than anticipated, and there can be no assurance that new business activities will become profitable at the level currently expected to be achieved by the management of NOMOS or at all;
- NOMOS's competitors may have greater experience in, and resources for, the new business activities NOMOS wishes to commence, and thus NOMOS may not be able to attract clients from its competitors;
- NOMOS may fail to identify and offer attractive new products and services in a timely fashion, putting it at a disadvantage as regards its competitors;
- new business activities may require greater marketing and compliance costs than are currently required; and
- NOMOS may need to enhance the capability of its information technology systems to support a broader range of activities and increased retail client base.

Failure to manage any such risks could have a material adverse effect on NOMOS's business, results of operations, financial condition or prospects.

NOMOS is exposed to a potential outflow of deposits and is reliant on the availability of wholesale funding

A significant proportion of NOMOS's funding consists of client deposits. The proportion of NOMOS's funding base represented by customer accounts increased in both 2009 and 2010. Withdrawals of deposits by individuals, who are entitled under Russian legislation to withdraw such deposits at any time, or legal entities, which may be permitted to withdraw such deposits, depending on the applicable contractual provisions, could lead to liquidity gaps that NOMOS would have to cover, thus incurring additional expenses, and which ultimately may have a material adverse effect on NOMOS's business, results of operations, financial condition and prospects. In addition, in terms of maturity of client deposits, a significant proportion of such deposits (over 80 per cent. as at 31 December 2008 and over 90 per cent. as at 31 December 2009 and 2010) were short-term in nature,¹ which increases the volatility of NOMOS's funding base. Furthermore, NOMOS has significant depositor concentration with the largest ten depositors accounting for 18 per cent. of total deposits, excluding loans under repurchase agreements, as at 31 December 2010. A withdrawal of large deposits may have a material adverse effect on NOMOS's business, results of operations, financial condition and prospects.

NOMOS seeks to further diversify its funding sources by continuing to access domestic and international capital markets through syndicated loan facilities and rouble-denominated bond and Eurobond issues, which are more costly and may contain negative covenants restricting NOMOS from carrying out particular activities. NOMOS's ability to continue to access the above markets to the extent sufficient to meet its funding needs, including the refinancing of outstanding debt falling due, could be adversely affected by a number of factors, including Russian and international economic conditions and the state of the Russian banking and financial systems.

A decrease in NOMOS's ability to access the international and domestic capital markets, or the domestic or international interbank loan market, or maturity mismatches between NOMOS's assets and liabilities may, together or separately, have a material adverse effect on NOMOS's business, results of operations, financial condition and prospects.

NOMOS is dependent on highly-qualified employees

NOMOS depends on highly-qualified employees, who are difficult to attract and retain. Competition for personnel with relevant expertise, including, for example, private bankers or personnel with knowledge and expertise in IFRS, is intense due to the relatively small number of available qualified individuals. The continued growth of NOMOS's existing operations and its ability to execute its strategy depends on NOMOS's ability to retain existing employees and to identify and recruit additional individuals who are not only familiar with local customs and market conditions, but who also have the necessary qualifications and level of experience in corporate banking, small business banking, retail banking and investment banking. The pool of individuals with the required set of skills in the Russian Federation is much smaller than in most Western European countries or in the United States. Increasing competition from international financial institutions in the Russian Federation who have significant capital resources may also continue to make it more difficult for NOMOS to pay competitive salaries and to attract and retain qualified employees and may lead to rising labour costs in the future. If NOMOS is unable to attract, train and retain sufficiently qualified individuals or if competition for qualified employees increases its labour costs, this may have a material effect on NOMOS's business, results of operations, financial condition and prospects, and may impair NOMOS's ability to achieve its strategic objectives.

NOMOS faces increased levels of competition in the Russian banking industry

The Russian market for banking and financial services is highly competitive and NOMOS faces competition from different banks in each of the segments and regions where it operates. In particular, the Russian banking sector is controlled to a material extent by large state-owned banks, such as Sberbank and VTB, that maintain an advantage as a result of their size and support from the Russian government. See "*The Banking Sector and Banking Regulation in Russia — Structure of Russian Banking Sector — State-Owned or State-Controlled Banks*". Although historically NOMOS has achieved consistent and profitable growth, it may be unable to maintain or improve its market position.

¹ The remaining term of such deposits was less than one year.

Furthermore, as the Russian market for banking and financial services matures, the markets in which NOMOS operates have become increasingly competitive as a result of competition from both local competitors and subsidiaries of non-Russian financial institutions. See “*The Banking Sector and Banking Regulation in Russia — Structure of the Russian Banking Sector — Privately Owned Russian Banks*” and “*— Foreign Owned Banks*.” This competition has impacted upon net interest margins and funding costs, among other areas. For example, competition for deposits may make banks offer higher interest rates for new deposits, and increased competition for high quality client loans may force NOMOS to offer lower interest rates on loans to clients. In addition, potential consolidation in the Russian banking industry is expected to further enhance competition. NOMOS’s ability to compete effectively will depend on its ability to adapt quickly to industry trends. If NOMOS fails to compete effectively with either local competitors, including large state-owned banks, or subsidiaries of non-Russian financial institutions in the corporate, retail, small business or investment banking sectors or if interest rate margins are compressed further, this could have a material adverse effect on its business, results of operations, financial condition and prospects.

NOMOS may be unable to adequately assess the credit risk of borrowers and counterparties

NOMOS is exposed to credit risk related to its borrowers and counterparties. NOMOS’s business, results of operations, financial condition and prospects depend on an accurate assessment of the creditworthiness of its clients and counterparties, the adequacy of its provisioning levels and the continued management and monitoring of the risks of its loan portfolio.

The financial performance of Russian companies is generally more variable and their credit risk is, on average, less predictable than those of similar companies doing business in more mature markets and economies, which makes assessment more difficult. In addition, an accurate assessment of credit risk may be difficult due to the fact that good quality financial and credit information may not be available. Therefore, notwithstanding NOMOS’s credit risk evaluation procedures, NOMOS may be unable to accurately assess the current financial condition of existing or potential borrowers or counterparties and to accurately determine the ability of such borrowers to repay the relevant loan or other type of credit or such counterparties to meet their financial obligations.

Furthermore, the retail lending market in Russia is relatively undeveloped and limited resources are available to Russian banks to ascertain the credit history of individual borrowers. Although legislation regulating credit bureaus has been in place since 2004, credit bureaus are not widely developed in the Russian Federation and it is therefore particularly difficult to accurately assess the credit risk of individuals. Therefore, NOMOS may be unable to evaluate correctly the current financial condition and prospects of each prospective borrower.

Failure to accurately assess the credit risk of potential borrowers or acceptance of a higher degree of credit risk in the course of current lending operations may result in a deterioration of the loan portfolio and a corresponding increase in loan impairments which may have a material adverse effect on NOMOS’s business, results of operations, financial condition and prospects.

NOMOS may experience a decline in the value of, or liquidity of, the collateral securing NOMOS’s loans

A substantial proportion of NOMOS’s gross loan portfolio is secured by collateral, such as real estate, securities (including sovereign and municipal debt securities and shares in Russian companies which are subject to margin calls), securities issued by NOMOS, contract proceeds, industrial equipment, vehicles and rights to purchase precious metals. The recent global financial and economic crisis has severely affected the market in Russia for many types of collateral and, in particular, real estate. This has led to a low level of liquidity for certain types of assets and, accordingly, a decline in the value of collateral securing loans, to levels lower than the amounts of outstanding principal and accrued interest on such loans. If collateral values continue to decline, they may not be sufficient to cover uncollectible amounts on NOMOS’s secured loans. NOMOS’s loan agreements usually provide for NOMOS’s right to request additional collateral if the value of the existing collateral declines. A decline in the value of collateral securing NOMOS’s loans, its inability to obtain additional collateral or failure to recover the expected value of collateral in the case of foreclosure may expose NOMOS to losses that may adversely affect its business, results of operations, financial condition and prospects.

NOMOS’s risk management policies and procedures may be ineffective

NOMOS’s policies and procedures for managing credit risk, market risk, liquidity risk and operational risk may prove ineffective. Some of NOMOS’s methods for managing risk are based upon observations of historical market behavior, and NOMOS applies statistical techniques to these observations to arrive at quantifications of

its potential risk exposures. However, these methods may not accurately quantify NOMOS's risk exposures, especially in situations that cannot be identified based on its historical data. In particular, if NOMOS enters new lines of business, historical data may be incomplete. Furthermore, the Audit Committee of the Supervisory Board of NOMOS, which is responsible for the oversight of NOMOS's systems of internal control, including financial, operational and compliance systems, and of the performance of NOMOS's internal audit function, has only been recently established and its effectiveness has not been properly tested, so there can be no assurance that it will function effectively.

It is also possible that the recent global financial crisis might have impaired NOMOS's ability to assess credit exposure and asset values if the models and techniques used become less predictive of future conditions, behaviors and valuations. As additional information becomes available, NOMOS may need to make additional provisions if default rates are higher than expected. If circumstances arise whereby NOMOS did not identify, anticipate or correctly evaluate certain risks in developing its statistical models, losses could be greater than the maximum losses envisaged under its risk management system. In addition, certain risks may not be accurately quantified by NOMOS's risk management systems. If a material deficiency in NOMOS's risk management or other internal control policies or procedures arises, this may expose it to significant credit, liquidity, market or operational risk, which may in turn have a material adverse effect on NOMOS's business, results of operations, financial condition or prospects.

Material deficiencies in NOMOS's risk management policies or procedures may expose it to significant credit, liquidity, market or operational risk. Deficiencies in respect of credit risk management may lead to NOMOS not being able to accurately assess default risk on loans provided to corporate, small business and retail clients. NOMOS may, therefore, need to make additional provisions if default rates are higher than expected. See “— *NOMOS may be unable to adequately assess the credit risk of borrowers and counterparties*”. Deficiencies in respect of liquidity risk management may result in the inability of NOMOS to meet its obligations in full when they become due without borrowing funds at higher than market rates or at all. For instance, unanticipated decreases in corporate and small business client deposits and/or unexpected withdrawals of retail deposits may result in liquidity gaps that NOMOS may not be able to cover through borrowing in domestic and international capital, syndicated loan and interbank markets. Deficiencies in respect of interest rate risk management may have a negative impact on NOMOS's funding costs, net interest income and net interest margin and may result in a gap between its interest-rate sensitive assets and liabilities. Currency risk management deficiencies may adversely affect the value of NOMOS's assets and liabilities denominated in foreign currencies and its income from operations in currency spot market and currency futures and over-the-counter (“OTC”) forwards market. Deficiencies in respect of securities price risk management may adversely affect the value of NOMOS's securities portfolio. Operational risk management deficiencies may result in significant unanticipated losses resulting from, among other things, fraud by employees or outsiders, mismanagement, unauthorised transactions by employees and operational errors. Therefore, material deficiencies in NOMOS's risk management policies or procedures could have a material adverse effect on its business, results of operations, financial condition or prospects.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that NOMOS Bank will be unable to comply with its obligations as a bank with securities admitted to the Official List.

NOMOS may be adversely affected by interest rate volatility

NOMOS's net interest income is significantly impacted by volatility of interest rates. Movements in interest rates may adversely affect NOMOS's operations in a number of different ways. Interest rates are sensitive to many factors beyond NOMOS's control, including the policies of the CBR and central banks of other jurisdictions, domestic and international economic conditions and political factors. There can be no assurance that NOMOS will be able to protect itself from adverse effects of future interest rate fluctuations. Any fluctuations in market interest rates could lead to a reduction in associated net interest income and the net interest margin, and adversely affect NOMOS's business, results of operations, financial condition and prospects.

NOMOS is subject to risk of exchange rate fluctuations

NOMOS's loan portfolio is principally denominated in roubles. As of 31 December 2010, 33 per cent. of NOMOS's assets and 26 per cent. of NOMOS's liabilities were denominated in foreign currencies. Although NOMOS sets internal limits and performs certain other measures aimed at reducing exchange rate risk, including entering into foreign exchange derivative contracts, these efforts may be insufficient and fluctuations in exchange rates may adversely affect NOMOS's business, results of operations, financial condition and prospects.

In addition, NOMOS plans to continue to access the international capital markets, which subjects it to risks inherent in borrowing funds in foreign currencies and then using such funds to make loans predominantly in roubles. Although NOMOS seeks to minimise such risks by buying foreign currency spot contracts and entering into foreign currency swaps, there is no guarantee that these measures will be effectively implemented, that they will allow NOMOS to minimise the impact of currency volatility or that they will be available to NOMOS going forward, in which case fluctuations in exchange rates may have a material adverse effect on NOMOS's operations.

Furthermore, NOMOS trades currency for its own account and maintains open currency positions that result in foreign exchange risk. Although NOMOS has established limits on its open positions under the CBR regulations and internal policies that seek to minimise open currency positions, future changes in currency exchange rates and the volatility of the rouble may have a material adverse effect on NOMOS's business, results of operations, financial condition and prospects.

NOMOS faces risks associated with complex information technology systems, including risks associated with integrating information technology systems of BKM or other acquired banks or assets

NOMOS's banking activities are dependent on highly sophisticated information technology ("IT") systems. Such systems are vulnerable to a number of problems, such as software or hardware malfunctions, malicious hacking, physical damage to vital IT centres and computer virus infection. In addition, NOMOS's IT systems need regular upgrading to meet changing business and regulatory requirements and to maintain the efficiency of network operations. Further, NOMOS is implementing extensive changes to its IT system and is integrating the IT systems of NOMOS and BKM over the next two years. See "*Business — Information Technology*". Given the complexity of each system, this may lead to business and operational delays or problems for both NOMOS and/or BKM during this transition process. Any disruption in the operation of IT systems, any difficulties in increasing their capacity or NOMOS's failure to implement its plans to integrate the IT systems of NOMOS and BKM, could have a material adverse effect on NOMOS's business, results of operations, financial condition and prospects.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that NOMOS Bank will be unable to comply with its obligations as a bank with securities admitted to the Official List.

Russian mandatory offer provisions can be interpreted in a way affecting the acquisition of BKM

Anti-takeover provisions of Russian law require persons that acquire more than 30 per cent. of the voting shares of a Russian stock company to make a public offer to purchase the remaining voting shares (a mandatory offer). From the time of acquisition of an amount in excess of the 30 per cent. threshold until the date when the mandatory offer is made in compliance with the law, the acquirer cannot exercise voting rights in excess of the 30 per cent. threshold. There is an exemption from the mandatory offer requirement for persons that acquired the voting shares that exceeded the threshold from their affiliates. NOMOS relied upon this affiliate exemption when it acquired control over 51.3 per cent. of the ordinary shares of BKM through a series of direct and indirect acquisitions of such shares from parties affiliated with NOMOS.

If the availability of the affiliate exemption for the acquisition of BKM ordinary shares were to be successfully challenged and if it were to be determined by a Russian court that NOMOS should have made an offer for the remaining ordinary shares, NOMOS Bank would be subject to the above limitation on its ability to vote BKM's ordinary shares at BKM shareholders' meetings. The imposition of such a limitation likely would affect NOMOS's ability to influence and manage BKM and, subject to certain conditions established by Russian law, could make previous shareholder decisions on which NOMOS Bank voted in excess of the limitation vulnerable to challenge. Any such result could have a material adverse effect on NOMOS's business, results of operations, financial condition and prospects.

NOMOS operates in a highly regulated banking industry

All banks operating in Russia are subject to extensive regulation and supervision. Requirements imposed by regulators, including capital adequacy requirements, are designed to ensure the integrity of the financial markets and to protect customers and other third parties with whom NOMOS deals. These requirements are not necessarily designed to protect shareholders. Consequently, these regulations may limit NOMOS's activities, including its lending, and may increase its costs of doing business, or require NOMOS to seek additional capital in order to comply with applicable capital adequacy or liquidity requirements. Existing laws and regulations could be amended, the manner in which laws and regulations are enforced or interpreted could change and new laws or regulations could be adopted. Any breach of applicable regulations could expose NOMOS to potential liability and other sanctions, including the revocation of its general banking licence, thus depriving it of the opportunity to carry on its business.

Violation of covenants in documentation related to NOMOS's outstanding Eurobonds could lead to materially adverse consequences for its future operations

As at 31 December 2010, five outstanding Eurobonds issued by Nomos Capital plc and BKM Finance Limited in the form of loan participation notes with a sole purpose to finance loans to NOMOS Bank and BKM, respectively, amounted to RUB 35,609 million and accounted for 7.5 per cent. of NOMOS's total liabilities as at that date. As long as any of these loan participation notes remain outstanding, NOMOS is required to pay or discharge or cause to be paid or discharged, before the same become overdue, all taxes, assessments and governmental charges levied or imposed upon, or upon the income, of NOMOS and certain of its subsidiaries, and to comply with certain other covenants, some of which restrict NOMOS and its subsidiaries from corporate reorganisations, mergers and acquisitions and disposing of certain assets. Further, the loan agreements made in connection with these Eurobond issues contain cross-default provisions.

Although NOMOS does not believe that it has breached any of its covenants under the documents relating to the Eurobonds issues in the past, and despite its best efforts to comply with these covenants in the future, there could be no assurance that these covenants will not be breached. If the covenants are breached, Nomos Capital plc and BKM Finance Limited could declare all amounts outstanding under the relevant loan agreement (including the principal amount and the accrued interest) immediately due and payable. Should this happen, NOMOS may be required to use a substantial portion of the proceeds from the Offering or otherwise obtain adequate cash to discharge such obligations. Moreover, default by NOMOS or certain of its subsidiaries may trigger the cross-default provisions of the relevant loan agreements and attract negative publicity.

Any material violations by NOMOS of covenants in documentation related to the outstanding Eurobonds that could cause acceleration of repayments obligations or trigger cross-defaults could make it substantially more difficult for NOMOS to obtain financing in the future, which could prevent it from successful implementation of its strategy and could have a material adverse effect on its business, results of operations, financial condition and prospects.

NOMOS may be unable to meet capital adequacy requirements

Under the CBR requirements, NOMOS Bank's capital adequacy ratio must be at least 10 per cent based on the RAS. This capital adequacy ratio was 11.5 per cent. as at 31 December 2010. If NOMOS Bank's capital adequacy ratio were to fall below 10 per cent., the CBR could impose various sanctions or, in the event of repeated violations, revoke NOMOS Bank's banking licence. Furthermore, certain of NOMOS's loan agreements contain a covenant that requires NOMOS's total capital ratio, calculated in accordance with the requirements of the Basel Accord of 1988, to be at least equal to 10 per cent. NOMOS's total capital adequacy ratio, calculated in accordance with the Basel Accord, was 15.6 per cent. as at 31 December 2010. If NOMOS's total capital ratio, calculated in accordance with the requirements of the Basel Accord, were to fall below the 10 per cent. threshold, this would result in a default under such loan agreements which, in turn, would cause such loans to become immediately due and payable. The CBR may amend the capital adequacy requirement and increase the capital adequacy ratio at any point and, in such circumstances, NOMOS Bank would be forced to seek additional capital or alternative sources of financing to comply with these requirements, which may not be available or may only be available at commercially unsustainable prices. Historically, NOMOS has depended on its principal shareholders for support from a capital and funding perspective. The existing shareholders of NOMOS Bank are under no obligation to inject additional capital into NOMOS Bank, and there can be no assurance that the current shareholders will be willing or able to support NOMOS Bank from a capital or funding perspective. Failure to increase its capital levels may adversely affect NOMOS's ability to implement its strategic plans and may ultimately have a material adverse effect on NOMOS's business, financial condition, results of operations and profits.

The interests of NOMOS's principal beneficial owners may conflict with those of other shareholders

As at 31 December 2010, the beneficial ownership of NOMOS was concentrated with eight individuals who together beneficially owned approximately 99.8 per cent. of NOMOS Bank's outstanding shares. Following the completion of the Offering and the Closed Subscription, these individuals are expected to beneficially own 74.85 per cent. of NOMOS Bank's outstanding shares (assuming full exercise of the Over-allotment option). As a consequence, these shareholders, may exert significant influence on, or, to the extent that they act together or in majority groups, control over, the strategic direction, management and policies of NOMOS Bank, including decisions on acquisitions and disposals of businesses, that may not be in the best interests of minority shareholders.

In addition, some of these shareholders hold other interests, including within the Russian or international banking sector. PPF Group, which is controlled by Petr Kellner, is the sole owner of LLC “Home Credit and Finance Bank”, which is a provider of consumer banking products and services in the Russian Federation. PPF Group also controls Eldorado, a Russian household appliances and electronics chain. It also has a minority interest in Polymetal, the precious metals mining group. Polymetal is controlled by the ICT group of companies, four officers of which, including Alexander Nesis who is the majority shareholder of the ICT group of companies, are shareholders of NOMOS Bank. In addition to Polymetal, the ICT group of companies holds interests in over 20 Russian companies operating in such industries as precious metals, metals and mining, heavy engineering, logistics and construction and development including the Tikhvin freight car building plant and large equity stakes in Uralkali and Baltic Leasing. NOMOS has provided a significant amount of loans and other banking products and services to a number of related parties including some of the companies in which its principal shareholders have interests. As at 31 December 2010, NOMOS’s gross loans to related parties amounted to RUB 27,244 million, or 7.7 per cent. of its total gross loans as at that date. See “*Related Party Transactions*”. In such circumstances, the interests of the principal shareholders may not necessarily coincide with the interests of other shareholders and/or they may use their influence in NOMOS to divert resources or provide for commercial opportunities in line with their other interests.

Risks Relating to the Russian Federation

NOMOS is a Russian banking group and substantially all of its net interest income is derived from the Russian Federation. There are certain risks associated with an investment in Russia.

Emerging markets such as the Russian Federation are subject to greater risks than more developed markets and a financial crisis could have a particularly significant adverse effect on banks, including NOMOS, operating in emerging markets such as the Russian Federation

Investors in emerging markets such as the Russian Federation should be aware that these markets are subject to greater risk than more developed markets, including, in some cases, significant legal, economic, financial and political risks. Investors should also note that emerging economies such as the economy of the Russian Federation are subject to rapid changes and that the information set out in this Prospectus may become outdated relatively quickly. Moreover, financial turmoil in any large developing country may tend to adversely affect prices in equity and debt markets of other developing countries as investors move their money to more stable and developed markets. For example, in the fourth quarter of 2008, during the global financial crisis, the Russian securities markets were highly volatile, resulting, on occasions, in a series of temporary suspensions in trading on the MICEX and RTS stock exchanges by the Federal Service for Financial Markets of the Russian Federation (the “FSFM”), which had an adverse impact on the price of Russian securities generally.

As has happened in the past, financial problems, or an increase in the perceived risks associated with investing in emerging economies, could dampen foreign investments in Russia and have an adverse effect on the Russian economy as a whole, which, in turn, could have an adverse effect on most Russian banks, including NOMOS, due to, among other factors, declines in the creditworthiness of many borrowers and an overall decrease in demand for loans. See “*Operating and Financial Review — Significant Factors Affecting Results of Operations and Financial Position of NOMOS and BKM — Russia’s Economic Condition*”. In addition, any financial turmoil can result in severe liquidity constraints for companies that operate in emerging markets due to the withdrawal of foreign funding sources or the reluctance of foreign investors to provide financing to borrowers in such emerging markets. Since NOMOS derives a significant proportion of its funding from issuing Eurobonds and interbank borrowing from banks located outside Russia, any significant decrease in availability of funding through international capital markets or bilateral or syndicated loan facilities provided by international banks could have an adverse effect on its operations. Accordingly, investors should exercise particular care when evaluating the risks associated with an investment in Securities and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investments in emerging markets are only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, such investments, and investors are therefore urged to consult with their own legal and financial advisers before making an investment in the Securities.

Political risks

Political and governmental instability in the Russian Federation

Since 1991, the Russian Federation has sought to transform itself from a one-party state with a centrally planned economy to a democracy with a market-oriented economy. As a result of the sweeping nature of the reforms, and the limited success of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations of the 1990s, as well as to unrest by some social and ethnic groups.

Political conditions in the Russian Federation were highly volatile in the 1990s, as evidenced by the frequent conflicts amongst executive, legislative and judicial authorities; this impacted negatively upon the business and investment climate in the Russian Federation. Over the past two decades the course of political, economic, regulatory and other reforms has, in some respects, been uneven and the composition of the Russian government has, at times, been unstable.

Vladimir Putin, a former Russian President who is currently Russia's Prime Minister, generally increased governmental stability and continued the economic reform process, which made the political and economic situation in Russia more conducive to investment. On 2 December 2007, the State Duma elections were held and, on 2 March 2008, presidential elections were held in the Russian Federation. Although the previous structure of political forces in the State Duma did not change substantially, a new President, Dmitry Medvedev, assumed power from President Putin following his inauguration on 7 May 2008. Although a significant degree of continuity has been maintained between the two administrations due, in large part, to the appointment of Vladimir Putin as Russia's Prime Minister, President Medvedev may take a different approach to reforms and to the state's foreign and domestic policies in the future, and has recently stressed the need for further diversification of the Russian economy away from its longstanding focus on the extraction of raw materials.

While the Russian political system and the relationship between President Medvedev, the Russian government and the State Duma currently appear to be stable, future political instability could result from deterioration in the overall economic situation, including any decline in standards of living, as well as from the results of elections of the State Duma and the Russian President in 2011-2012. Shifts in government policy and regulation in the Russian Federation are less predictable than in many Western democracies and could disrupt or reverse political, economic, regulatory and other reforms. For example, on 28 September 2010, due to a loss of trust, President Medvedev dismissed the mayor of Moscow, Yuri Luzhkov, who served as the mayor of Moscow for over 18 years. Any significant change in or suspension of the Russian government's programme of reform in Russia, major policy shifts or lack of consensus between the Russian President, the Russian government, the State Duma and powerful economic groups could lead to a deterioration in Russia's investment climate that might limit the ability of NOMOS to obtain financing in the international capital markets or otherwise have a material adverse effect on NOMOS's business, results of operations, financial condition and prospects.

Political, social and military conflicts, acts of terrorism or natural disasters could have an adverse effect on the global or Russian financial markets and economy

The Russian Federation is a federation of 83 political units, which include republics, territories, regions, cities of federal significance, an autonomous region and autonomous districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the Russian government is, in many instances, unclear and sometimes remains contested. In the past, lack of consensus between the federal government and regional or local authorities resulted in the enactment of conflicting legislation at various levels and led to political instability. In particular, in the past, conflicting laws were enacted in the areas of privatisation, securities, corporate legislation, regulation of land use and licensing. Some of these laws and the governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have, in the past, been challenged in Russian courts and such challenges may occur in the future. This lack of consensus creates uncertainties in the operating environment in the Russian Federation, which could hinder NOMOS's long-term planning efforts and may prevent NOMOS from effectively and efficiently carrying out its business strategy.

Military conflicts and international terrorist activity and natural disasters have historically had a significant effect on international finance and commodity markets. For example, a military conflict in August 2008 between Russia and Georgia involving South Ossetia and Abkhazia resulted in significant overall price declines on the Russian stock exchanges. In addition, ethnic, religious, historical and other divisions have, on occasions, given rise to tensions and, in some cases, military conflicts and terrorist attacks. Thus, the conflict in the Russian region of Chechnya in the late 1990s and into the 2000s brought normal economic activity within Chechnya to a halt for a period of time as well as negatively affecting the economic and political situation in neighbouring regions. Violence and attacks relating to conflicts in the North Caucasus also spread to other parts of Russia and resulted in terrorist attacks in Moscow. Most recently, on 24 January 2011, suicide bombings were carried out at the Moscow Domodedovo airport, which, as reported, resulted in the death of more than 35 people and injuries to many more. Any future military conflicts, acts of terrorism or natural disasters could have an adverse effect on Russia's political stability, as well as the international financial and commodities markets and the global economy.

Historically, natural disasters have adversely affected the global and Russian economy and financial market. For example, in July and August 2010, a series of fires broke out across Western Russia and around Moscow, covering at one stage over 193,000 hectares. The fires, combined with a summer drought and record high temperatures, resulted in a decline in the Russian harvest, and accordingly an increase in demand for imported grain, reported to be Russia's largest import demand for over ten years. The costs associated with controlling and reducing the fires, addressing environmental concerns and repairing the damage caused by the fires may have an adverse effect on the Russian economy.

Economic risks

Economic instability in the Russian Federation

Since the dissolution of the Soviet Union, the Russian Federation has experienced and/or is currently experiencing:

- significant declines in national gross domestic product (“GDP”);
- high levels of inflation;
- an unstable currency;
- high levels of state or corporate debt, relative to GDP;
- crises in the banking sector limiting the ability of banks to provide liquidity to Russian corporate and individual borrowers;
- a large number of loss-making enterprises that continue to operate due to the lack of effective bankruptcy procedures;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of the “black” and “grey” market economies;
- pervasive capital flight;
- high levels of corruption and extensive penetration of organised crime into the economy;
- political and social instability;
- dependence of the economy on exports of commodities;
- significant declines and volatility in the stock market;
- significant increases in unemployment and underemployment;
- the impoverishment of a large portion of the Russian population; and
- outdated and deteriorating physical infrastructure.

As Russia produces and exports large quantities of crude oil, natural gas and other commodities, the Russian economy is particularly vulnerable to fluctuations in the prices of crude oil, natural gas and other commodities on the world market, which reached record high levels in the first half of 2008 and have since experienced high levels of volatility, including significant decreases. During the financial crisis, the Russian economy was characterised by extreme volatility in debt and equity markets, reductions in foreign investment and sharp decreases in GDP. There can be no assurance that this economic crisis, or a future economic crisis, will not have a negative effect on investors' confidence in the Russian Federation's markets or economy or the ability of Russian entities to raise capital in the international capital markets, any of which, in turn, could have a material adverse effect on the Russian Federation's economy and/or NOMOS's business, results of operations, financial condition and prospects.

Instability of global financial markets impacting upon the Russian economy and banking sector

The financial markets, both globally and in Russia, have faced significant volatility, dislocation and liquidity constraints since the onset of the financial crisis in the autumn of 2007. As a result of these developments, there was an increased concern about the stability of the financial markets generally and the strength of counterparties, and many lenders and institutional investors have reduced, and in some cases, ceased to provide, funding to borrowers, including other financial institutions, which has significantly reduced the liquidity in the global financial system.

Since March 2009, international private credit markets have started to improve. However, significant government borrowing to finance recapitalisation of financial and other institutions, as well as substantial fiscal stimulus packages, have led to a deterioration of sovereign credit. As a result, global credit and capital markets continue to be fragile and suffer from occasional crises of confidence, and there can be no assurance that the disruptions in the global capital and credit markets such as, in particular, the Dubai real estate crisis that commenced in November 2009, the Greek fiscal crisis that started in April 2010, the Irish fiscal crisis that started in October 2010 and questions regarding the financial stability of other EU nations, could not be amplified or replicated elsewhere on a more significant scale in the near future.

Russia's economy has been adversely affected by the financial crisis and could be adversely affected by market downturns and economic crises or slowdowns elsewhere in the world in the future. In particular, the disruptions in the global financial markets have had a severe impact on the liquidity of Russian banks and other financial institutions, as well as the availability of credit and the terms and cost of domestic and external funding for Russian banks. Russian banks and banking groups, including NOMOS, have experienced increased costs of, and reduction in the availability of, financing in the short-term interbank funding market, as well as in the longer-term capital markets and through bank finance instruments. The Russian securitisation market has also been largely inaccessible as a result of the financial crisis.

These developments, as well as adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment, or a decline in oil, gas or other commodities prices (such as, for example, steel or precious metals) could slow or disrupt the Russian economy and adversely affect NOMOS's access to capital (including from state financial support sources) and, more generally, NOMOS's business, results of operations, financial condition and prospects.

NOMOS could be adversely affected by significant systemic liquidity problems, losses or defaults by other financial institutions and counterparties

Against the backdrop of the unprecedented lack of liquidity and high cost of funds in the international and Russian domestic interbank lending markets, NOMOS is subject to the risk of a deterioration in the commercial soundness and/or perceived soundness of other financial institutions both within and outside Russia. A deterioration in the commercial soundness and/or perceived soundness of the Russian or global financial sector could negatively impact NOMOS's ability to access the capital markets and increase its counterparty risk in relation to other financial institutions. If such problems were to persist, a default by, or concerns about the stability of, one or more financial institutions could lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions, which could have a material adverse effect on NOMOS's business, financial condition, result of operations and prospects.

Social risks

Crime and corruption could adversely affect the value of investments

Levels of organised criminal activity continue to be significant in Russia. The Russian and international press have reported high levels of corruption in the Russian Federation, including the bribing of officials for the purpose of initiating investigations by government agencies and facilitating payments. Additionally, published reports indicate that a significant number of the Russian media regularly publishes biased articles in exchange for payment. NOMOS's business, results of operations, financial condition and prospects, as well as the value of the Securities, could be materially adversely affected by illegal activities or corruption or by claims alleging that NOMOS is involved in illegal activities.

Legal Risks

Risks related to the Russian legal system and legislative weaknesses

The Russian Federation continues to develop a legal framework adequate to facilitate the proper functioning of a market economy. Several fundamental Russian laws, including Russian banking and financial laws and regulations, have only recently become effective and are constantly being amended. The recent nature of much of Russian legislation and regulation and the rapid evolution of the Russian legal system place the enforceability and underlying constitutionality of laws and regulations in doubt, resulting in ambiguities and inconsistencies in their application. The following aspects of Russia's legal system, many of which do not exist in countries with more developed legal systems, create uncertainty with respect to many of the legal and business decisions that NOMOS's management makes:

- since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the 1993 Russian Federal Constitution, the Civil Code and other federal laws and by decrees, orders,

regulations and resolutions issued by the President, the Russian government and federal ministries which are, in turn, complemented by regional and local rules and regulations. There have been, and continue to be, inconsistencies between such laws, presidential decrees, state resolutions and ministerial orders, and between local, regional and federal legislation and regulations;

- decrees, resolutions and regulations may be adopted by state authorities and agencies in the absence of a sufficiently clear constitutional or legislative basis and with a high degree of discretion. There is a risk that state authorities may arbitrarily nullify or terminate contracts, withdraw licences, conduct sudden and unexpected tax audits, initiate criminal prosecutions and civil actions and use common defects in accounting or share issues and registration as pretexts for court claims and other demands to liquidate companies or invalidate such issues and registrations and/or to void transactions;
- substantial gaps in the regulatory structure may be created by delay in or the absence of regulations implementing certain legislation;
- there is a lack of judicial and administrative guidance on interpreting applicable rules and judicial decisions have limited or no value as precedent;
- the Russian Federation has a judiciary with limited experience in interpreting and applying market-oriented legislation that is vulnerable to economic and political influence; and
- the Russian Federation has weak enforcement procedures for court judgments and there is no guarantee that a foreign investor would be able to obtain effective redress in a Russian court.

The independence of the judicial system and its immunity from economic, political and other influences in the Russian Federation remains largely untested. The court system is, to a certain extent, understaffed and underfunded. Judges and courts in the Russian Federation are generally inexperienced and unsophisticated in business and corporate law. In addition, most court decisions are not readily available to the public. The enforcement of court judgments can, in practice, be very difficult in the Russian Federation.

All of these factors make judicial decisions in the Russian Federation difficult to predict and effective redress uncertain. In addition, court claims are often used to further political aims and court judgments are not always enforced or followed by law enforcement agencies.

These weaknesses of the Russian legal system create a considerable uncertainty in legal and operating environment for Russian banks and banking groups, including NOMOS, as compared to banks in developed countries. In such environment, it is more difficult for NOMOS, as well as for the other Russian banks and banking groups, to comply with existing and future laws and regulations and the terms and conditions of its licenses and permits, the violation of which may result in the imposition of fines or penalties or more severe sanctions. These weaknesses also affect NOMOS's costs of compliance and the costs of doing business generally and create an unfavourable environment for quick and efficient resolution of disputes with other parties.

Unlawful or arbitrary government actions

State authorities have a high degree of discretion in Russia and at times exercise such discretion arbitrarily, without conducting a hearing or giving prior notice, and sometimes they illegally go beyond the limits of their discretion. Moreover, the state also has the power, in certain circumstances, by regulation or act, to interfere with the performance of, or to nullify or terminate contracts. Unlawful or arbitrary state actions have included withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government agencies have also used common defects in matters surrounding documentation of financing activities as pretexts for court claims and other demands to invalidate such activities and/or to void transactions, often for political purposes. Unlawful or arbitrary state action, if directed at NOMOS, could have a material adverse effect on NOMOS's business, results of operations, financial condition and prospects.

Enforcement of NOMOS's rights in Russia including the enforcement of security or guarantee arrangements in Russia may be time consuming or impossible

The current status of the Russian legal system makes it uncertain whether NOMOS would be able to enforce its rights in disputes with its contractual counterparties. The Russian government has rapidly introduced laws and regulations and has changed its legal structure in an effort to make the Russian economy more market-oriented, resulting in legal confusion. NOMOS's ability to operate in the Russian Federation could be adversely affected by difficulties in protecting and enforcing its rights and by future changes to laws and regulations. Further, its ability to protect and enforce such rights is dependent on the Russian courts. See “ — *Risks related to the Russian legal system and legislative weaknesses*”. Any of the above may have an adverse effect on NOMOS's business, results of operations, financial condition and prospects.

Under Russian law, collateral (which includes, among others, pledges and mortgages) and guarantees (other than bank guarantees) are considered to be secondary obligations, which automatically terminate if the secured or guaranteed obligation becomes void. Furthermore, enforcement of security under Russian law may require a court order and, in the case of pledges and mortgages, a public sale of the collateral. A court may, in certain circumstances, delay such public sale for a period of up to one year upon a pledgor's application. Recent amendments to several Russian laws significantly developed the enforcement rules applicable to pledged property. In particular, under these rules, the parties to a pledge agreement are now able, subject to certain statutory requirements and specific limitations, to agree upon the out-of-court enforcement of the pledge. However, these new rules are still not widely tested by Russian courts and, at times, are ambiguously drafted. Therefore, NOMOS could face significant difficulties with the out-of-court enforcement of collateral.

A mortgage under Russian law is a pledge over real property, such as land and buildings, which requires state registration to be valid. Russian law has no pledge perfection system for collateral other than mortgages, shares in Russian joint stock companies and participation interests in Russian limited liability companies, which may lead to unexpected and/or conflicting claims of secured creditors upon the pledged property. Therefore, NOMOS may have difficulty foreclosing on collateral or enforcing other security when clients default on their loans, which may adversely affect NOMOS's business, results of operations, financial condition and prospects.

In addition, a substantial proportion of NOMOS's loans is guaranteed by legal entities and/or individuals. If the guarantor's financial condition deteriorates or if NOMOS is unable to enforce the guarantee, it may suffer losses, which could have a material adverse effect on its business, results of operations, financial condition and prospects.

Legislation to protect against nationalisation and expropriation may not be enforced in the event of a nationalisation or expropriation of NOMOS's assets

Although the Russian government has enacted legislation to protect property against expropriation and nationalisation and to provide fair compensation to be paid if such events were to occur, there can be no certainty that such protections would be enforced. This uncertainty is the result of several factors, including the lack of state budgetary resources, an independent judicial system and sufficient mechanisms to enforce judgments. The concept of property rights is not well developed in the Russian Federation and there is not a great deal of experience in enforcing legislation enacted to protect private property against nationalisation and expropriation. As a result, NOMOS may not be able to obtain proper redress in the courts, and may not receive adequate compensation if in the future the Russian government decides to nationalise or expropriate some or all of NOMOS's assets. The expropriation or nationalisation of any of NOMOS's assets, without fair compensation may have a material adverse effect on NOMOS's business, results of operations, financial condition and prospects.

Shareholder liability under Russian law could cause NOMOS Bank to be liable for the obligations of its subsidiaries

The Civil Code, Russian Federal Law No. 208-FZ "On Joint Stock Companies" dated 26 December 1995, as amended (the "**Joint Stock Companies Law**"), and Russian Federal Law No. 14-FZ "On Limited Liability Companies" dated 8 February 1998, as amended (the "**LLC Law**"), provide that shareholders in a Russian joint stock company or participants in a Russian limited liability company generally are not liable for that company's obligations and bear only the risk of loss of their investment. Additional shareholder liability may arise, however, if one person (the "**Effective Parent**") can give binding instructions to another person (the "**Effective Subsidiary**"). In addition, the Effective Parent bears secondary liability for the obligations of an Effective Subsidiary that becomes insolvent or bankrupt due to the Effective Parent's faulty actions or inactions. Accordingly, NOMOS Bank could be liable for the debts of subsidiaries in which NOMOS Bank owns more than 50 per cent. of the shares, or which NOMOS Bank otherwise controls, which could adversely affect its operating results and financial condition.

There are weaknesses in legal protections for non-controlling shareholders and in corporate governance standards under Russian law

Corporate governance standards for many Russian companies have proven to be poor and of a lower standard than those applied by companies in the UK and the U.S., and non-controlling shareholders in Russian companies have suffered losses due to abusive share dilutions, asset transfers and transfer pricing practices. In general, non-controlling shareholder protection under Russian law derives from supermajority shareholder approval requirements for certain corporate actions, as well as from the ability of a shareholder to demand that

the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of action. Russian law also requires companies to obtain the approval of disinterested shareholders for certain transactions that constitute interested party transactions. Although the Joint Stock Companies Law provides that shareholders owning not less than 1 per cent. of a company's share capital may bring an action for damages on behalf of the company, Russian courts have very limited experience with such lawsuits. Russian law does not provide for class action litigation. Accordingly, investors' ability to pursue legal redress against NOMOS Bank may be limited.

In addition, the supermajority shareholder approval requirement is met by a vote of 75 per cent. of all voting shares that are registered at the General Shareholders' Meeting. Thus, controlling shareholders owning less than 75 per cent. of the outstanding shares of a company may have 75 per cent. or more of the voting shares that are registered at a meeting if certain non-controlling shareholders are not registered at the meeting. In situations where controlling shareholders effectively have 75 per cent. or more of the voting power at a General Shareholders' Meeting, they can approve amendments to the charter of the company and other measures requiring supermajority shareholder approval, which could be prejudicial to the interests of non-controlling shareholders.

Russian tax legislation is relatively undeveloped and subject to frequent changes

Despite certain improvements of the taxation system undertaken by the Russian government over the last 10 years such as adoption of the unified legislative act — the Tax Code of the Russian Federation (the “**Russian Tax Code**”) and successive reduction of major tax rates, Russian tax legislation is still subject to frequent changes. It is expected that Russian tax legislation will become more sophisticated and introduce additional revenue-raising measures. Thus, starting from 1 January 2010, the unified social tax was replaced with direct mandatory contributions to the Social Security Fund, the Medical Insurance Fund and the Pension Fund. From 1 January 2011, the rate of the contributions increased from 26 to 34 percent. Moreover, tax administration rules are now split between the Russian Tax Code and a special law on social security contributions. The Pension Fund received more power and became a separate administrative body authorised to conduct full-scope tax audits in respect of the contributions. In addition, Russia introduced temporary rules reducing deductibility of interest in respect of the loans nominated in foreign currency. These limitations will be in force at least till the end of 2012, and may negatively influence NOMOS's tax position.

The above changes affect the overall tax climate in Russia and may influence NOMOS's tax efficiency despite any tax planning efforts. Additional tax exposure could adversely affect NOMOS's business, financial condition, results of operations and prospects.

The approaches to tax law enforcement and interpretation of legislation are unstable, not well developed and may be unpredictable and selective

The fiscal deficit that Russia is facing after the financial crisis has led not only to an increase in the overall tax burden, but also has encouraged the Russian tax authorities to become more fiscal-oriented. In the absence of clear law-enforcement regulations and legal clarifications, and in a situation of frequent changes in the Russian Ministry of Finance's interpretation of legislation, additional tax assessments and groundless claims by the tax authorities are frequent occurrences. The absence of effective out-of-court dispute resolution procedure results in additional costs and administrative efforts incurred by corporate taxpayers forced to file claims to the courts in most of the cases when disputes with the authorities arise.

Court decisions do not create precedent law in Russia. Although in recent years the highest courts have gradually attempted to regulate court practice in the sphere of taxation and to develop a unified approach to judging particular types of cases there are still no clear rules for distinguishing between lawful tax optimisation and tax evasion. The courts have attempted to develop some anti-avoidance approaches, such as the concept of “a taxpayer acting in bad faith” as well as the concept of an “unjustified tax benefit”, thereby moving towards a substance-over-form approach and limiting the opportunity for corporate taxpayers to rely on a literal interpretation of the law. These concepts are, however, formulated quite broadly, and are open to different interpretations. Their status in the Russian legal system is hence unclear. The views of the highest courts are also somewhat volatile and may change within a relatively short period of time.

All of this suggests there is a risk of uncertainty with regards to NOMOS's tax position, and that the outcomes of any dispute with the Russian tax authorities would be unpredictable.

Repeated tax audits and extension of liability beyond the limitation period may result in additional tax assessments

Tax returns in Russia remain open and subject to tax audits by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax audit is taken. However, the fact that a particular tax period has been reviewed does in certain cases limited by law automatically exclude the possibility of a repeat review of the same period by a higher tax body. Any such review could, if it is concluded that NOMOS had significantly under paid taxes relating to such periods, have a material adverse effect on NOMOS's business, financial condition, results of operations and prospects.

Russian tax legislation provides for a three-year statute of limitations in respect of imposition of fines for underpayment of taxes and other tax offences. At the same time the law allows extension of the three-year statute of limitations if the taxpayer actively obstructed or hindered tax audit. These provisions are, however, unclear and may be broadly interpreted by the tax authorities with the purpose to apply penalties beyond the three-year term, and there is no guarantee that the tax authorities will not review NOMOS's compliance with applicable tax law beyond the said three-year limitation period.

Russian transfer pricing legislation is unclear and is subject to further changes

This legislation allows the tax authorities to make transfer-pricing adjustments and impose additional tax liabilities in respect of certain types of transactions ("controlled" transactions). There are also special transfer pricing rules for interest payments, transactions with securities and derivatives. However, Russian transfer-pricing rules are not well-developed, there is little guidance and court practice which leaves a wide room for interpretation by Russian tax authorities and courts. Moreover, general and specific transfer pricing provisions may contradict each other and there is no clear guidance as to which rule shall prevail. There are also no "mirror adjustment" (i.e. offsetting adjustment to the counterparty in the transaction) rules in Russia.

The Russian State Duma is currently considering a draft law that would substantially change the Russian transfer pricing rules. It is expected that most of the provisions of this draft law will be enacted later in 2011 which will most likely result in stricter transfer-pricing regulations. At this point it is impossible to predict whether this draft law will be enacted and what impact it will have on NOMOS.

If the tax authorities were to impose significant additional tax liabilities as a result of the transfer pricing adjustments, it could have a material adverse effect on NOMOS's business, financial condition, results of operations and prospects.

The rights of NOMOS Bank's shareholders, the Russian public reporting requirements and accounting regulations to which NOMOS is subject, differ significantly from those applicable to comparable companies in other jurisdictions

NOMOS's corporate affairs are governed by its charter, its internal regulations and the laws governing Russian banks and companies incorporated in Russia. The rights of shareholders and the responsibilities of members of NOMOS's Supervisory Board and NOMOS's management board (the "**Management Board**") under Russian law are different from those applicable to, and may be subject to certain requirements not generally applicable to, companies organised in the United Kingdom, the United States or other developed countries. Russian banking and securities market regulations contain certain disclosure requirements, including the requirement to file periodic financial statements prepared in accordance with RAS with the CBR. Much of this financial information is subsequently made available to the public. Material differences exist between financial information prepared under RAS and that prepared under IFRS. Therefore, prospective investors are cautioned not to place undue reliance on such information when evaluating the financial performance of NOMOS. In addition, despite recent initiatives to improve corporate transparency in Russia, there is less publicly available information about NOMOS than there is available for comparable banks and banking groups in, for example, the United Kingdom or the United States.

Difficulty of enforcing foreign court judgments or arbitral awards

The Russian Federation is not a party to multilateral or bilateral treaties with most Western jurisdictions for the mutual enforcement of court judgments. Consequently, should a judgment be obtained from a court in any such jurisdiction, it is highly unlikely to be given direct effect in Russian courts. The Russian Federation (as successor to the Soviet Union) is a party to the New York Convention. A foreign arbitral award obtained in a state which is party to that convention should be recognised and enforced by a Russian court (subject to the qualifications provided for in the convention and compliance with Russian civil procedure regulations and other

procedures and requirements established by Russian legislation). Although the Russian Arbitrage Procedural Code adopted in 2002 is generally in conformity with the New York Convention and thus has not introduced substantial changes in the grounds for refusal of recognition of foreign arbitral awards and court judgments that may be issued, in the event that Russian procedural legislation is further changed it may introduce new grounds preventing foreign court judgments and arbitral awards from being recognised and enforced in Russia. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Russian Federation. It may also be difficult to enforce arbitral awards in the Russian Federation due to the relative inexperience of the Russian courts in international commercial transactions and political resistance to the enforcement of awards against Russian companies in favour of foreign investors.

Risks Relating to the Offering and the GDRs and Shares

Failure or invalidation of the issue of the New Shares may prevent NOMOS from receiving or retaining the proceeds from the Closed Subscription

NOMOS will not receive any proceeds from the Offering. Immediately following the Offering, NOMOS Bank intends to issue New Shares through the Closed Subscription to the Subscribing Shareholders, one of which will use part of the net proceeds of the Offering to purchase the New Shares. If the Subscribing Shareholders fail to subscribe and pay for the New Shares, for example due to their insolvency, or if NOMOS Bank fails to duly and timely file a report on the results of placement (the “**Placement Report**”) of the New Shares with the CBR as provided by Russian law, or if the CBR fails or refuses to register such Placement Report or a Russian court invalidates the issue of the New Shares based on alleged violations of Russian law or otherwise, NOMOS either would not receive or would not retain the net proceeds from the Closed Subscription.

If, as a result of any of the foregoing, the Subscribing Shareholders fail to or are unable to contribute to NOMOS Bank’s share capital, NOMOS Bank’s shareholding structure would differ from the shareholding structure currently contemplated as being in place following the Closed Subscription.

If NOMOS is unable to obtain the net proceeds of the Closed Subscription from the Subscribing Shareholders in whole or in part, NOMOS may, in due course, have to seek other sources of finance to strengthen its capital base and to enable future growth. There can be no assurance that NOMOS would have sufficient operating cash flow or access to debt or other financing, on commercially reasonable terms or at all, to strengthen its capital base and to enable future growth. Failure to strengthen its capital base and to enable future growth with the net proceeds of the Closed Subscription in whole or in significant part may have a material adverse effect on NOMOS’s ability to implement its growth strategy, and on its business, financial condition, results of operations or prospects.

Holders of the GDRs may not be able to exercise their pre-emptive rights

Generally, existing holders of shares of Russian open joint stock companies are in certain circumstances entitled to statutory pre-emptive rights with respect to newly issued shares, pursuant to Russian law, as described in “*Description of Share Capital and Applicable Russian Legislation*”. However, holders of the Shares or GDRs in certain jurisdictions may face restrictions under relevant local law on their ability to exercise statutory pre-emptive rights with respect to any new equity issuances by NOMOS Bank. No assurance can be given that the exercise of pre-exemption rights by such holders of the Shares and GDRs will be permitted under applicable securities laws and/or that a future transaction will be structured to allow existing holders of the Shares and GDRs to exercise their pre-emptive rights. In particular, U.S. holders of the GDRs or Ordinary Shares may not be able to exercise statutory pre-emptive rights, unless a registration statement under the Securities Act is effective in respect of those rights, or an exemption from the registration requirement thereunder is available. NOMOS does not currently expect to file any such registration statement, and no assurance can be given that an exemption from the registration requirements of the Securities Act would be available to enable such U.S. holders to exercise such statutory pre-emptive rights and, if such exemption were available, NOMOS may not take the steps necessary to enable the GDR holders to rely on it.

The trading price of the Shares and the GDRs may be highly volatile and an active and liquid market for the Shares and the GDRs may not develop

Although NOMOS Bank has applied to the FSA for up to 46,211,184 GDRs to be admitted to the Official List (of which up to 34,298,004 are expected to be issued on or about the Closing Date) and to the London Stock

Exchange to admit such GDRs to trading on its market for listed securities and its ordinary shares have been admitted to the quotation list “V” on the RTS and have been admitted to trading on MICEX, an active trading market for the Shares or GDRs may not develop or be sustained after the Offering.

The Russian stock markets have experienced extreme price and volume volatility, especially since the beginning of the global financial and economic crisis. In addition, before the Offering, there has been no public trading market for the Shares or the GDRs. Active liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. Consequently, the trading prices of the Shares and the GDRs may be subject to volatility in response to a number of factors including:

- operating results of NOMOS and of other Russian companies;
- changes in national and industry growth rates;
- actual or anticipated announcements of new products or services by NOMOS or its competitors;
- changes in governmental legislation or regulation;
- general economic conditions within NOMOS’s business sector or in Russia; or
- extreme price and volume volatility on the Russian or other emerging market stock exchanges.

Moreover, the market price of the Shares and the GDRs may decline below the offer price per Share and the offer price per GDR, respectively, or the market price of the Shares and the GDRs may diverge such that the trading market becomes distorted. The Offer Price has been determined through discussions among NOMOS, the Selling Shareholders and the Joint Bookrunners and may not be indicative of the price at which the Shares or the GDRs will trade following completion of the Offering. After the Offering, the Shares or the GDRs could be subject to significant volatility and investors may not be able to resell the Shares or the GDRs at or above the Offer Price.

Future issuances or sales of the Securities or other similar securities may affect their market price

Future sales of the Shares and the GDRs may affect the market price of the Shares and the GDRs. NOMOS Bank could issue new shares and the PPF Group and the ICT group of companies, who will hold an aggregate of 75 per cent. of the Ordinary Shares after completion of the Offering and the Closed Subscription (assuming full exercise of the Over-Allotment Option), could sell part or all of their holding of Ordinary Shares in NOMOS Bank which could place downward pressure on the market price of Shares or GDRs. Sales, or the possibility of sales, of substantial volumes of the Shares or the GDRs in the public markets, including, in the case of the Shares, on the Russian stock market, following the Offering could have an adverse effect on the trading prices of the Shares and the GDRs and could affect NOMOS’s ability to obtain further capital through an offering of equity securities. Each of NOMOS Bank, the Selling Shareholders and certain of its other shareholders have undertaken not to offer, issue or sell any securities that are substantially similar to the Shares or GDRs for 180 days after the Closing Date, subject to certain exceptions. Sales of such securities by NOMOS and/or the Selling Shareholders and certain other shareholders following the end of this period or upon any earlier waiver of these restrictions could have an adverse effect on the trading prices of the Shares and the GDRs. Furthermore, subsequent equity offerings may dilute the percentage ownership of existing shareholders. Moreover, NOMOS Bank could issue preferred shares with rights, preferences or privileges senior to those of the Shares.

The Shares may be de-listed from RTS, the FSFM permission for the GDR programme may be revoked, and the GDR facilities may have to be terminated

The Shares are included in the quotation list “V” of the RTS and admitted to trading on MICEX. A condition of obtaining a “V” listing of the RTS is that NOMOS Bank must, within a one year period from the date on which the “V” listing is granted, be converted into a listing in the “A” or “B” categories. Maintenance of a “V” listing and conversion to the “A” or “B” categories is subject to compliance with corporate governance and financial requirements (including a minimum trading volume). In the event that NOMOS Bank is unable to obtain a listing in the “A” or “B” categories in a timely manner or at all or does not meet certain requirements of the “V” listing, the Shares will be subject to de-listing from the RTS.

Although a Russian stock exchange listing is a condition to the issuance by the FSFM of a permit for the GDRs, Russian securities law and regulations are silent as to whether a de-listing constitutes grounds for revocation of the FSFM permit for the GDRs. NOMOS is not aware of any termination of a GDR programme on

the grounds of delisting from a Russian stock exchange. There can be no assurance that a de-listing from RTS will not result in termination of the GDR programme. In addition, FSFM regulations require the Selling Shareholders and NOMOS Bank to submit a notification on the results of the Offering to the FSFM. Should the Selling Shareholders and NOMOS Bank for any reason fail to submit such a notification, NOMOS Bank's GDR permit, received from the FSFM, may be revoked. A Russian stock exchange de-listing and/or a GDR permit revocation would have a material adverse effect on the liquidity and value of the Shares and the GDRs.

Investors in the Offering will suffer substantial dilution in combined net asset value per Ordinary Share

The price at which the GDRs are being offered in the Offering is substantially higher than NOMOS's net book value per Ordinary Share. Therefore, purchasers of the GDRs in the Offering will incur immediate and substantial dilution in net book value per Ordinary Share.

NOMOS may decide not to pay dividends in the future, and its ability to pay dividends will depend upon the level of dividends and distributions, if any, received from its operating subsidiaries and other factors

NOMOS Bank may be unable or elect not to declare dividends in the future. The payment of dividends, if any, by NOMOS Bank will depend on, among other things, NOMOS's future profits, financial position and capital requirements, the sufficiency of its distributable reserves, the ability of subsidiaries to pay dividends or distributions to NOMOS Bank, credit terms, general economic conditions and other factors that its directors deem to be important from time to time. Should NOMOS decide against declaring dividends in the future, the trading price of the GDRs may be adversely affected.

Because the Depositary may be considered the owner of the Ordinary Shares underlying the GDRs, these Ordinary Shares may be arrested or seized in legal proceedings in Russia against the Depositary

Many jurisdictions, such as the United Kingdom and the United States, distinguish between legal owners of securities, such as a depositary, and beneficial owners of securities, such as holders of GDRs. In such jurisdictions, shares held by a depositary on behalf of holders of GDRs would not be subject to seizure in connection with legal proceedings against the depositary that are unconnected with the underlying shares. Russian law, however, may not recognise the distinction between legal and beneficial ownership. Russian law treats a depositary as the owner of shares underlying GDRs and, accordingly, may not recognise global depositary receipt holder's beneficial ownership in shares. Thus, in proceedings brought against a depositary, whether or not related to shares underlying GDRs, Russian courts may treat those underlying shares as the assets of the depositary open to seizure or arrest. In the past, lawsuits were filed against depositaries seeking the seizure of various Russian companies' shares represented by GDRs issued by such depositaries. However, the cases were dismissed. In the event that a lawsuit seeking the seizure or arrest of the Ordinary Shares underlying the GDRs were to be successful in the future against the Depositary, and the Ordinary Shares underlying the GDRs were to be seized or arrested, the affected GDR holders would lose their rights to such underlying Ordinary Shares and all or part of the money invested in them.

If the Depositary is unable to provide NOMOS Bank with ownership information of GDR holders, this may result in sanctions being imposed on NOMOS Bank

Pursuant to CBR requirements, NOMOS must disclose information on persons owning or controlling 1 per cent. or more of NOMOS Bank's ordinary shares, including through a beneficial interest in such shares through the holding of GDRs. However, the risk exists that the Depositary may not be able to collect the necessary information from the GDR holders and to further provide NOMOS Bank with such information with respect to GDR holders. As a result, sanctions, including NOMOS's exclusion from the deposit insurance system, may be imposed on NOMOS Bank by the relevant regulators.

Voting rights with respect to the Ordinary Shares represented by the GDRs are limited by the terms of the Deposit Agreement for the GDRs and relevant requirements of Russian law

GDR holders will have no direct voting rights with respect to the Ordinary Shares represented by the GDRs. They will be able to exercise voting rights with respect to the Ordinary Shares represented by GDRs only in accordance with the provisions of the Deposit Agreement, the terms and conditions of the GDRs and relevant requirements of Russian law. Therefore, there are practical limitations upon the ability of GDR holders to exercise their voting rights due to the additional procedural steps involved in communicating with them. For example, the Joint Stock Companies Law requires NOMOS Bank to notify shareholders not less than 20, 30 or

70 days prior to the date of an extraordinary general shareholders' meeting dependent on the type of the general shareholders' meeting and its agenda. Holders of the shares, therefore, will receive notice directly from NOMOS Bank and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

GDR holders, by comparison, will not receive notice directly from NOMOS Bank, but NOMOS Bank will provide the notice to the Depositary. The Depositary has undertaken, in turn, as soon as practicable thereafter, if requested by NOMOS Bank in writing in a timely manner and at its expense, and provided there are no U.S., UK or Russian legal prohibitions (including, without limitation, the Listing Rules and Prospectus Rules of the FSA, the admission and disclosure standards of the London Stock Exchange and the rules of any Russian stock exchange on which the Shares are listed) to distribute to GDR holders notice of such meeting, copies of voting materials and a statement as to the manner in which instructions may be given by GDR holders. To exercise their voting rights, GDR holders must then instruct the Depositary how to vote the Shares represented by the GDRs they hold. Due to this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for GDR holders than for holders of the Shares and there can be no assurance that GDR holders will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. GDRs for which the Depositary does not receive voting instructions in time will not be voted.

In addition, although Russian securities regulations expressly permit the Depositary to split the votes with respect to the Shares underlying the GDRs in accordance with instructions from GDR holders, there is little court or regulatory guidance on the application of such regulations, and the Depositary may choose to refrain from voting at all unless it receives instructions from all GDR holders to vote the underlying Shares in the same manner. GDR holders may thus have significant difficulty in exercising voting rights with respect to the Shares underlying the GDRs. There can be no assurance that holders and beneficial owners of GDRs will (1) receive notice of shareholder meetings to enable the timely return of voting instructions to the Depositary, (2) receive notice to enable the timely cancellation of GDRs in respect of shareholder actions or (3) be given the benefit of dissenting or minority shareholders' rights in respect of an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions. See *"Terms and Conditions of the Global Depositary Receipts — Voting Rights"* for a description of the voting rights of holders of GDRs.

Pursuant to the Deposit Agreement, the Depositary is only required to execute the voting instructions of the holders of GDRs insofar as practicable and as permitted under applicable law. In practice, holders of GDRs may not be able to instruct the Depositary to (1) vote the Shares represented by their GDRs on a cumulative basis, (2) introduce proposals for the agenda of shareholders' meetings or request that a shareholders' meeting be called or (3) nominate candidates for NOMOS's Supervisory Board or review commission. If GDR holders wish to take such actions, they should timely request that their GDRs be cancelled and take delivery of the Shares and thus become the owners of the Shares on the company's share register.

Following the Offering, investors may not be able to deposit the Ordinary Shares in the GDR programme in order to receive GDRs, and changes in Russian regulatory policy with respect to the placement and circulation of the Ordinary Shares outside Russia in the form of GDRs or otherwise may negatively affect the market for the Shares and GDRs offered in the Offering

Whenever the Depositary believes that the Ordinary Shares deposited with it against issuance of GDRs (together with any other securities deposited with it against the issuance of depositary receipts and any other securities held by the Depositary and its affiliates for its or their proprietary accounts or as to which the Depositary or they exercise voting and investment power) represent (or, upon accepting any additional Shares for deposit, would represent) such percentage as exceeds any threshold or limit established by any applicable law, directive, regulation or permit, or triggers any condition for the making of any filing, application, notification or registration or obtaining any approval, license or permit under any applicable law, directive or regulation, or taking any other action, the Depositary may (1) close its books to deposits of additional shares in order to prevent such thresholds or limits from being exceeded or conditions from being breached or (2) take such steps as are, in its opinion, necessary or desirable to remedy the consequences of such thresholds or limits being exceeded or conditions being breached and to comply with any such law, directive or regulation, including, without limitation, causing pro rata cancellation of GDRs and withdrawal of underlying shares from the depositary receipt programme to the extent necessary or desirable to comply with the applicable law. The Depositary shall have no liability for any such action taken in accordance with the Deposit Agreement.

The number of GDRs that may be in issue at any point in time is subject to certain Russian securities regulations, Russian corporate law, Russian anti-monopoly legislation and Russian banking legislation, each of which may impose thresholds, as described in more detail below, that may limit or restrict the ability of investors to convert Ordinary Shares into GDRs in the future.

Russian securities regulations provide that no more than 25 per cent. of a Russian company's shares may be circulated abroad through depositary receipt programs in case if the FSFM entered into a treaty with the relevant foreign securities market regulator of the state of incorporation of the depositary, NOMOS Bank has received permission from the FSFM for up to 25 per cent. of Ordinary Shares to be circulated abroad through depositary receipt programs. Upon the completion of the Offering and assuming all shares offered hereby (including pursuant to the Over-Allotment Option) are subsequently deposited into the GDR program, the GDR program will account for up to 25 per cent. of Ordinary Shares. There can be no assurance that in the future NOMOS Bank will be able to obtain approval for a deposit of a greater number of Shares in the GDR programme than NOMOS Bank currently has approval for, should such deposit be allowed by applicable Russian laws and regulations then in force and any remaining capacity may be used by other existing shareholders. Thus following the Offering, it may not be possible to deposit shares in the GDR programme in order to receive GDRs.

In addition, under Russian corporate law, a person that has acquired more than 30%, 50% or 75% of an open stock company's ordinary shares and voting preferred shares (including, for such purposes, the shares already owned by such person and its affiliates) will, except in certain limited circumstances, be required to make, within 35 days of acquiring such shares, a public tender offer for other shares of the same class and for securities convertible into such shares. From the moment of the relevant acquisition until the date the offer is sent to the company, the person making the offer and its affiliates will be able to register for quorum purposes and vote only 30% (or as the case may be, 50% or 75%) of the company's ordinary shares and voting preferred shares (regardless of the size of their actual holdings). See "*Description of Share Capital and Applicable Russian Legislation — Change of Control — Anti-takeover protection.*" Under Russian law, the Depositary may be considered the owner of the shares underlying the GDRs, and as such may be subject to the mandatory public tender offer rules together with any of its affiliates acquiring NOMOS Bank's Ordinary Shares. See "*— Because the Depositary may be considered the owner of the shares underlying the GDRs, these shares may be arrested or seized in legal proceedings in Russia against the Depositary.*" In addition, in a letter to Deutsche Bank Trust Company Americas in July 2006, the Russian securities regulatory authority took the general position that the mandatory public tender offer rules do apply to a depositary bank and accordingly such position would currently apply to Deutsche Bank Aktiengesellschaft, as Depositary for the GDR programme, and its affiliates. Accordingly, at present, the mandatory tender offer rules result in a *de facto* cap on the aggregate holding of Deutsche Bank Aktiengesellschaft, as Depositary for the GDR programme, and its affiliates in NOMOS Bank's Ordinary Shares of 29.99% of NOMOS Bank's Ordinary Shares (subject to other regulatory requirements and limits from time to time applicable to the GDR programme).

In addition, under Russian anti-monopoly legislation, if the aggregate asset value of a company performing banking operations, exceeds RUB 33 billion under Russian accounting standards, transactions resulting in a shareholder (or a group of affiliated shareholders) holding more than 25%, 50% or 75% of the voting capital stock of such company, or in an acquisition of such company's assets the value of which exceeds a certain amount, must be approved in advance by the FAS. See "*Description of Share Capital and Applicable Russian Legislation — Anti-monopoly Regulation.*" The Depositary has received general interpretive guidance from the FAS that it need not obtain the approval referred to in the preceding sentence in connection with depositary receipt programmes such as the GDR programme. If, however, the FAS were to rescind or disregard its above mentioned interpretation, the aggregate holding of Deutsche Bank Aktiengesellschaft, as Depositary for the GDR programme, and its group (as defined under Russian law) in the Ordinary Shares would be subject to a *de facto* cap of 25% of the Ordinary Shares (subject to other regulatory requirements and limits from time to time applicable to the GDR programme), unless the Depositary could obtain the FAS approval for a higher percentage.

Furthermore, should the 25 per cent limit established by the Russian securities regulations with respect to the depositary receipts programmes, such as the GDR programme, be increased or eliminated in the future, the aforementioned restrictions (provided that they remain in force) may result in relevant *de facto* caps on the GDR programme (subject to other regulatory requirements and limits from time to time applicable to the GDR programme), thus preventing the Depositary and the GDR holders to take advantage of such increase or elimination.

In addition, under Russian banking legislation, the acquisition and/or acceptance into trust management under one or several transactions of over 20 per cent. of shares in a credit organisation requires the preliminary consent of the CBR. The Depositary has received preliminary consent of the CBR to acquire up to 27,853,791 of the Ordinary Shares. Upon the completion of the Offering and assuming all Shares offered hereby (including pursuant to the Over-Allotment Option) are subsequently deposited into the GDR program, the GDR programme will account for up to 25 per cent. of the Ordinary Shares. There can be no assurance that in the future the

Depository will be able to obtain approval for a deposit of a greater number of Shares in the GDR programme than it currently has approval for, should such deposit be allowed by applicable Russian laws and regulations then in force. Moreover, in accordance with banking legislation, preliminary consent of the CBR is valid for one year. The Depository has received interpretive guidance from the CBR that the Depository is not required to obtain any additional or renewed consents to accept deposits into the GDR programme in an amount not exceeding the following thresholds: either (i) 50% of Ordinary Shares (noting that the FSFM imposes a 25% limit as described above) or (ii) an amount of Ordinary Shares that have a value of RUB55,707,582,000 (currently approximate to U.S.\$2 billion) or less. In case if in the future the total market value of Ordinary Shares deposited into the GDR programme exceeds the RUB55,707,582,000 threshold, the Depository will suspend further deposits into the programme until receipt of an additional CBR permission. If the CBR were to rescind or disregard its above mentioned interpretation, or if the Depository is not able to obtain a renewed or additional permission, or the CBR were to require the Depository to obtain additional or re-issued consents to deposit into the GDR programme, the GDR programme would be subject to a *de facto* cap of 19.99 per cent. of the Ordinary Shares, unless the Depository could obtain such additional or re-issued CBR consent.

Therefore, it may not be possible to deposit Ordinary Shares into the GDR programme in order to receive GDRs and under certain circumstances GDR holders may be required to withdraw Ordinary Shares from the GDR program, which may in either case affect the liquidity and the value of the investment.

The aforementioned restrictions have been changed in the past and may be subject to change at any time in the future by the Russian regulatory authorities, and there can be no assurance that changes by the authorities will not adversely affect the legality and/or size of NOMOS Bank's GDR programmes, which could adversely affect the value of the Shares or the GDRs.

Any additional issuance of NOMOS Bank's Ordinary Shares must be registered with the CBR and is assigned a provisional State registration number containing a suffix distinguishing it from the previous issuance of Ordinary Shares of the same class. Following completion of the issuance and the expiry of the three month period after the registration of the related placement report (or filing of the placement notification), the provisional suffix is cancelled. The FSFM permission for NOMOS Bank's GDR programme expressly permits the deposit of the Ordinary Shares having a specific registration number, namely 10102209B, its general share registration number. Ordinary Shares with a different registration number, issued in the future, may not be deposited in this GDR programme. As a result, the Depository may be entitled to refuse a deposit of shares or segregate shares having a different registration number than those set out in the FSFM permission for the GDR programme.

Non-resident investors who are GDR holders may be unable to obtain benefits under relevant double tax treaties in respect of Russian withholding tax on dividends payable via Depository

Although, generally, 15 per cent. Russian dividend withholding tax may be reduced by virtue of the application of the relevant double tax treaty (See "*Taxation*"), there is a risk that these treaty benefits may be unavailable for non-resident investors holding GDRs.

Russian tax law provides no clear rules in respect of the treatment of dividend payments payable to GDR holders. For instance, it is unclear as to whether non-resident investors may be treated as beneficial owners of dividends payable in respect of GDRs and, therefore, be eligible for treaty benefits. In its letters issued in 2005, 2006 and 2007, the Russian Ministry of Finance expressed an opinion that GDR holders shall be treated as beneficial owners of dividend income for the purposes of the application of double tax treaties provided they were able to confirm their residency. However, in a situation when no clear rules and guidance are in place, there is no assurance that local tax authorities and the courts would uphold this position of the Russian Ministry of Finance. In practice, this may mean that investors, both individuals and organisations, may face difficulties with obtaining a refund or credit of the tax withheld.

Moreover, NOMOS Bank would most likely be unable to comply with an advance tax treaty clearance procedure (available for non-individual investors) as it may not receive information on the exact amount of income payable to each particular investor from the Depository and it may be practically impossible for the Depository to collect residence confirmations from all investors required under such advance treaty clearance procedure.

In view of the above, NOMOS intends to withhold Russian dividend withholding tax at the rate of 15 per cent., regardless of whether the Depository (the legal owner of the Shares) or an investor would be entitled to reduced rates under the relevant double tax treaty.

Non-resident investors who are individuals holding GDRs may suffer from a higher effective rate of tax on dividends

In respect of non-resident investors who are individuals, there is a risk that the tax authorities may not take into account the 15 per cent. tax withheld from the payment of dividends to the Depository and state that such non-resident investors are liable to additional Russian personal income tax of up to 30 per cent. payable on a self-assessed basis should dividends be treated as a Russian source income. In view of the above risk of non-applicability of the relevant double tax treaty, this may lead to an effective tax rate on dividends of up to 45 per cent. (i.e., 15 per cent. income tax withheld by NOMOS plus 30 per cent. Russian personal income tax payable by a non-resident individual investor).

Russian resident investors holding GDRs may suffer from a higher effective rate of tax on dividends

As the dividends under GDRs would be received by resident investors from the Depository rather than from NOMOS Bank, there is a risk of such income being classified as dividends received from foreign sources and, thus, subject to 9 per cent. tax in addition to the tax withheld by NOMOS. Although the Russian Ministry of Finance in its letter dated 15 December 2010 provided some comfort stating that it is a Russian issuer of shares that should be recognised as a source of income under GDRs, the overall lack of clarity and regulations in respect of GDRs' status do not allow the risk of higher taxation to be excluded.

Moreover, there is also a risk of the tax authorities not recognising income received under GDRs as dividends if they consider such income not falling under the definition of dividends set by the Russian Tax Code. Should this risk materialise, the dividends may be subject to additional taxation at the rate of 13 per cent. for individual investors and 20 per cent. for investors who are not individuals.

Non-resident investors may be subject to Russian withholding tax on disposal of the Shares or GDRs through or to certain Russian payers

The disposition of Shares and GDRs by non-resident investors may lead to the imposition of Russian 20 per cent. tax in the extent that income from such a disposal is received from a Russian source and immovable property located in Russia constitutes more than 50 per cent. of NOMOS's assets. (See "Taxation").

This risk may be eliminated if the taxable gains in question arise from a sale of the GDRs by non-resident investors on a foreign stock exchange where such GDRs are listed and/or by virtue of the relevant double tax treaty application (if the respective exemption is available under the treaty).

NOMOS Bank may be classified as a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. investors

NOMOS Bank does not expect to be classified as a "passive foreign investment company," or "PFIC," for U.S. federal income tax purposes for the prior or current taxable year or in the foreseeable future. However, the determination of whether NOMOS Bank is a PFIC is a factual determination made annually based on the composition of its assets and income on certain dates. Therefore, there can be no assurance that NOMOS Bank will not be classified as a PFIC for its current taxable year or in the foreseeable future. If NOMOS Bank were classified as a PFIC, materially adverse U.S. federal income tax consequences could apply to U.S. investors. See "Taxation — Certain U.S. Federal Income Tax Considerations — Passive Foreign Investment Company Rules".

Investors may be unable to repatriate their earnings from distributions made on the Shares and GDRs

Currently, Russian currency control legislation pertaining to the payment of dividends does not prohibit payment of rouble dividends on shares to non-Russian residents, however, there can be no assurance that it will not be reversed in the future. The ability of non-Russian shareholders to convert roubles into hard currencies is subject to the availability of hard currency in Russia's currency markets. Although there is an existing market within the Russian Federation for the conversion of roubles into hard currencies, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no market for the conversion of roubles into foreign currencies outside the Russian Federation and no viable market in which to hedge the rouble and rouble-denominated investments.

Investors may have limited recourse against the Selling Shareholders, NOMOS or NOMOS Bank's directors and executive officers because they generally conduct their operations outside the United States and the United Kingdom and most of the current directors and executive officers reside outside the United States and the United Kingdom

NOMOS's and the Selling Shareholders' presence outside the United States and the United Kingdom may limit the legal recourse of investors against them. NOMOS Bank is organised under the laws of the Russian Federation and the Selling Shareholders are incorporated under the laws of Cyprus and The Netherlands. Most of NOMOS Bank's current directors and executive officers reside outside the United States and the United Kingdom, principally in the Russian Federation. All or a substantial portion of NOMOS's and the Selling Shareholder's assets and the assets of NOMOS Bank's current directors and executive officers are located outside the United States and the United Kingdom, principally in the Russian Federation. As a result, investors may not be able to effect service of process within the United States or the United Kingdom upon NOMOS or its directors or executive officers or the Selling Shareholders or to enforce U.S. or UK court judgments obtained against NOMOS or its directors or executive officers or the Selling Shareholders in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of U.S. securities laws. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon U.S. or UK securities laws.

There is no treaty between the United States and the Russian Federation or the United Kingdom and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. These limitations may deprive investors of effective legal recourse for claims related to their investment in the Shares and GDRs. See "*Service of Process and Enforcement of Civil Liabilities*".

THE OFFERING

The Company	Open Joint-Stock Company “NOMOS-BANK”
The Selling Shareholders	Crisandra Holdings Limited, Lobston Enterprises Limited, Russia Finance Corporation B.V., North Moon Ventures Limited and Viewrock Limited.
The Offering	<p>The Offering consists of an offering by the Selling Shareholders of Ordinary Shares in the form of up to 3,374,998 Shares and up to 39,442,704 GDRs assuming full exercise of the Over-Allotment Option, with two GDRs representing an interest in one Ordinary Share.</p> <p>The Offering comprises (i) an offering of Shares in the Russian Federation and (ii) an institutional offering of Shares and GDRs outside of the Russian Federation. The Shares and GDRs are being offered outside the United States in reliance on Regulation S and within the United States to QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, registration under the Securities Act.</p> <p>Shortly after the Offering, NOMOS Bank will offer for subscription 5,576,397 New Shares to be placed through the Closed Subscription. The Subscribing Shareholders have agreed to participate in the placement of the New Shares and have committed to the Joint Bookrunners in an underwriting agreement (the “Underwriting Agreement”) to subscribe for the New Shares at a price per New Share equal to the Offer Price</p>
Joint Global Coordinators	Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch and VTB Capital plc.
Joint Bookrunners	Citigroup Global Markets Limited and each of the Joint Global Coordinators
Co-Manager	Erste Group Bank AG
Offer Price Range	The Offer Price is U.S.\$35 per Share and U.S.\$17.50 per GDR.
Share Capital	<p>Immediately prior to the Offering, NOMOS Bank’s issued share capital consisted of 86,845,973 Ordinary Shares and 12,100,000 preferred shares, which are fully paid and issued. As at the same date, NOMOS Bank is authorised by its charter to issue up to 172,954,027 Ordinary Shares and up to 48,100,000 preferred shares. Following the Offering and the Closed Subscription, NOMOS Bank’s issued share capital will consist of 92,422,370 Ordinary Shares and 12,100,000 preferred shares, assuming the Closed Subscription is completed in full. The preferred shares are owned by LLC “Promgazkomplekt”, a 100 per cent. owned subsidiary of NOMOS Bank. The nominal value of each Ordinary Share and of each preferred share amounts to RUB50.</p> <p>NOMOS Bank’s Ordinary Shares and preferred shares are subject to applicable provisions of Russian legislation and NOMOS Bank’s charter, and have the rights described in “<i>Description of Share Capital and Applicable Russian Legislation</i>”.</p>
Closed Subscription	Following completion of the Offering, NOMOS Bank will offer 5,576,397 New Shares to the Subscribing Shareholders in the Closed Subscription. Under Russian law, the Closed Subscription is a process whereby certain shareholders determined and approved by the General Shareholder’s Meeting may subscribe for the newly issued shares. The Closed Subscription was unanimously approved by

NOMOS Bank's General Shareholder's Meeting on 13 January 2011. The date of commencement of the Closed Subscription is to be determined by the Supervisory Board. The placement will end at the earlier of 30 business days after its commencement or when all 5,576,397 New Shares have been subscribed for. After registration of the placement report with the CBR with respect to the New Shares, the New Shares will be identical to, and fully fungible with, NOMOS Bank's currently issued and outstanding ordinary shares. See "*Description of Share Capital and Applicable Russian Legislation — Description of share capital — Pre-emptive rights*" for further information.

NOMOS expects to receive net proceeds of RUB5,500 million from the Closed Subscription, assuming that all the New Shares subscribed for by the Subscribing Shareholders in the Closed Subscription are purchased and paid for.

Depository Deutsche Bank Aktiengesellschaft.

GDRs Two GDRs will represent one Ordinary Share on deposit with the Custodian on behalf of the Depository. The GDRs will be issued by the Depository pursuant to the Deposit Agreement. The Rule 144A GDRs will be evidenced by the Master Rule 144A GDR, and the Regulation S GDRs will be evidenced by the Master Regulation S GDR. See "*Clearing and Settlement*". Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDRs. See "*Terms and Conditions of the Global Depository Receipts*".

Pursuant to the Deposit Agreement, the Ordinary Shares represented by the GDRs will be held in Russia by the Custodian, for the account of the Depository and for the benefit of the holders and beneficial owners of GDRs. The Depository may deduct per-GDR fees and other fees, charges and expenses as well as taxes and governmental charges from dividend distributions and may otherwise assess other per-GDR fees and other fees, charges and expenses to the GDR holders. See "*Terms and Conditions of the Global Depository Receipts — Depository's Fees, Costs and Expenses*".

Over-Allotment Option Lobston Enterprises Limited has granted to the Joint Bookrunners an Over-Allotment Option to purchase up to 5,144,700 additional GDRs at the Offer Price. The Over-Allotment Option is exercisable on one or more occasions for the purpose of covering over-allotments that may be made, if any, in connection with the Offering and short positions resulting from stabilisation transactions on the date hereof, or from time to time, up to and including the 30th day following the announcement of the Offer Price upon written notice from the Joint Bookrunners to Lobston Enterprises Limited and to the extent not previously exercised by the Joint Bookrunners may be terminated by the Joint Bookrunners at any time. See "*Plan of Distribution and Selling Restrictions*".

Closing Date The GDRs are expected to be issued, and payment for them made, on or about 26 April 2011.

Listing and Trading The Shares are listed on the quotation list “V” on RTS and admitted to trading on MICEX, in each case under the symbol “NMOS”. As at the date of this Prospectus the Shares may be traded on RTS or MICEX. The Shares have been registered by the CBR under No. 10102209B.

Prior to the Offering, there has been no market for the GDRs or the Shares.

This Prospectus has been prepared in connection with the application for the admission of the GDRs to the regulated market of the London Stock Exchange. Approval of the FSA has not been sought by NOMOS Bank for this document in relation to the Offering of Shares and no Shares will be listed on the regulated market of the London Stock Exchange.

Application has been made to (i) the FSA in its capacity as competent authority under the FSMA for the admission of up to 46,211,184 GDRs, consisting of 34,298,004 GDRs to be issued on the Closing Date, up to 5,144,700 GDRs to be issued pursuant to the Over-Allotment Option and up to 6,768,480 GDRs to be issued from time to time against the deposit of Ordinary Shares (to the extent permitted by law) with the Depositary, to the official list maintained by the FSA, and (ii) the regulated main market of the London Stock Exchange for admission of the GDRs to trading under the symbol “NMOS”. NOMOS expects that conditional trading through the International Order Book of the London Stock Exchange (the “IOB”) will commence on a “when and if issued” basis on or about 19 April 2011 and that admission of the GDRs to the official list of the FSA and to unconditional trading through the IOB will commence on or about 27 April 2011.

Lock-Up Each of NOMOS Bank, the Selling Shareholders and certain of its other shareholders have agreed that neither it, nor any of its affiliates or subsidiaries, nor any person acting on its or their behalf will, subject to certain exceptions including transfers between existing shareholders at the date of this Prospectus, from the date hereof until 180 days after the later of the Closing Date or the Over-Allotment Option closing date, without the prior written consent of the Joint Bookrunners: (i) offer, sell, lend, mortgage, assign, charge, contract to sell, sell or grant any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant or contract to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any Ordinary Shares or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any Ordinary Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or GDRs representing the right to receive any such securities; or (ii) enter into any swap or other agreement that transfers, in whole or in part, directly or indirectly, any of the economic consequences of ownership of GDRs, Ordinary Shares or other such shares in NOMOS Bank; or (iii) enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above, subject to certain limitations. See “*Clearing and Settlement*”.

Use of Proceeds	NOMOS will not receive any proceeds directly from the Offering. NOMOS expects to receive net proceeds of RUB5,500 million from the Closed Subscription, assuming that all New Shares subscribed for by the Subscribing Shareholders in the Closed Subscription are purchased and paid for and after the deduction of fees and expenses in connection with the Offering and the Closed Subscription. NOMOS intends to use such proceeds from the Closed Subscription for the purposes described in “ <i>Use of Proceeds</i> ”.
Taxation	For a discussion of certain United States, United Kingdom and Russian tax consequences of purchasing and holding the Shares or GDRs, see “ <i>Taxation</i> ”.
Dividend Policy	Purchasers of the Shares and GDRs will be entitled to dividends declared, if any, in respect of any record date which falls after the date of completion of the Offering.

In March 2011, the Supervisory Board approved NOMOS Bank’s Dividend Policy. Dividend Policy states that the proposals on dividend payments are determined by NOMOS’s Supervisory Board taking into consideration NOMOS Bank’s financial performance in the relevant year and other factors including, but not limited to, NOMOS Bank’s cash flow, financial condition (including capital position), investment plans, expected growth rates and M&A prospects, legal requirements, economic climate and such other factors as NOMOS Bank may deem relevant at the time.

Based on the current growth and profitability expectations of management, NOMOS plans to fully reinvest its profits back into capital for the foreseeable future as NOMOS believes this is the most effective way to support the development of NOMOS’ profitability. NOMOS will continuously monitor the situation and will revisit this position if expectations of future profitability and growth change.

For more details see “*Dividend Policy*”.

Voting Rights	Voting at a General Shareholders’ Meeting of NOMOS Bank is generally based on the principle of one vote per ordinary share. Subject to any applicable provisions of Russian law, NOMOS Bank’s charter and the Deposit Agreement, the Depositary will exercise, through its nominee, the voting rights pertaining to the Shares at any General Shareholders’ Meeting for which the Depositary receives timely voting instructions from holders of the GDRs.
Transfer Restrictions	The Shares and GDRs will be subject to certain restrictions as described under “ <i>Transfer Restrictions</i> ”.
Settlement and Transfer	Each purchaser of the Shares in the Offering is required to pay for any such Shares in U.S. dollars or roubles within one business day after delivery. In order to take delivery of the Shares, an investor should have either a direct account with NOMOS Bank’s share registrar, CJSC “St. Petersburg Central Registration Company” or a deposit account with Closed Joint Stock Company “Depositary Clearing Company” (“ DCC ”) or Not-for-Profit Partnership “The National Depositary Centre” (“ NDC ”) or any other depositary that has an account with DCC or NDC or a direct account with NOMOS Bank’s share registrar. Investors may at their own expense choose to hold the Shares through a direct account with NOMOS Bank’s share registrar or through a share depositary account with a Russian-licensed

depository other than NDC or DCC, although the Shares held in each such way will be ineligible for trading on MICEX and RTS. See “*Clearing and Settlement*”.

The GDRs are being offered by the Joint Bookrunners subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part prior to Admission.

An application has been made to DTC to have the Rule 144A GDRs accepted into DTC’s book-entry settlement system. Upon acceptance by DTC, a single Rule 144A Master GDR will be held in a book-entry form and will be issued to DTC and registered in the name of Cede & Co., as nominee for DTC. Application has been made to have the Regulation S Master GDR registered in the name of BT Globenet Nominees Limited, as nominee for Deutsche Bank AG, London Branch, as common depository for Euroclear and Clearstream, Luxembourg. Euroclear and Clearstream, Luxembourg are expected to accept the Regulation S GDRs for settlement in their respective book-entry settlement systems. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR only through DTC, Euroclear or Clearstream, Luxembourg, as applicable. Transfers within DTC, Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant system.

In order to take delivery of the GDRs, investors must pay for them in same-day funds on or prior to the closing of the Offering and must have, or must have access to, an appropriate securities account in DTC, Euroclear or Clearstream, as applicable. See “*Clearing and Settlement*”.

The security identification numbers of the Shares and GDRs offered hereby are as follows:

Shares ISIN	RU000A0JRAF8
Rule 144A GDR ISIN:	US65538M1053
Rule 144A GDR Common Code:	060558027
Rule 144A GDR CUSIP:	65538M105
Rule 144A SEDOL:	B3N6NPI
Regulation S GDR ISIN:	US65538M2044
Regulation S GDR Common Code:	060557772
Regulation S GDR CUSIP:	65538M204
Regulation S SEDOL:	B564R32
London Stock Exchange GDR trading symbol:	“NMOS”
RTS Shares trading symbol	“NMOS”
MICEX Shares trading symbol	“NMOS”

USE OF PROCEEDS

The reason for the Offering is to allow Roman Korbacka, who holds his shares in NOMOS through Lobston Enterprises Limited, to sell a part or all of his Ordinary Shares, to provide other shareholders of NOMOS with a liquid market for their shares and to provide NOMOS access to a broader investor base through being a listed entity. The Selling Shareholders will sell 20,524,000 Ordinary Shares in the Offering (of which 13,818,200 Ordinary Shares will be sold by Roman Korbacka). Assuming full exercise of the Over-Allotment Option, the Selling Shareholders will sell an aggregate of 23,096,350 Ordinary Shares in the Offering (of which 16,390,550 Ordinary Shares will be sold by Roman Korbacka). One of the Subscribing Shareholders (Russia Finance Corporation B.V.) intends to transfer all or part of the net proceeds it receives from these sales to NOMOS by participating in the Closed Subscription. A second Subscribing Shareholder (who in not participating in the Offering (Lordline Limited)) will also subscribe in the Closed Subscription. The Selling Shareholders will receive gross proceeds from the Offering of U.S.\$718 million, and after the Closed Subscription will retain gross proceeds of U.S.\$523 million.

NOMOS will not receive any proceeds directly from the Offering, however NOMOS expects to receive net proceeds of RUB 5,500 million from the Closed Subscription, assuming that all New Shares subscribed for by the Subscribing Shareholders in the Closed Subscription are purchased and paid for.

Fees and expenses associated with the Offering (including commissions of the Joint Bookrunners, fees and expenses of legal counsel to the Joint Bookrunners, NOMOS's legal counsel and its auditors, as well as expenses related to the road show, printing and other expenses are expected to total approximately U.S.\$4.5 million for the Offering but will be negligible for the Closed Subscription. Fees and commissions of the Joint Bookrunners will be paid by NOMOS and the Selling Shareholders pro rata to the proceeds they receive once the Offering and Closed Subscription have taken place. All other expenses of the Offering will be paid for by NOMOS. Total fees, commissions and other expenses paid by NOMOS for the Offering will be approximately U.S.\$10.2 million and total fees, commissions and other expenses paid by the Selling Shareholders will be U.S.\$15.9 million.

NOMOS plans to use the net proceeds of the Closed Subscription of RUB 5,500 million to strengthen its capital position (in particular its Tier 1 and N1 capital ratios), with which it will be able to (i) facilitate the intended growth of its loan portfolio, especially, in the small businesses segment in Russia; (ii) expand its retail banking business; (iii) increase its corporate banking activity; and (iv) capture potential growth opportunities. For further information see "*Business – Strategy*"

For more information on NOMOS's future capital requirements, see "*Operating and Financial Review — Liquidity and Capital Resources.*"

Under certain circumstances, the CBR or a court of law could invalidate the proposed issuance of the New Shares in the Closed Subscription. In addition, under Russian law, the placement of the New Shares in the Closed Subscription is subject to the filing of a placement report by NOMOS Bank with the CBR within 30 days following the completion of the Closed Subscription. See "*Risk Factors — Risks relating to the Offering and the Global Depository Receipts and Shares — Failure or invalidation of the issue of the New Shares may prevent NOMOS from receiving or retaining the proceeds from the Closed Subscription.*"

DIVIDEND POLICY

The procedure for determining the dividends that NOMOS Bank may distribute to its shareholders is set forth in the Joint-Stock Companies Law and NOMOS Bank's charter. The Joint-Stock Companies Law allows dividends to be paid only out of NOMOS Bank's net profits.

Dividend payments, if any, must be recommended by NOMOS's Supervisory Board and approved by a General Shareholders' Meeting, neither of whom is under any obligation to recommend or approve any dividend payments. In particular, dividends may be declared only out of net profits for the first quarter, six months, nine months and/or annual results calculated under RAS, provided that the following conditions have been met:

- NOMOS Bank's share capital has been paid in full;
- the value of NOMOS Bank's net assets, calculated under RAS, is not less, and would not, as a result of the proposed dividend payment, become less than the sum of NOMOS Bank's share capital, its reserve fund and the difference between the liquidation value and the par value of NOMOS Bank's issued and outstanding preferred shares, if any;
- NOMOS Bank has repurchased all shares from shareholders having the right to demand repurchase; and
- NOMOS Bank is not, and would not become as the result of the proposed dividend payment, insolvent.

In March 2011, a General Shareholders' Meeting approved NOMOS Bank's Dividend Policy. Dividend Policy states that the proposals on dividend payments are determined by NOMOS's Supervisory Board taking into consideration NOMOS's financial performance in the relevant year and other factors including, but not limited to, NOMOS's cash flow, financial condition (including capital position), investment plans, expected growth rates and M&A prospects, legal requirements, economic climate and such other factors as NOMOS may deem relevant at the time.

Based on the current growth expectations of management, NOMOS plans to fully reinvest any profits back into capital for the foreseeable future as NOMOS believes this is the most effective way to support the development of NOMOS's growth. NOMOS will continuously monitor the situation and will revisit this position if expectations of future growth change.

Dividends are distributed to holders of ordinary and preferred shares as of the record date for determining the members entitled to attend the General Shareholders' Meeting approving the dividend. The shareholders' right to receive dividends, once declared, is irrevocable. Since there is no fixed dividend entitlement, dividends are paid on a non-cumulative basis.

Dividends, if declared, are payable to NOMOS Bank's shareholders within 60 days of the declaration unless a shorter time period is set forth by the shareholders' decision declaring the dividends. For a further description, please refer to "*Description of Share Capital and Applicable Russian Legislation — Description of Share Capital — Dividends.*"

NOMOS anticipates that any dividends it may pay in the future with respect to the Shares represented by the GDRs will be declared and paid to the Depositary in roubles and will be converted into U.S. Dollars by the Depositary and distributed to holders of the GDRs, net of the Depositary's fees and expenses.

Accordingly, the value of dividends received by holders of the GDRs will be subject to fluctuations in the exchange rate between the rouble and the U.S. dollar. In addition, dividends that NOMOS Bank may distribute to the Depositary will be subject to applicable Russian withholding taxes. For a detailed description of the applicable Russian withholding taxes see "*Taxation — Russian Tax Considerations.*"

CAPITALISATION AND INDEBTEDNESS

The following financial information sets forth NOMOS's capitalisation and indebtedness as of 31 December 2010, on a historical basis. No account has been taken of any trading activity or other transactions since 31 December 2010. Prospective investors should read this table together with the NOMOS Financial Statements.

	As at 31 December 2010 (in millions of roubles)
Long-term debt:	
Senior long-term debt ⁽¹⁾	42,378
— Due to Banks	11,756
— Bonds and Eurobonds	30,622
Subordinated long-term debt ⁽²⁾	26,819
Total long-term debt	69,197
Equity attributable to equity holders of the parent:	
Share capital ⁽³⁾	5,741
Share premium	15,859
Property, plant and equipment revaluation reserve	717
Revaluation of investments available-for-sale	6
Retained earnings	24,560
Total equity attributable to equity holders of the parent	46,883
Non-controlling interest	11,052
Total capitalisation⁽⁴⁾	116,080

- (1) Senior long-term debt represents liabilities that fall due after more than one year from 31 December 2010 and are not subordinated.
- (2) Subordinated long-term debt is the proportion of subordinated debt which falls due after more than one year from 31 December 2010.
- (3) Share Capital does not reflect issuance of New Shares pursuant to the Closed Subscription.
- (4) Total capitalisation is the sum of total long-term debt and total equity attributable to equity holders of the parent.

Except as discussed in the footnotes to the table above, there has been no material change in the capitalisation and indebtedness of NOMOS since 31 December 2010.

BUSINESS

Overview

NOMOS is a leading privately-owned Russian universal bank offering a wide range of banking products and services to corporate, small business and retail clients across the most economically developed regions of Russia. NOMOS also provides investment banking services. NOMOS is the eighth largest banking group in Russia by total assets and the tenth largest banking group in Russia by own capital as of the date of this Prospectus based on end 2010 data for individual banks that constitute Russian banking groups from Interfax-CEA.² It was also the second largest privately-held Russian banking group by total assets as of the same date.

NOMOS has four principal areas of business:

- Corporate banking, which includes lending, deposit taking, trade and project finance, issuance of guarantees, settlement and cash operations, factoring and payroll services for corporate clients, with a focus on mid-sized corporates;
- Small business banking, which includes lending to small businesses and individual entrepreneurs, deposit taking, settlement and cash services, issuance of guarantees, payroll services and trade finance;
- Retail banking, which includes lending to retail clients (including consumer loans, credit cards and mortgage loans), deposit taking (current accounts and term deposits) and debit cards, settlement and cash services, as well as private banking; and
- Investment banking, which includes interbank lending, repo operations, proprietary securities trading, foreign exchange trading, brokerage services, capital markets origination, custody services and debt market research.

NOMOS services its clients through an extensive distribution network. As at 31 December 2010, NOMOS's branch network consisted of its head office in Moscow, 51 branches and 249 other outlets in 41 regions throughout the Russian Federation. In addition, as at that date, NOMOS distributed its products and services through 1,480 ATMs and remote access channels, such as Internet banking and telephone banking. NOMOS's geographic focus is principally on the following five areas of the Russian Federation: (i) Moscow and the Moscow region, (ii) the Tyumen region, including the Khanty-Mansiysk and the Yamalo-Nenets autonomous districts, (iii) St. Petersburg and the Leningrad region, (iv) the Novosibirsk region and (v) the Khabarovsk territory. In November — December 2010, NOMOS completed the acquisition of a 51.3 per cent. interest in BKM Bank. As at 31 December 2010, NOMOS's client base included approximately 8,900 corporate clients, approximately 64,000 small business clients and approximately 1.4 million retail clients.

As at 31 December 2010, NOMOS's total assets, net loans to customers and total customer accounts amounted to RUB 530 billion, RUB 339 billion and RUB 313 billion, respectively, and it had total equity of RUB 57,935 million. In 2010, NOMOS posted net profit of RUB 7,426 million. Assuming its acquisition of the controlling stake in BKM Bank had taken place on 1 January 2010, pro forma net profit of NOMOS in 2010 would have been RUB 10,446 million.³

History

NOMOS was incorporated as a privately-owned bank and received a banking license from the CBR in 1993. In the same year, it was acquired by the ICT group of companies in order to meet the growing needs of its businesses for banking and financial services. Initially, NOMOS conducted its banking operations primarily in Moscow, focusing on lending to corporate clients. Beginning in 1996, NOMOS started diversifying its operations from corporate lending to other types of banking activities, including trading activities on MICEX in 1996, precious metals operations in 1998 and retail banking in 2001. In 1999, NOMOS commenced its regional expansion by opening its first branch in Novosibirsk, which was followed by the opening of other branches in other regions of the Russian Federation. By 2007, NOMOS's branch network consisted of 19 branches and 20 other outlets.

In April 2007, NOMOS changed its organisational form from a closed joint stock company to an open joint stock company in anticipation of the acquisition of a large stake in NOMOS by PPF Group, a large privately-owned financial services group based in the Czech Republic. In May 2007, PPF Group and

2 Source: *Interfax-CEA. Interfax-100. Banks in Russia. Principal operational indicators*. See “*Presentation of Financial and Other Information — Market Data*”.

3 The pro forma information provided above has been extracted without material adjustment from the pro forma financial information in the section “*Pro Forma Financial Information*.”

NOMOS's shareholders from the ICT group of companies signed a memorandum of understanding to form a strategic partnership, which resulted in the acquisition of 29.9 per cent. of the share capital of NOMOS during 2007 and 2008 by PPF Group through its Dutch subsidiary, Russia Finance Corporation B.V. In addition, Roman Korbacka, who co-invested in NOMOS with PPF Group, acquired a 20.0 per cent. ownership interest in NOMOS during 2007 and 2008. PPF Group's interest in NOMOS was based on its view that fast-growing NOMOS had strong potential for value creation principally through the development of its corporate, small business and retail banking operations. One of the key strategic priorities for NOMOS at that stage was the development of retail banking, in which PPF Group has extensive experience, including experience in the Russian market. In the following years, PPF Group played an active role in forming and implementing the development strategy of NOMOS's business. In addition, by becoming a shareholder of NOMOS, PPF Group significantly increased the aggregate financial resources of NOMOS's shareholders, which was important for its further development and for its ability to rely on shareholder support during the global financial and economic crisis.

Over the years, NOMOS has made a number of acquisitions to enhance its operations, which are described in the table below.

Date	Target	Region	Stake acquired (%)	Loans acquired (in billions of roubles)	Deposits acquired	Number of branches and outlets acquired	Consideration paid (in millions of roubles)
November-December 2010	BKM	Principally Western Siberia	51.3	100.8	102.6	167 ⁽¹⁾	12,122
April-August 2010 ⁽²⁾	Novosibirsk Municipal Bank	Novosibirsk	75.1	2.6	5.5	27	256
April-June 2009	VEFK Sibir	Novosibirsk	100.0	2.1	3.4	13	803 ⁽³⁾
December 2008	Moskovskiy Capital ⁽⁴⁾	Principally Moscow	Assets and liabilities only	11.2	13.0	41	0 ⁽⁵⁾
March 2005	Regiobank	Khabarovsk territory and Primorskiy territory	98.4	2.1	2.8	5	477

(1) Including 27 branches of the Novosibirsk Municipal Bank.

(2) Acquired by BKM.

(3) This amount was transferred by NOMOS to VEFK-Sibir as new capital. NOMOS made no payment to DIA or any other party in connection with this acquisition.

(4) This transaction involved the acquisition of certain assets and liabilities of Moskovskiy Capital, but not the acquisition of Moskovskiy Capital as a legal entity.

(5) NOMOS made no payment to DIA or any other party in connection with its acquisition of certain assets and liabilities of Moskovskiy Capital.

In 2005, as part of its strategy to develop a distribution network in the Far East region of Russia, NOMOS purchased a controlling stake in CJSC "Regiobank", a financial institution in Khabarovsk that was renamed OJSC NOMOS-Regiobank in April 2010.

Since 2008, NOMOS has been actively cooperating with the Russian Deposit Insurance Agency ("DIA"), whose primary activities include facilitating insurance payments under the mandatory deposit insurance system in the Russian Federation and the transfer of certain assets and liabilities of distressed Russian banks to DIA's partner banks. Through its participation in DIA's programme for the transfer of assets and liabilities of distressed Russian banks, NOMOS acquired certain assets and liabilities of Commercial Bank Moskovskiy Capital and of 100 per cent. of shares in CJSC "Bank Vostochno-Evropejskoj Finansovoj Korporatsii — Sibir" (East European Financial Corporation Bank — Siberia) ("VEFK Sibir") shown in the table above. In addition, in April 2009, NOMOS acquired a 24.99 per cent. shareholding in OJSC "Bank Vostochno-Evropejskoj Finansovoj Korporatsii" (East European Financial Corporation Bank) ("VEFK Bank"), which was subsequently renamed OJSC "Bank Petrovskiy". In August 2010, NOMOS sold its stake in VEFK Bank to one of VEFK Bank's shareholders, LLC "Financial Corporation Otkritie".

Acquisition of BKM

Following the decision of NOMOS's principal shareholders to expand the banking operations of NOMOS into Western Siberia, NOMOS acquired a 51.3 per cent. controlling stake in BKM in a series of transactions in November and December 2010. The total consideration paid by NOMOS for this controlling stake in BKM was RUB 12.1 billion.

NOMOS's management and shareholders believe that the Western Siberia region, which is the principal base of BKM's operations, has significant business potential and that the acquisition of a controlling stake in BKM will facilitate NOMOS's ability to expand its banking operations in the Tyumen region, including the KMAD and the Yamalo-Nenets autonomous district, the Novosibirsk region and other areas of Western Siberia. BKM gross loans in the Tyumen region (RUB 90,640 million as at 31 December 2010) accounts for 25.9 per cent. of all gross loans of Russian banks in this region while its customer accounts in the Tyumen region (RUB 89,321 million as at 31 December 2010) accounted for 17.7 per cent. of all customer accounts of Russian bank in this region.⁴ NOMOS's management also believes that this acquisition is likely to generate various revenue and cost synergies, some of which have already been realised by December 2010-early 2011.

BKM commenced operations in 1992 and was subsequently renamed Open Joint-Stock Company "Bank of Khanty-Mansiysk" in 1995. The creation of BKM's branch network started in 1993 when it opened its first branch in the town of Sovetskii in the KMAD. The following year, BKM opened branches in Tyumen, Surgut and Novosibirsk, with further rapid expansion in later years, particularly in Western Siberia. As at 31 December 2010, BKM had 18 branches and 149 other outlets.

In 2008, the ICT group of companies, which had other business interests in the KMAD and was interested in further expanding its presence in this region, acquired a minority stake of over 20 per cent. minority stake in BKM through the purchase of newly issued shares, as the government of the KMAD was seeking partners in the private sector to strengthen BKM's capital in adverse market conditions. The ICT group of companies then invited PPF Group and its affiliates to participate in a further acquisition of new shares of BKM. In 2009, when these new shares were issued by BKM, the ICT group of companies, PPF Group and PPF Group's affiliates increased their aggregate stake in BKM to 51.3 per cent. and, therefore, acquired control over BKM.

As at 31 December 2010, BKM's total assets, net loans and total customer accounts amounted to RUB 168 billion, RUB 101 billion and RUB 101 billion, respectively, and it had total equity of RUB 21,713 million. In 2010, BKM had net profit of RUB 3,020 million.

NOMOS intends to keep the BKM brand separate to help leverage the brand recognition of BKM in the Tyumen region and elsewhere in Western Siberia. Should an opportunity to acquire the remaining stake in BKM at an attractive price arise, NOMOS will look to acquire it from the government of the KMAD.

Pro Forma Financial Information

NOMOS accounted for the majority of BKM's assets and liabilities acquired at fair value as required by IFRS 3(R), and, as a result, all performance ratios which involve balance sheet averages or the use of balance sheet data for 31 December 2010 are distorted by the impact of this acquisition of control. In order to allow a comparison of NOMOS performance ratios without taking into account the impact of this acquisition at 31 December 2010, NOMOS prepared an unaudited pro forma consolidated statement of financial position which excludes BKM. In addition, in order to show the effects on the income statement of NOMOS for the year ended 31 December 2010 as if the acquisition had happened on 1 January 2010, NOMOS prepared pro forma consolidated income statements. The basis of preparation of the pro forma statement of financial position and income statement information is described on pages 65, 67 and 68. The numbers included herein on a pro forma basis were extracted from the pro forma financial information without material modifications unless otherwise disclosed as such.

Competitive Strengths

NOMOS's management believes that NOMOS enjoys a strong position in the Russian banking market and has the following competitive strengths.

4 Source: Management accounts of BKM prepared in accordance with IFRS for BKM's data. Data for the Tyumen region for all Russian banks is from the CBR's Review of the Banking Sector of the Russian Federation.

NOMOS is Well Positioned as a Long-Term Consolidator in the Attractive Russian Banking Sector

NOMOS was ranked the 105th largest Russian bank by total assets at the end of 1997. Over the years, it has continued to grow its business to become the eighth largest Russian banking group by total assets, as well as the second largest privately-held Russian banking group by total assets, in each case based on end of 2010 data from Interfax-CEA.⁵ Development was driven by stable, profitable organic growth throughout the past decade, combined with selective acquisitions over the past six years. During this period, NOMOS has significantly increased its regional footprint, particularly in the following five economically developed areas of the Russian Federation (i) Moscow and the Moscow region, (ii) St. Petersburg and the Leningrad region, (iii) the Tyumen region, including the KMAD and the Yamalo-Nenets autonomous district, (iv) the Novosibirsk region and (v) the Khabarovskiy territory. The recent acquisition of BKM has been complementary to NOMOS's regional presence, and management believes it represents a significant opportunity to expand its client base and generate various revenue and cost synergies and to otherwise enhance NOMOS's operations. See “— *Integration of BKM*”. NOMOS expects that its strong internal capital generation capacity and proven mergers and acquisitions execution capabilities, combined with shareholder support, should enable it to make further targeted acquisitions in the fragmented Russian banking market. Management expects a number of attractive acquisition opportunities to emerge as industrial or state-sector shareholders sell their banking arms as non-core assets. Moreover owners of smaller private banks are expected to sell their stakes due to the impact of increasing competition in the banking industry, with smaller banks finding it harder to survive due to their weaker product and service offering, higher cost base and lower profitability as compared to larger banks with a national footprint.

Resilient Corporate Banking Business Model and Solid Platform for Future Expansion

NOMOS's corporate banking business demonstrated strong resilience throughout the recent global financial and economic crisis. It has developed a large, growing and well-diversified client base of approximately 8,900 corporate clients across Russia, with a focus on key sectors and industries such as precious metals, manufacturing, trade, construction, services, electric power and transport and communications. NOMOS believes that the loyalty of its client base, underpinned by close relationships established over the years, is among its key competitive advantages. NOMOS has a highly developed corporate banking operating model that emphasises coordination of activities among client relationship managers, product officers and risk management teams in Moscow and in the other regions of the Russian Federation. Management believes that this model drives increased client penetration and growth in fee-based products and services and helps NOMOS to maintain stable margins despite increasing competition in the market. NOMOS has achieved considerable success in growing sales of its products and services to corporate clients outside of Moscow, as well as to mid-size corporates with annual revenue ranging from RUB 200 million to RUB 10 billion. Over the recent years, NOMOS has proven its ability to develop successful new products by significantly increasing the scope of its lending, deposit and trade finance product offerings, which has contributed to a substantial increase in the corporate loan portfolio and deposit base as well as interest and fee income generated from its corporate clients.

Strong Platform for Small Business Banking Growth

The small business segment, focused on clients with annual turnover between RUB 2 million and RUB 200 million, is a relatively new but rapidly expanding business for NOMOS. Pro-forma pre-tax profit of NOMOS's small business segment amounted to RUB 901 million in 2010,⁶ or 6.9 per cent. of its total pro forma pre-tax profit. Net loans to small business customers reached RUB 19.1 billion, or 5.6 per cent. of total net loans as of 31 December 2010, and the client base comprised approximately 64,000 customers as of that date. NOMOS is able to use its extensive retail branch network for the development of its small business banking, with a growing number of dedicated small business banking teams throughout Russia. NOMOS's small business distribution network consisted of four teams in Moscow and 62 teams in branches and other outlets outside of Moscow as at 31 December 2010. Moreover, NOMOS actively participates in government programmes supporting the sector, in particular through cooperation with the Russian Bank of Development and funds for small business lending support in 21 regions of Russia. NOMOS's customers are offered a full set of remote channels, including Internet and telephone banking. Management believes that the Russian small business lending market is highly specialised and there are few competitors who both understand the needs of small business borrowers well and are able to fully address their needs. NOMOS offers a comprehensive product range with high service quality and relatively short periods for review of credit applications (typically three to five

5 Source: *Interfax-CEA. Interfax-100. Banks in Russia. Principal operational indicators*. See “*Presentation of Financial and Other Information — Market Data*”.

6 The pro forma information provided above has been extracted without material adjustment from the pro forma financial information in the section “*Pro Forma Financial Information*.”

business days), supported by its sophisticated small business risk management approach. The small business banking team at NOMOS is headed by professionals with over 15 years of relevant experience gained at leading international and Russian institutions.

Strong Platform for Retail Banking Growth

Retail banking is an important growth area for NOMOS. Its retail banking platform has been considerably enhanced through the acquisition of both BKM and a number of other smaller banks in recent years. As of 31 December 2010, NOMOS's retail customer base was approximately 1.4 million clients and its net loans to customers and customer deposits amounted to RUB 36.5 billion and RUB 120.1 billion, respectively. Pro-forma pre-tax profit of the retail segment was RUB 460 million⁸ or 3.5 per cent. of total pro-forma pre-tax profit in 2010. In its retail banking business, NOMOS primarily focuses on the affluent customer segment. Retail customers are serviced through a large and growing distribution network comprising 300 branches and outlets, 1,480 ATMs and various remote access channels. NOMOS is now one of the leading banks in the wealthy Tyumen region in Western Siberia with a successful retail offering supported by a strong brand name, an experienced management team and advanced technology for card processing and other remote banking services. NOMOS believes that its retail banking operating model with its life style based segmentation and cross-sell initiatives, as well as focused and efficient distribution structure and innovative product offering, differentiates it from its competition. In particular, NOMOS uses streamlined sales management leveraging a "credit conveyor" (credit applications processing) system and a call centre with operators servicing multiple segments. NOMOS also focuses on increasing fee and commission income through the development of a comprehensive offering for the affluent and VIP (including private banking) client segments, which it sees as being underserved compared to the mass market dominated by state-owned banks. Private banking at NOMOS utilises an open architecture model with leading investment management partners, including Banque du Luxembourg, Flemings and BNP-Paribas, which provide asset management products. NOMOS also provides various offshore services to its private banking clients using partnerships with RBS Coutts and Banque du Luxembourg.

Profitable and Resilient Investment Banking Business

NOMOS has an investment banking business that has delivered a healthy stream of revenues and high profits over the last two years as it was able to take advantage of the post-crisis market recovery in Russia while maintaining a conservative risk profile. Pro-forma pre-tax profit of the investment banking segment amounted to RUB 5,070 million⁹ or 39.0 per cent. of NOMOS's total pro-forma pre-tax profit in 2010. NOMOS has strong positions in the Russian interbank, repo, foreign exchange, fixed income sales and trading and brokerage segments. It is one of the largest market makers in the Russian interbank market, with over 400 active counterparties and clients as at 31 December 2010. NOMOS management believes that NOMOS is also one of the largest participants in the Russian currency spot market and one of the largest market makers in the Russian currency futures market. It actively participates in rouble currency swap and option transactions for its clients and to hedge its own currency positions.

Solid Financial Standing and Conservative Risk Management Demonstrated Across the Economic Cycle

Profitable through the crisis, NOMOS has a comprehensive and conservative risk management strategy. The credit application process employs a centralised committee approach for most lending decisions. Management has further enhanced credit risk management during the recent global financial crisis. NOMOS's conservative credit risk management allowed it to have a low, relative to other Russian banks that disclose such information, non-performing loans ratio of 2.4 per cent.¹⁰ with limited volume of restructured loans. NOMOS also maintained a high non-performing loan coverage ratio in recent years, including throughout the recent crisis.¹¹ In addition, NOMOS believes it has a strong liquidity position supported by a diversified funding base with good access to

8 The pro forma information provided above has been extracted without material adjustment from the Pro Forma Financial Information in the section "*Pro Forma Financial Information.*"

9 The pro forma information provided above has been extracted without material adjustment from the Pro Forma Financial Information in the section "*Pro Forma Financial Information.*"

10 In connection with the acquisition of control of BKM by NOMOS all loans of BKM were recorded at fair value and included in the performing loan portfolio consistent with requirements of IFRS 3. The fair value amounts include the provision for loan losses recorded in BKM's audited financial statements.

11 As of 31 December 2010, this ratio was 182.3 per cent. In connection with the acquisition of control of BKM by NOMOS all loans of BKM were recorded at fair value and included in the performing loan portfolio consistent with requirements of IFRS 3. The fair value amounts include the provision for loan losses recorded in BKM's audited financial statements.

both corporate and retail deposits, as well as to wholesale funding, including the capital markets. NOMOS also maintains high capital adequacy ratios (a total capital ratio of 15.6 per cent. and a Tier 1 capital ratio of 10.6 per cent. as at 31 December 2010), which is supported by strong internal capital generation.

Experienced Management Team, Strong Corporate Governance and Shareholder Support

NOMOS's management team has significant experience in banking and finance. It is headed by NOMOS Bank's President, Dmitry Sokolov, who has been at NOMOS since its foundation. In 2010, having identified key strategic areas of growth, NOMOS substantially strengthened its management team by hiring, among others, new heads of Retail and Small Business Banking, Strategy, Operations and Private Banking as well as a new Chief Risk Officer. The management team can draw on significant industry experience to seek to deliver on NOMOS's growth strategy. This experience has enabled NOMOS to weather the recent global financial and economic crisis and, in so doing, to strengthen its financial standing and competitive position. Furthermore, NOMOS's management has a proven track record of successfully integrating acquired businesses. NOMOS has a strong corporate governance system in place, with five independent directors out of 11 members of the Supervisory Board, three board committees (an Audit Committee, a Nomination and Remuneration Committee and a Risk Management Committee), and quarterly IFRS reporting. In addition, over the years, NOMOS has enjoyed strong shareholder support, including two capital injections in 2007 and 2008 (U.S.\$200 million each) and two subordinated loans in 2008 (RUB 5 billion) and 2009 (U.S.\$260 million). The 2008 subordinated loan was repaid in September 2010. To replace it, the share holders made the RUB 3,500 million capital contribution and granted a new RUB 1,500 million subordinated loan in December 2010.

Strategy

The overall strategic goal of NOMOS is to grow its profits by deepening its presence in its three core segments and in the five key geographical areas of its presence in Russia. To achieve this goal, NOMOS seeks to:

Enhance Corporate Banking Relationships and Continue to Focus on Profitable Segments

A key element of NOMOS's strategy is to further enhance its existing corporate banking relationships and continue to concentrate on corporate clients in profitable business segments. In particular, NOMOS expects to continue to focus on mid-sized corporates with annual revenues of up to RUB 10 billion with an emphasis on maintaining a high level of industry diversification. Target segments and industries include precious metals, manufacturing, trade, construction, services, electric power and transport and communications as NOMOS sees significant growth prospects, demand for financing and opportunities for attractive interest margins in these sectors and industries in the current post-crisis environment. NOMOS seeks to increase its market share in banking products and services provided to these sectors and industries through cross-selling initiatives, greater client focus and developing the sales of fee-based products, such as settlement and cash services, foreign exchange, letters of credit used in foreign trade transactions, issuance of guarantees and factoring. In addition, NOMOS seeks to increase its corporate banking activity in the regions. NOMOS also plans to focus on enhancing sales through increasing the number of regional corporate banking managers over the next two years. See “— *Principal Business Activities — Corporate Banking — Corporate Banking Strategy*”.

Leverage the Potential of Small Business Banking in Russia

NOMOS aspires to be one of the five largest lenders by volume of loans to small businesses in Russia in the medium to long term. In addition, NOMOS aims to maintain a high level of diversification across sectors and industries, intends to continue working with various government organisations and development funds that seek to support small businesses and plans to enhance its small business segment coverage and margins by both providing small business clients with a comprehensive package of products and services addressing most of their financing needs and further developing its segment-based approach to servicing small business clients. NOMOS seeks to strengthen its business by automating processes and standardising team roles. See “— *Principal Business Activities — Small Business Banking — Small Business Banking Strategy*”.

Expand the Retail Banking Business

In developing its retail banking business, NOMOS seeks to (i) expand its retail banking distribution channels by utilising salary projects, “bank-at-work” systems, marketing campaigns and further developing remote banking, (ii) leverage the full mix of distribution channels, including branches, outlets, remote and direct sales channels, to offer efficient customer service and increase the number of branches and other outlets from 300 to 450 in the medium term, (iii) leverage its cross-selling potential to increase volume of sales per customer,

(iv) continue developing a comprehensive platform for a full private banking offer to become the bank of choice for core clients with liquid assets of over U.S.\$5 million, and (v) develop a comprehensive offer for the affluent customer segment, targeting a three per cent. market share in the medium term. This strategy is supported by its recent rebranding. See “— *Principal Business Activities — Retail Banking — Retail Banking Strategy*”.

Develop Investment Banking by Cross Selling to the Existing Client Base

NOMOS plans to leverage its corporate and private banking relationships to expand its investment banking business. The key elements of this strategy include (i) maintaining a strong focus on its current lines of business, in particular strengthening exchange traded futures trading and brokerage services, (ii) growing a strong debt capital markets business through greater use of its corporate sales force, with a focus on debt origination for domestic Russian companies, (iii) further development of NOMOS’s asset management capabilities through enhancing mass market fee generating product sales, principally through existing distribution channels, and (iv) cross-selling foreign exchange products by further integration of operations with the corporate banking business. Please see “— *Principal Business Activities — Investment Banking — Investment Banking Strategy*” for more detail.

Capture Synergies from the Consolidation with BKM and Continue Acting as a Consolidator

NOMOS believes that it will be able to capture significant revenue and cost synergies from its consolidation with BKM. The revenue synergies are currently expected to be achieved through, among other things, (i) further improvement in cross-selling, particularly of cash loans and credit cards to retail clients of BKM, (ii) the introduction of credit insurance for BKM’s retail clients, (iii) the transfer of NOMOS corporate deposit knowledge to BKM (for example, overnight and multicurrency deposits), (iv) syndicated project financing for BKM’s clients; (v) improving liquidity management at BKM and reinvesting the freed-up funds into higher yielding assets, (vi) re-pricing of BKM’s products and services as part of the ongoing harmonisation of prices and pricing policies between the two banks, (vii) joint utilisation of currently unused BKM limits in respect of customs guarantees and (viii) the introduction of factoring for BKM’s clients and the development of a syndicated factoring offer.

Cost synergies are currently expected to be achieved through, among other things, (i) the harmonisation of the IT systems of both banks, (ii) the centralisation of back-office functions through the creation of several back-office hubs, (iii) reducing the cost of funding for BKM, (iv) sharing best practice solutions in respect of cost control between the two banks, (v) the use of NOMOS’s “credit conveyer” (credit applications processing) system at BKM to reduce underwriting costs, (vi) closing of opposite foreign exchange open positions at NOMOS and BKM, (vii) joint purchasing and (viii) improving the location of ATMs of both banks. NOMOS is currently working to achieve smooth implementation of the detailed integration plan and to realise the synergies discussed above. See also “*Business — Integration of BKM*”.

Going forward, NOMOS plans to continue to position itself as a consolidator in the Russian banking industry. NOMOS aspires to acquire up to 100 per cent. in BKM should the opportunity arise at an attractive price. Furthermore, NOMOS plans to pursue other attractive (from both strategic and financial perspective) acquisition opportunities. Consequently, NOMOS’s, leveraging its strong business model and prior acquisition and business integration experience.

Market Position and Competition

Russian banks may be divided into four broad categories, as described in “*The Banking Sector and Banking Regulation in Russia*”, which are (i) large state-owned banks, (ii) Russian subsidiaries of foreign banks, (iii) large Russian privately-owned banks and (iv) small privately-owned, mostly regional banks. NOMOS management believes that NOMOS has competitive advantages relative to the members of each group.

- NOMOS believes it has advantages over large state-owned banks in that it is not subject to directed lending pressure, it is more flexible and client-oriented, and it has a more robust risk management approach. Consequently, NOMOS’s assets are high quality, as evidenced by its low non-performing loans ratio as at 31 December 2010. Its efficient operational model enables NOMOS to make quicker lending decisions while at the same time carefully assessing the credit risk of each borrower.
- NOMOS believes that it has an advantage over foreign-owned Russian banks by having greater flexibility in its operations and being faster in its strategic decision-making. NOMOS also believes that it has a better understanding of local markets across the Russian Federation as a result of much longer experience in the market compared to most foreign-owned banks through its network of 300 branches and other outlets across 41 regions of Russia. In addition, NOMOS has access to clients from a wider range of sectors and industries in Russia as compared to foreign owned banks, as some companies in sectors such as defence can only be served by Russian-owned entities.

- NOMOS believes it has an advantage over its large privately-owned peers by having a more diversified client base and being less reliant on related parties for funding, with related parties accounting for 4.2 per cent. of total customer accounts as of 31 December 2010.
- NOMOS believes it has an advantage over small privately-owned Russian banks due to size, better industry and geographic diversification, economies of scale, better access to funding at lower cost and greater growth potential due to its already established nationwide distribution network.

Key Financial Objectives

As NOMOS continues to grow its business over the years to come, the management has established a number of key financial objectives over the medium term as part of its strategic plans:

- *Growth.* Greater than 20 per cent. average annual loan portfolio growth over the medium term.
- *Cost efficiency.* Cost-income ratio stable at or below 42 per cent. over the medium term.
- *Profitability.* Underlying return on average equity of approximately 20 per cent. over the medium term.

There can be no assurance, however, that NOMOS will be able to achieve these objectives. These objectives are based upon a number of assumptions and estimates that, while considered reasonable by NOMOS, are inherently subject to significant business, operational, economic, competitive and regulatory uncertainties and contingencies, many of which are beyond NOMOS's control, and upon assumptions with respect to future business decisions that are subject to change. These targets also assume the success of NOMOS's strategy, which is subject to uncertainties and contingencies beyond NOMOS's control. No assurance can be given that the strategy will be effective or that the anticipated benefits from the strategy will be realised in the periods for which targets have been prepared, or at all. Accordingly, NOMOS cannot provide any assurance that these targets will be met. The targets may vary materially from the actual results. Important factors that could cause differences to arise include changing business or other market conditions, general economic conditions in Russia, the European Union, the United States or elsewhere, and NOMOS's ability to respond to trends in the banking industry. Additional factors could cause actual results to differ materially. Prospective investors in the Shares and GDRs are cautioned not to place undue reliance on this information and make their own projections about NOMOS's future financial performance on the basis of their own examination of NOMOS and the contents of this Prospectus. See "*Important Information about this Document — Forward-Looking Statements*" and "*Risk Factors*".

Integration of BKM

The integration of BKM is a key strategic priority for NOMOS, which management believes will generate significant revenue and cost synergies. As with all of its other acquisitions, management has established a rigorous process to evaluate, understand and extract potential benefits. The preliminary analysis of potential revenue and cost synergies from the acquisition of control of BKM by NOMOS began in the summer of 2010 and was generally completed prior to closing of the acquisition transaction on 16 December 2010. To facilitate the integration of the two entities, NOMOS has created a strategic committee responsible for the integration of NOMOS and BKM, which includes representatives of both banks and representatives of NOMOS's shareholders. The committee initially met on a biweekly basis to coordinate all integration efforts and agree on next steps. In addition, NOMOS has established project teams from the representatives of business and support lines (including corporate, retail and small business, investment banking, IT, operations and finance and asset and liability management) of NOMOS and BKM to facilitate the integration process. To date, NOMOS has been able to realise a number of synergies and other benefits of the transaction. In addition, if NOMOS were ever to acquire full control of BKM, further synergies could be realised.

For the description of the principal revenue and cost synergies expected to be achieved as a result of integration of BKM, see "*— Strategy — Capture Synergies from the Consolidation of BKM and Continue Acting as a Consolidator*".

Required investments to achieve the targeted synergies include costs associated with ATM network reconfiguration, issuing cards to NOMOS clients using BKM know-how as well as IT integration. Investment in IT integration is expected to be the most significant component of the total integration-related expenditures. For more information on IT integration, see "*— Information Technology — IT Integration of NOMOS and BKM*".

Recent Developments

LLC "Promgazkomplekt", a wholly owned subsidiary of NOMOS Bank, completed the acquisition of all of the outstanding 12,100,000 registered preferred shares of NOMOS Bank, each with a nominal value of RUB 50,

in February 2011. These shares were purchased by LLC “Promgazkomplekt” at a cost of approximately RUB 788 million. NOMOS currently has no plans to re-issue these treasury shares in the short or medium term.

The Russian real estate developer PIK repaid its outstanding loan to NOMOS in full in the beginning of 2011. This loan was one of NOMOS’s largest loans as at 31 December 2010. NOMOS acquired this U.S.\$262 million loan from VEB at face value in November 2009. Subsequently, a portion of the loan in the amount of U.S.\$131 million was assigned to a third party under a sub-participation agreement for cash consideration. However, under Russian regulatory rules, NOMOS was required to record the full principal amount of U.S.\$262 million on its balance sheet.

In March 2011, NOMOS acquired a 51 per cent. stake in Rapida, which has been licensed by the CBR to arrange and make payments of individuals and legal entities and three of its affiliates, for a total consideration of RUB 380 million.

Principal Business Activities

NOMOS’s principal business activities are corporate banking, small business banking, retail banking and investment banking. As at 31 December 2010, the regions of the Russian Federation where NOMOS’s presence was the strongest, were

- Moscow and the Moscow region (55.2 per cent. of total gross loans to customers, 47 branches and outlets),
- Tyumen region, including the KMAD and the Yamalo-Nenets autonomous district (21.0 per cent. of total gross loans to customers, 126 branches and outlets),
- St Petersburg and the Leningrad region (5.2 per cent. of total gross loans to customers, 13 branches and outlets),
- the Novosibirsk region (3.9 per cent. of total gross loans to customers, 49 branches and outlets) and
- Khabarovsk territory (2.1 per cent. of total gross loans to customers, 7 branches and outlets).

As at 31 December 2010, NOMOS’s client base included approximately 8,900 corporate clients, approximately 64,000 small business clients and approximately 1.4 million retail clients.

Corporate Banking

NOMOS has historically focused on the development of corporate banking, which has always been one of the strongest parts of its business.

The following table sets out selected financial information and information on the number of clients for the corporate banking segment as at or for the years ended 31 December 2008, 2009 and 2010.

	As at or for the year ended 31 December							
	2008	% of total for NOMOS	2009	% of total for NOMOS	2010	% of total for NOMOS	2010 Pro Forma ⁽¹⁾	% of total for NOMOS
	(audited)		(audited)		(audited)		(Unaudited)	
(in millions of roubles, except percentages)								
Selected financial position data:								
Total segment assets	164,465	59.2%	140,510	50.7%	264,491	49.9%	n/a	
of which, net loans to clients	158,077	84.2%	132,315	81.3%	248,580	73.3%	n/a	
Total segment liabilities	90,998	37.1%	76,685	31.9%	170,218	36.0%	n/a	
of which, client accounts	68,174	58.7%	64,233	47.9%	146,653	46.8%	n/a	
Selected income statement data:								
Net interest income	8,196	62.1%	8,446	48.2%	7,360	51.2%	9,772	47.8%
Net fee and commission income	977	60.8%	1,272	72.6%	1,215	57.4%	1,765	45.4%
Total operating income before impairment losses and provision	9,485	61.3%	10,664	42.4%	10,768	50.7%	14,261	46.2%
Profit/(loss) before taxation	1,926	46.0%	(1,635)	n/a	6,590	71.6%	8,531	65.7%
Other:								
Approximate number of corporate clients ⁽²⁾	4,958		5,812		8,875		n/a	

(1) The pro forma information provided above has been extracted without material adjustment from the pro forma financial information in the section “Pro Forma Financial Information”.

(2) As at 31 December of the respective year.

NOMOS provides a broad range of banking products and services primarily to medium-sized private companies. NOMOS generally defines medium-sized corporate clients as companies with annual revenue between RUB 200 million and RUB 10 billion. With the ongoing diversification of the Russian economy as well as privatisation of state-owned businesses and spin offs of non-core activities by large state-owned companies, NOMOS anticipates growing opportunities for expansion of its medium-sized corporate clients base. The margins on loans to such clients are generally higher than on loans to large corporate clients and the increase in the proportion of loans to medium-sized clients in the total corporate loan portfolio also helps to diversify such portfolio, thereby improving its risk profile. At the same time, NOMOS does not strategically focus on state-owned companies or large corporate as they are primarily serviced by the largest state-owned banks.

The strength of NOMOS's corporate banking operations has been based, in large part, on its operating model that combines (i) a deep understanding of the customer base, (ii) effective underwriting, (iii) a competitive product mix and product development and improvement policies, (iv) an effective front office, (v) an experienced management team, (vi) customer relationship management support, (vii) effective management of the corporate network and (viii) the focused organisational structure of the corporate banking department, the last two of which are described in more detail in "*— Organisational Structure*" below.

Corporate Banking Strategy

In recent years, NOMOS has implemented a number of measures aimed at strengthening its position on the corporate banking market, including focusing on clients operating in particular industries or sectors such as precious metals, manufacturing, trade, construction, services, electric power and transport and communications. Clients that operate in such industries or sectors have different priorities and, therefore, require different approaches to ensure that the services are tailored to reflect client requirements and expectations. NOMOS's management believes that further improvements in its product and service offerings to more closely match the requirements and expectations of NOMOS's clients should help NOMOS to increase its market share in terms of both the number of corporate clients operating in a particular industry or sector and the volume of transactions with such clients.

NOMOS places a strong emphasis on the expansion of its corporate banking operations in regions other than Moscow. NOMOS currently targets 29 regions of the Russian Federation (including the 27 regions in which it already has a presence, as well as the Stavropol territory and the Orenburg region) as key regions for further development of its corporate banking business due to the level of their economic development, their share in the banking services market, the number of companies located in these regions and the volume of foreign trade operations of such companies. See "*— Distribution Network*". NOMOS has developed separate programmes for the development of corporate business in some of Russia's most strategically important regions, including St. Petersburg and the Republic of Tatarstan, and plans to develop programmes for other regions, such as the Krasnodar territory.

In addition to further development of products and services for clients operating in particular industries or sectors, NOMOS also plans to continue expanding the range of products and services it offers in other ways, with a particular emphasis on factoring services, leasing, and fee-based products, such as cash management services, payment services, letters of credit and guarantees. In addition, NOMOS expects to enhance the attractiveness of its products and services through the launch of bonus programmes for corporate clients and through further improvements in the pricing of NOMOS's products and services based on a more precise calculation of the cost of such products and services to NOMOS.

Corporate Banking Operations

NOMOS's corporate banking operations principally include corporate lending, deposit taking, foreign trade and project finance, issuance of guarantees, settlement and cash operations, factoring and payroll services for corporate clients.

Corporate Lending. NOMOS's corporate lending products include various types of loans such as term loans, non-revolving credit lines, revolving credit lines and multi-currency revolving and non-revolving credit lines as well as overdrafts, including overdrafts with and without monthly repayments of principal or with transition period terms for new clients. Corporate lending discussed here does not include lending related to foreign trade and project finance, which are discussed separately below. The commercial terms of NOMOS's corporate loans differ, depending on the tenor of the loan, the client's internal rating, its financial condition, the collateral securing the loan and other factors.

Loans to corporate clients generally require collateral such as securities or real estate or/and guarantees or other assurance arrangements. As at 31 December 2010, 53.1 per cent. of NOMOS's gross loans to legal entities (by total volume) were secured by pledges of real estate, securities, contract proceeds, rights to purchase precious metals and other property and 30.0 per cent. was guaranteed by enterprises and banks. See "*Asset, Liability and Risk Management — Credit Risk — Credit Policies and Procedures — Collateral and Guarantees*".

In recent years, NOMOS has been able to better diversify its loan portfolio geographically. As at 31 December 2010, the largest amount of outstanding gross corporate loans outside of Moscow and the Moscow region was in the Tyumen region (including the KMAO and the Yamalo-Nenets autonomous district) (11.9 per cent.), St. Petersburg and the Leningrad region (6.0 per cent.), the Novosibirsk region (3.2 per cent.) and the Khabarovsk territory (2.0 per cent.). The acquisition of BKM has significantly diversified NOMOS's corporate loan portfolio geographically. As a result, the share of loans issued in Moscow and the Moscow region decreased from 81.5 per cent. as at 31 December 2009 to 63.7 per cent. as at 31 December 2010.

Deposit Products. NOMOS's deposit products for corporate clients include more than a dozen types of term deposits to address the varying needs of its clients and several different types of settlement accounts that the clients need to conduct day-to-day transfer and cash operations. Term deposits differ from each other based on, among other things, whether or not additional funds may be deposited in an account, whether funds may be withdrawn prior to the expiration of the term of the deposit or whether the term of the deposit may be extended. There are also more specialised term deposit products, including overnight deposits, multi-currency deposits and deposits for companies that manage retirement savings or funds for providing housing for military personnel. Corporate current accounts represent a particularly important source of funding for NOMOS as they are a less expensive source of funding than term deposits, although they also bear interest based on average monthly balances, minimum balances or daily account balances depending on the type of account.

After the onset of the global financial and economic crisis in the autumn of 2008, NOMOS made significant efforts to strengthen its deposit funding base. NOMOS updated its deposit product range from just two standard deposit products at the beginning of 2008 to more than a dozen products by the end of 2010, thus allowing its corporate clients to more effectively manage their liquidity. NOMOS's campaign to strengthen its funding base was at the centre of its corporate banking activities in 2009. In that year, NOMOS successfully participated in tenders for deposits from several large state-owned enterprises. The total number of new deposit agreements with corporate clients increased from 3,227 in 2008 to 15,592 in 2009.

Trade Finance. As part of its corporate banking business, NOMOS provides trade finance loans and conducts trade-related documentary operations, such as issuing letters of credit and providing guarantees. NOMOS's trade finance loans are generally guaranteed by foreign export credit agencies, including CESCE (Spain), COFACE (France), EDC (Canada), EGAP (Czech Republic), Euler Hermes (Germany), Eximbank (United States), Finnvera (Finland), KUKE (Poland), SACE (Italy), EKF (Denmark), EKN (Sweden), SERV (Switzerland) and SEC (Slovenia). NOMOS also provides pre-export financing, which is financing used by the borrower to produce goods for export, and post-import finance, consisting of deferred payment letters of credit, for its corporate clients. As at 31 December 2010, the nominal or contract amount of outstanding letters of credit issued by NOMOS was RUB 7,626 million.

Project Finance. In 2003, NOMOS commenced its project finance operations, which involve lending to clients to finance their investment projects. Since starting operations, NOMOS has been involved in the funding of more than 60 investment projects in the manufacturing, construction, gold mining, energy and other sectors. A number of these projects have been completed with international funding under guarantees provided by Euler Hermes, SACE, COFACE, SEC and other foreign export credit agencies. Project finance lending was temporarily suspended after the onset of the global financial and economic crisis, but was resumed in the second half of 2010. As at 31 December 2010, the total amount outstanding under project finance facilities extended by NOMOS was RUB 28,665 million.

Guarantees. In addition to guarantees to support the trade finance operations, NOMOS also issues a variety of other guarantees at the request of its corporate clients, which include (i) guarantees of repayment of advance payments, (ii) guarantees of fulfilment of contractual obligations, (iii) payment guarantees, (iv) bank guarantees issued to the Federal Customs Service of the Russian Federation in respect of the obligations of customs brokers, customs carriers, owners of temporary storage warehouses and owners of customs warehouses, (v) guarantees issued to tax authorities in respect of funds overpaid in cases of VAT refunds made upon a taxpayer's request and (vi) guarantees of fulfilment of mandatory public offer obligations of holders of more than 30 per cent. of the shares of an open joint stock company when such holders make a mandatory public offer to other holders of such company's shares. As at 31 December 2010, the aggregate amount of outstanding guarantees and similar commitments provided by NOMOS was RUB 73,609 million.

Factoring. NOMOS has recently hired a team of specialists with significant experience in factoring and, with the help of this team, was able to expand its portfolio from RUB 197 million as at 31 December 2009 to RUB 1,241 million as at 31 December 2010. Currently, principal clients for NOMOS's factoring operations are large suppliers which sell their products to federal retail chains. In addition to the existence of a strong team of specialists, NOMOS's other competitive advantages in factoring also include the existence of sophisticated software for proper monitoring of accounts receivable and its approach to marketing factoring to clients through establishing factoring limits for individual federal retail chains and then approaching their suppliers.

Settlement and Cash Operations. NOMOS's settlement operations principally consist of accepting non-cash payments and processing of non-cash payments made by its clients. Its cash operations include transfer of deposited cash into clients' accounts, cash collection and delivery of cash to a client in banknotes of particular denominations or coins. In addition, NOMOS provides assistance to its corporate clients in preparing necessary documentation for relevant transactions. NOMOS's fee and commission income from settlement operations was RUB 908 million in 2010, while its fee and commission income from cash operations was RUB 496 million in the same year.

Payroll Services. As at 31 December 2010, NOMOS was providing payroll services to 9,045 legal entities. For a description of these programmes, see “— Retail Banking — Products and Services — Deposit Products, Debit Cards and Payroll Services”.

Industry and Sector Focus

In recent years, NOMOS has implemented a number of measures aimed at strengthening its position in the banking services market for corporate clients, including focusing on clients operating in particular industries or sectors such as precious metals, trade, construction, manufacturing, services, electric power and transportation and communications.

Precious Metals. NOMOS provides banking services to approximately one third of Russian gold mining companies. It participates in all principal types of operations with precious metals, which include commission-based purchases and re-sales of precious metals, exports of precious metals; seasonal lending to gold mining companies; providing project finance loans for the development of new deposits of precious metals; syndicated loans; financing of modernisation programmes and assisting miners with hedging of price risk. NOMOS's precious metals operations are a fee based business and NOMOS does not normally take significant positions in precious metals.

In 2010, NOMOS facilitated purchases of 94 tonnes of gold out of 218 tonnes produced in Russia in that year. The Russian Interbank Association of Precious Metals dealers acknowledged NOMOS as the best bank in the Russian precious metals market in 2009.

Manufacturing. The aggregate size of the industrial manufacturing gross loan portfolio of NOMOS was RUB 52.6 billion as at 31 December 2010. Within the manufacturing sector, NOMOS principally targets the defence industry, shipbuilding, companies participating in Rosnano's projects and alcohol producers. The focus on the defence industry is due to the increased government funding of this industry in recent years and the lack of competition from both foreign banks and small Russian commercial banks. The increase in loans and guarantees to shipbuilding companies is related to the participation of such companies in implementing “The Strategy for the Development of Shipbuilding in the Russian Federation” adopted by the Russian government in the end of 2007. Financing of companies participating in Rosnano's projects became possible after state corporation Rosnano, which is responsible for the development of nanotechnologies in Russia, included NOMOS on the list of credit organisations approved for providing financing for companies participating in its projects. In respect of banking services for alcohol producers, NOMOS is the key participant in the market for providing guarantees in favour of Rosalkogolregulirovanie (the alcohol industry regulator), with the approved limits exceeding RUB 10 billion as at 31 December 2010.

Trade. NOMOS has extensive experience dealing with clients operating in both retail and wholesale trade and a deep understanding of these industries. The aggregate size of the wholesale trade and retail trade gross loan portfolios of NOMOS was RUB 40.9 billion and RUB 12.5 billion, respectively, as at 31 December 2010. One of the key focus areas for NOMOS is the financing of inventory purchases of large federal retail chains specialising in sales of household appliances and electronics. NOMOS provides up to 100 per cent. of the financing of such purchases for qualified retailers and has established large lending limits for top retail chains specialising in sales of household appliances and electronics. In addition to providing loans, overdrafts and guarantees, NOMOS's

products and services for such clients also include, among other things, cash collection from their stores, placing of ATMs on their premises, foreign exchange operations as well as advice in respect of mergers and acquisitions transactions

Factoring is another rapidly developing area of cooperation with retailers. Principal clients for NOMOS's factoring operations are large suppliers who sell their products to federal retail chains. See "*Corporate Banking Operations — Factoring*".

Construction. NOMOS focuses on providing banking services to residential construction, commercial real estate and road construction industries. In respect of residential construction, NOMOS has been an active participant in government programmes for the past ten years and continues to be involved in financing residential construction projects that are covered by the programmes of the Agency for Housing Mortgage Lending ("AHML"), as well as in residential construction programmes of the Defence Ministry, Ministry of Internal Affairs and regional programmes for resettlement of people living in obsolete housing. The aggregate size of the housing construction gross loan portfolio of NOMOS was RUB 14.2 billion as at 31 December 2010. NOMOS has been significantly reducing its exposure to residential construction, with the share of residential construction in the loan portfolio decreasing from 7.6 per cent. as at 31 December 2009 to 4.0 per cent. as at 31 December 2010.

In respect of commercial real estate, one of the most dynamic industries in Russia, NOMOS's growth strategy is based on significant experience in lending to companies operating in this industry and a well-functioning risk management system that takes the industry's risk profile into consideration. The commercial real estate construction gross loan portfolio was RUB 11.5 billion as at 31 December 2010.

NOMOS also seeks to expand its cooperation with road construction companies, including within the framework of the federal programme for the modernisation of the Russian transportation system. To facilitate such cooperation, NOMOS has developed a range of specialised products, including guarantees for participation in competitive bidding for construction projects, guarantees of fulfilment of contractual obligations and loans to allow the borrower to fulfil its contractual obligations under a construction contract.

Services. NOMOS's principal clients in this sector are insurance companies and leasing companies. NOMOS has a significant experience in providing banking services to insurance companies. It is accredited by the Russian Association of Autoinsurers to attract deposits of insurance companies that are members of this association in order to guarantee settlements for direct compensation of losses. In respect of banking services to leasing companies, NOMOS benefits from the existence of a strong team of professionals, some of whom have over 15 years of experience in this industry, on-site presence in various regions of the Russian Federation and an operational model that is able to meet the specific financing requirements of leasing companies. The aggregate size of NOMOS's gross loan portfolio of loans to leasing companies was RUB 17.9 billion as at 31 December 2010.

Electric Power Industry. NOMOS's principal clients in this sector are electric power generation and transmission companies. NOMOS has over ten years of experience in and has developed specialised business development programmes for this industry. It plans to actively participate in various modernisation programmes adopted in recent years for the Russian electric power sector, particularly in projects developed by the Federal Grid Company.

In addition, NOMOS has recently expanded its business to the electric power supply industry. It has developed a programme for factoring financing of electric power supply companies and recently signed its first agreement under this programme. NOMOS also seeks to actively participate in financing energy saving projects for residential housing, for instance, financing a programme for installing meters in individual properties.

Transport and Communications. Within this sector, NOMOS principally targets major Russian airlines, railway and road transportation companies and telecommunications operators. The aggregate size of the transportation and communications gross loan portfolio of NOMOS was RUB 9.5 billion as at 31 December 2010. NOMOS has significant experience in working with major Russian airlines. It provides these companies with loans, overdrafts, letters of credit, guarantees, financing of leasing contracts, settlement and cash services and payroll services. In addition, NOMOS also provides banking services to companies that are involved in selling airline tickets, retail trade at airports, fuel and lubricants supplies to airlines and the provision of catering services to airline passengers.

In respect of railway and road transportation companies, NOMOS is accredited with state-owned Russian Railways, by far the largest railway company in Russia, and with the Association of International Automobile Manufacturers "AIAM", which allows NOMOS to provide guarantees that are accepted by Russian Railways or

members of AIAM. In addition, NOMOS is involved in providing guarantees to the Federal Customs Service of the Russian Federation in respect of obligations of road transportation companies and provides financing for leasing contracts for both railway and road transportation companies.

In addition to loans to telecommunications operators, NOMOS also provides them with financing for leasing contracts and guarantees related to their participation in competitive bidding for communications infrastructure projects.

Corporate Banking Organisational Structure

The corporate banking department of NOMOS consists of a corporate banking unit in the head office in Moscow and specialised corporate banking units in selected key branches. The corporate banking unit at NOMOS's head office consists of five departments responsible for particular product lines, the precious metals operations department and three other units responsible for the coordination and development of corporate banking operations: the unit responsible for coordination of corporate banking operations, the corporate business development department and the corporate marketing department. There is also a committee for the development of corporate business operating at the head office level.

Specialised corporate banking units operate in some, but not all, of NOMOS's branches, and coordinate their activities with the activities of the relevant departments of the corporate banking unit at head office. Dedicated personnel in Moscow monitor the performance of individual branches and provides support for the corporate banking activities of these branches. The specialised corporate banking units, managed by a deputy head of the branch responsible for corporate business, report not only to the branch head, but also to the relevant departments of the corporate banking unit at the head office. There are also committees for corporate business development operating at branch level.

Each corporate client of NOMOS has its own dedicated client manager, responsible for the sale of all of NOMOS's products and services to that client, including the origination of loans. Client managers are assisted by support managers, who principally deal with transaction documentation, help to structure transactions with the bank's corporate clients and otherwise support client managers. NOMOS had a total of 296 client managers and support managers as at 31 December 2010, 88 of whom were located in the head office in Moscow and the remaining 208 of whom were located in the various branches. Generally, each client manager is responsible for relationships with 20 to 60 corporate clients, depending on the size and level of complexity of individual corporate clients.

The senior management of NOMOS's corporate banking department regularly looks for ways to more effectively position the offering of NOMOS's corporate products and services and reviews the interest rates, fees and commissions charged for these products and services. To improve the product and service offering and the mechanism for pricing its products and services, NOMOS has established bank-wide standards for documentation in respect of its corporate products and services, designated committees and people responsible for pricing and the management of the product and service offerings, appointed product managers specialising in lending, deposit taking or foreign trade-related products and services, and has established a system for monitoring performance. NOMOS has established standardised pricing policies covering all corporate banking activities; a register of corporate products and services offered by the bank; procedures for the development of new products and services and for the modification of existing products and services; procedures for establishing standard, regional and individual pricing terms; tariff books with pricing terms for each region of the Russian Federation in which NOMOS has a branch providing corporate banking services; standard forms of contracts for various types of products and services; cards with descriptions of principal products and services for its employees and presentation materials for its clients.

The committees responsible for pricing and the management of NOMOS's corporate banking product and service offerings include the committee for pricing terms management, the committee for business development at the head office level, which approves the development plan for products and services, and business development committees at the branch level that can increase or decrease pricing on the bank's products and services by up to 20 per cent. of the standard pricing terms. Senior managers of the corporate banking department are also actively involved in the pricing and management of NOMOS's corporate banking product and service offerings.

Small Business Banking

NOMOS has over five years of experience in working with small businesses, generally defined as businesses with an annual revenue of up to RUB 200 million. Although BKM's approach to segmentation of its clients is currently different from that of NOMOS, NOMOS and BKM are in the process of aligning their approaches.

NOMOS management believes that it has a strong competitive advantage in the small business banking segment. There is only a relatively small number of managers with relevant expertise in the Russian market who, in NOMOS's management's view, understand the needs of small business clients in Russia. These managers typically worked for many years in a small number of institutions which have traditionally specialised in supporting small businesses, such as the European Bank for Reconstruction and Development. Their prior experience of working with small business clients, including during the recent global financial and economic crisis, has enabled them to better understand the preferences and needs of such clients and to more accurately assess such clients' creditworthiness and reliability.

NOMOS frequently participates in programmes targeted at supporting small businesses in Russia. For example, since 2006, NOMOS has been cooperating with the Russian Bank for Development ("RBD", due to be renamed to Small Business Development Bank later in 2011), a subsidiary of VEB specialising in supporting small businesses in Russia and is currently planning to expand such cooperation. Under the terms of NOMOS's programme with RBD, NOMOS receives funding from RBD that is used to extend loans to small business clients. Loans issued under this programme must meet RBD's criteria in terms of the use of proceeds, interest rates and collateral. In addition to the joint programme with RBD, NOMOS participates in several preferential rate loan programmes targeted at supporting small businesses in Moscow, St. Petersburg and certain other Russian cities.

The following table sets out selected financial information for the small business banking segment as at or for the years ended 31 December 2008, 2009 and 2010.

	As at or for the year ended 31 December					
	2008	% of total for NOMOS	2009	% of total for NOMOS	2010	% of total for NOMOS
	(audited)		(audited)		(audited)	
	(in millions of roubles, except percentages)					
					2010 Pro Forma ⁽¹⁾	% of total for NOMOS
					(unaudited)	
Selected financial position data:						
Total segment assets	7,294	2.6%	5,662	2.0%	21,124	4.0%
of which, net loans to clients	7,294	3.9%	5,334	3.3%	19,129	5.6%
Total segment liabilities	3,919	1.6%	4,808	2.0%	24,630	5.2%
of which, client accounts	3,906	3.4%	4,699	3.5%	21,989	7.0%
Selected income statement data:						
Net interest income	672	5.1%	693	4.0%	1,203	8.4%
Net fee and commission income	170	10.6%	224	12.8%	560	26.5%
Total operating income before						
impairment losses and provision	887	5.7%	979	3.9%	1,839	8.7%
Profit/(loss) before taxation	338	8.1%	(937)	n/a	375	4.1%
Other:						
Approximate number of small						
business clients ⁽²⁾	24,736		31,573		63,929	n/a

(1) The pro forma information provided above has been extracted without material adjustment from the pro forma financial information in the section "Pro Forma Financial Information".

(2) As at 31 December of the respective year.

Small Business Banking Strategy

NOMOS's management expects small business banking to develop rapidly in Russia in the next several years and intends to significantly improve NOMOS's profile in this segment of the market. NOMOS aims to become one of the five largest lenders by volume of loans to small businesses in Russia in the medium to long term. While increasing its market share, NOMOS management intends to maintain the broad diversification of its small business loan portfolio across sectors. NOMOS expects to grow small business banking significantly

during this period in large part by (i) providing small business clients with a comprehensive package of products and services addressing most of their financing needs, (ii) further developing its segment-based approach to servicing small business clients, (iii) applying NOMOS's existing retail "credit conveyor" (credit applications processing) system in order to streamline the credit decision process and risk management procedures, and (iv) by leveraging its experience in working with Russian governmental and development funds, such as RBD, which have programmes aimed at small business support.

Small Business Banking Products and Services

The types of products and services typically offered by NOMOS to its small business clients vary depending on the scale of operations of such clients. In general, NOMOS divides its small business clients into three categories depending on their annual revenue: "micro" businesses (with annual revenue between RUB 1.5 million and RUB 18 million roubles), "small" businesses (with annual revenue between RUB 18 million roubles and RUB 150 million roubles) and "medium" businesses (with annual revenue between RUB 150 million roubles and RUB 200 million roubles). NOMOS generally offers micro businesses the following products and services:

- loans and overdrafts on current accounts (for individuals) or settlement accounts (for legal entities);
- current accounts, settlement accounts and term deposits;
- various types of cash and settlement services;
- remote (Internet or telephone) banking; and
- retail products for the owner of the business, such as loans (mortgages, car loans and consumer loans), credit and debit cards and deposit accounts.

Loans offered to "micro" businesses typically do not exceed one million roubles. The standard interest rate on short-term rouble-denominated loans (with a term of not more than 12 months) to micro businesses was 18 per cent. per annum as at 31 December 2010, while longer-term loans (with a term from one to three years) had a standard rate of 20 per cent. per annum. Overdrafts are typically provided simultaneously with the opening of a current account or settlement account.

As the scale of operations of small businesses increases, their need for an expanded product and service offering typically also increases. For "small" businesses, NOMOS frequently offers additional products and services, including various types of bank guarantees and payroll services. Loans offered to such businesses are larger in size, typically ranging from one to seven million roubles. The standard rate on short-term rouble-denominated loans to such businesses was 14 per cent. per annum as at 31 December 2010, while longer-term loans had standard rates of 15 per cent. per annum for loans with a term from one to three years and 16 per cent. per annum for loans with a term from three to five years.

For "medium" businesses, NOMOS frequently offers additional products and services that include products and services related to factoring and trade finance, as well as private banking for senior management of the clients. Loans offered to such businesses may exceed seven million roubles. The standard rate on short-term rouble-denominated loans to such businesses was 13 to 13.5 per cent. per annum as at 31 December 2010, while longer-term loans had standard rates of 14-15 per cent. per annum for loans with a term from one to three years and 15-15.5 per cent. per annum for loans with a term from three to five years. As at 31 December 2010, NOMOS made loans with a term from five to ten years to such businesses only at variable rates, with standard variable rates ranging between 8.5 and 10 per cent. above the CBR refinancing rate.

Small Business Banking Organisational Structure

The small business banking department of NOMOS reports to the head of retail and small business banking. The department consists of three divisions: the product management division, the sales management division and the credit management division. The product management division analyses the market, develops new products and modifies existing products, develops pricing proposals, monitors the effectiveness of various sales channels and the quality of client service and is responsible for the business planning and budgeting functions. The sales management division helps to organise and monitors the effectiveness of small business operations at NOMOS's branches and other outlets. In addition, it is also responsible for hiring personnel for small business units at branches and other outlets and for training of their personnel. The credit management division performs the underwriting, collection and certain back office functions.

As at 31 December 2010, there were 66 specialised small business banking units at NOMOS (four in Moscow and 62 in branches and other outlets outside of Moscow). These units typically consist of five people, although some have up to ten employees, who report to both to the head of the branch or outlet and to the small business banking department in Moscow. These units are actively involved in attracting new small business clients and in providing new loans to small business clients. Branches and other outlets of NOMOS that do not have specialised small business banking units also provide products and services to small business clients, particularly in respect of deposit taking, cash and settlement services and sale of other non-loan products. They do not, however, provide loans to small business clients. NOMOS also distributes its small business banking products through remote channels, including its call centre and Internet.

Retail Banking

NOMOS launched retail banking operations in 2001, focusing on providing retail banking services to employees of its corporate clients. In 2007, NOMOS started developing a broader retail banking offering. The development of the retail banking business remains one of the principal strategic priorities for NOMOS. As at 31 December 2010, NOMOS had almost 1.4 million retail clients across Russia, including approximately 900,000 payroll clients and approximately 500,000 clients acquired through the distribution network, approximately 617 private banking clients with deposits greater than RUB 10 million and 1,355 private banking clients with deposits between RUB 2.5 million and RUB 10 million. According to the CBR and based on the data prepared in accordance with RAS, as at 1 February 2011, NOMOS's market shares in deposits of individuals and loans to individuals were 1.1 per cent. and 1.0 per cent., respectively.

The following table sets out selected financial information for the retail banking segment as at or for the years ended 31 December 2008, 2009 and 2010.

As at or for the year ended 31 December								
	2008	% of total for NOMOS	2009	% of total for NOMOS	2010	% of total for NOMOS	2010 Pro Forma ⁽¹⁾	% of total for NOMOS
	(audited)		(audited)		(audited)		(unaudited)	
(in millions of roubles, except percentages)								
Selected financial position data:								
Total segment assets	22,181	8.0%	22,017	7.9%	52,973	10.0%	n/a	
of which, net loans to clients	16,719	8.9%	14,725	9.1%	36,533	10.8%	n/a	
Total segment liabilities	42,989	17.5%	51,727	21.5%	120,877	25.6%	n/a	
of which, client accounts	42,925	37.0%	50,057	37.3%	120,088	38.3%	n/a	
Selected income statement data:								
Net interest income	1,594	12.1%	1,672	9.5%	2,368	16.5%	4,488	22.0%
Net fee and commission income	237	14.8%	303	17.3%	341	16.1%	1,231	31.8%
Total operating income before impairment losses and provision	1,910	12.3%	2,073	8.2%	2,871	13.5%	5,943	19.3%
Profit/(loss) before taxation	(86)	n/a	(455)	n/a	(731)	n/a	460	3.5%
Other:								
Approximate number of retail clients (in thousands) ⁽²⁾	308		426		1,398		n/a	

(1) The pro forma information provided above has been extracted without material adjustment from the pro forma financial information in the section "Pro Forma Financial Information".

(2) As at 31 December of the respective year.

NOMOS provides its retail banking services principally through its branch network, including outlets that specialise exclusively in retail banking operations. See "— Distribution Network".

Retail Banking Strategy

In developing its retail business, NOMOS seeks to (i) expand its retail distribution channels, (ii) leverage a full mix of distribution channels, including branches, outlets, remote and direct sales channels, to offer efficient customer service, (iii) leverage its cross-selling potential, (iv) continue developing a comprehensive platform for a full private banking offer and (v) develop a comprehensive offer in the affluent customer segment.

To expand its retail customer base, NOMOS plans to focus on new customer acquisition, including leveraging its corporate client base to introduce salary projects and “bank-at-work” systems, developing its branch network, further increasing its cross-selling activities and continuing its product-based marketing campaigns. NOMOS expects to rely on multiple distribution channels available to it, including ATMs, call centre, mobile banking and Internet banking, to approach potential customers. In particular, in 2011, NOMOS joined the United Settlement System’s (Russian acronym — ORS) ATM network (“**ORS ATM Network**”) giving access to over 7,000 ATMs across Russia. NOMOS will also continue to invest in strengthening the NOMOS and BKM brands.

NOMOS intends to continue to develop a combination of distribution channels to enable it to provide high-quality coverage of all segments of its target customer base. NOMOS had a total of 300 branches and other outlets as of 31 December 2010 and plans to expand its branch network to approximately 450 branches and other outlets in the medium term. To service its client base better, NOMOS intends to further strengthen its diverse team of sales personnel, including sales, service and payroll personnel for mass market clients, relationship managers and product specialists for affluent segment clients and specialised personal bankers for NOMOS’s private banking clients.

NOMOS has demonstrated considerable success in implementing its cross-selling strategy in 2010, having launched an active campaign of selling pre-approved cash loans to payroll customers in May 2010, with more than 100,000 customers contacted. NOMOS intends to use similar campaigns to cross-sell to other client segments and to BKM’s client base of over 840,000 individuals. NOMOS has also been successful in cross-selling insurance products to its clients, having demonstrated an almost one in five success on new loan contracts in December 2010. NOMOS also pursues co-branding initiatives with leading Russian companies. For example, BKM has a joint membership card programme with UTair, a leading airline in Western Siberia, with over 20,000 active card programme participants.

NOMOS aims to build a platform which would allow it to develop a full private banking offer, aiming to become a primary bank for core clients with liquid assets of over U.S.\$5 million. NOMOS intends to achieve these objectives by using open private-banking architecture, including through collaboration with UCI Pioneer, Flemings, BNP Paribas, RBS Coutts and Banque du Luxembourg, as well as by leveraging a broad base of distribution channels, including targeting top managers and owners of key corporate clients, accessing high-net-worth individuals in regions via branch heads, leveraging the network of investment management partners, as well as cross-referrals and network of agents offered by other external partners including real estate brokers.

NOMOS also plans to develop a comprehensive offer for affluent segment clients leveraging its private banking expertise. NOMOS aspires to capture a three per cent. market share of the affluent segment in Russia in the medium to long term. The key target products for the affluent customers include mortgages and cash loans, high-yield saving and deposit accounts, and credit cards. The products are intended to be sold through dedicated sales specialists and supported by branding initiatives focused on the affluent segment. NOMOS intends to significantly expand its distribution capacities aimed at affluent segment customers, which involves hiring approximately 300 managers over 5 years with good local network of contacts and the creation of 60-70 dedicated zones for servicing affluent segment clients in 15 to 20 Russian cities.

Retail Banking Products and Services

NOMOS’s principal retail banking products and services include current accounts, term deposits, credit and debit cards, consumer loans, mortgage loans, asset management products, settlement and cash services and insurance.

Deposit Products, Debit Cards and Payroll Services. NOMOS has been accepting deposits from individuals since 1994 and has been a member of the Russian system of mandatory insurance of retail deposits since 2005. NOMOS currently offers several types of current accounts and term deposits that vary by term, currency, interest accrual period and whether or not additional funds can be deposited in the account or withdrawn prior to the expiration of the term of the deposit. As at 31 December 2010, NOMOS offered the following types of deposit accounts.

	Type	Target Client Segment	Term	Interest payment	Annual interest rate for ruble-denominated accounts
NOMOS-Maximalny . .	Classic (no deposit of additional funds or early withdrawals permitted)	Mass and affluent	Three months, six months, one year, two years	Monthly with interest capitalisation option	up to 8.0%
NOMOS-Nakopitelny .	Deposit of additional funds permitted	Mass and affluent	Three months, six months, one year	Monthly with interest capitalisation option	up to 7.6%
NOMOS-Multivalutny	Multicurrency	Mass and affluent	Three months, six months, one year	At the end of the term	up to 6.6%
NOMOS-Pensionny Nakopitelny	For population groups, such as retirees, dependent on social benefits payments; deposit of additional funds permitted	Mass	Six months, one year	Monthly	up to 7.4%
NOMOS-Dohodny Schet	High interest rate current account	Mass and affluent	Current account	Monthly	4.5% to 5.5%

BKM currently has a different range of deposit products, but NOMOS and BKM seek to harmonise their deposit product offerings in the near future.

NOMOS launched its debit card business in 2001, originally to assist NOMOS's corporate clients with their payroll programmes. With the development of its retail banking business, NOMOS also started issuing debit cards to other retail clients. As at 31 December 2010, NOMOS had approximately one million outstanding debit cards. NOMOS has recently developed and implemented a co-branding project with UTair, an airline based in Western Siberia. Debit (and credit) cards issued by NOMOS as part of its participation in this project are provided to clients who participate in UTair's frequent flyer programme. Purchases that are made using these bank cards allow the participants to earn miles that can be used to purchase flights on UTair, upgrade their flights and receive other benefits.

A large proportion of deposit accounts at NOMOS were opened through its payroll programmes for corporate and small business clients. As at 31 December 2010, NOMOS had over 800,000 payroll clients. Payroll programmes involve the opening of rouble bank accounts at NOMOS for employees of its corporate and small business clients, the establishment of a system for the transfer of such employees' salaries to their respective accounts and the issuance of VISA™ or MasterCard™ debit cards to those employees. If requested by a corporate or a small business client, NOMOS can place an ATM at the premises of such client for the convenience of the employees. The management of NOMOS considers the further development and expansion of payroll services to be one of the priority areas for NOMOS's retail operations.

Retail Lending Products. NOMOS's principal retail lending products comprise mortgages, consumer loans, vehicle loans and credit cards. The principal components of NOMOS's existing retail loan portfolio are mortgage and consumer loans, which accounted for 58.8 per cent. and 35.3 per cent., respectively, of NOMOS's gross loans to individuals as at 31 December 2010. NOMOS generally makes loans to individuals in roubles, but also has a small portfolio of loans made in U.S. dollars. Loans usually require a surety from another individual. The commercial terms of NOMOS's retail loans differ, depending on the retail product, the client's credit quality and financial condition, collateral, maturity and other factors.

In respect of all of its retail loans, NOMOS typically offers more favourable terms to those of its clients who participate in its payroll services programmes. This reflects NOMOS's greater understanding of the financial position of such clients and its interest in expanding the range of services being provided to its existing clients.

Consumer loans. NOMOS launched its consumer lending programme in 2006, but, in response to the onset of the global financial and economic crisis, temporarily stopped making new unsecured consumer loans. The programme was re-activated in 2010 when economic conditions in Russia significantly improved.

As at 31 December 2010, NOMOS offered its clients several types of consumer loans of up to one million roubles in principal amount, with a term of up to three years and an interest rate starting at 18 per cent. per annum. Some of the loans are only available to payroll clients.

Mortgage loans. NOMOS launched its residential lending programme in 2006. Mortgage loans are granted only to fund purchases of completed residential property, as opposed to residential property under construction, and are secured by mortgages over residential properties being financed or other residential properties owned by borrowers. While NOMOS generally believes mortgage lending to be an important part of its retail business, during the recent global financial and economic crisis, in response to a decline in housing market prices and with a view to minimising its exposure to housing market volatility, NOMOS suspended the extension of new mortgage loans. NOMOS resumed its mortgage lending programmes in February 2011 under the AHML programme, which requires the lender and the borrower to prepare loan documentation using standard AHML loan documentation format and also requires the borrower to satisfy certain eligibility criteria. Residential mortgage loans under the AHML programme are originated by NOMOS and then can be sold to AHML or its regional operators after a certain period of time. If NOMOS decides to sell such loans to AHML, it will receive fee and commission income in the form of origination fees and loan remittance fees for its participation in this programme.

Since April 2006, BKM has taken part in a mortgage programme subsidised by the government of the KMAD called the "Improvement of housing conditions of the Khanty-Mansiysk Autonomous District population for the period from 2005 to 2015" programme (the "**KMAD Programme**"), which aims to provide affordable housing to the population of the KMAD. The KMAD Programme is promoted by the government of the KMAD across its territory on behalf of BKM and other participating banks. As part of its participation in this programme, BKM grants loans to real estate developers, is involved in plans for the development of new residential buildings and social infrastructure and the reconstruction and refurbishment of existing buildings and provides mortgage loans to its clients. NOMOS offers mortgage loans under the KMAD programme only to applicants who satisfy credit and documentation criteria specified in the programme. The government of the KMAD pays a proportion of the borrowers' interest payments on their behalf. In addition to the mortgage loans originated under the KMAD Programme, BKM provides mortgage loans on the basis of standard documentation developed by AHML and VEB and then may re-sell such loans to AHML or VEB, as applicable, or to their respective regional operators after a certain period of time. As at 31 December 2010, the amount of such mortgage loans typically ranged between RUB 300,000 and RUB 8 million, with interest rates of 10.5 per cent. per annum to 13.75 per cent. per annum and a term of up to 30 years.

Vehicle loans. NOMOS currently offers loans to individuals for the purposes of purchasing a range of vehicles, including cars, motorcycles, snowmobiles, car trailers, buses and mini-buses but only through BKM, as NOMOS suspended the issuance of new car loans after the onset of the global financial and economic crisis. As at 31 December 2010, vehicle loans were typically made in amounts of between RUB 50,000 and RUB 5 million, although there was no formally established upper limit on the size of such loans. Car loans that qualify for the state programme of support for Russian car manufacturers benefit from state subsidies covering a proportion of interest rate payments on such loans. The amount of such subsidy is limited to two thirds of the refinancing rate of the CBR.

Credit cards. NOMOS launched its credit card business in 2008. Initially, credit cards were issued principally to individuals who opened accounts at NOMOS through their payroll programmes. As the retail banking business grew, NOMOS also began to issue credit cards to other retail clients. Payroll clients, however, frequently remain eligible to obtain NOMOS credit cards with favourable terms, such as a longer grace period, a favourable interest rate and a higher credit limit. NOMOS has its own processing centre, which allows NOMOS to issue and service VISA and MasterCard credit and debit cards. As at 31 December 2010, NOMOS had approximately 45,600 outstanding credit cards. Credit cards issued by BKM principally target its existing accountholders. Credit limits typically range between RUB 20,000 and RUB 300,000 with grace periods for up to 50 days.

Settlement and Cash Services. NOMOS offers its retail clients various payment, money transfer and foreign exchange services. NOMOS management plans to increase the proportion of payment, money transfer and foreign exchange transactions that are completed through ATMs and remote channels such as Internet and telephone banking to increase margins on these operations.

Investment Banking

NOMOS's investment banking business principally consists of interbank lending and repo operations, trading of fixed income securities and currencies as well as underwriting of public and private offerings of fixed income securities. The investment banking department is also responsible for managing NOMOS's liquidity position in compliance with instructions from the Treasury Department. The brand name of NOMOS is widely recognised in the Russian investment banking industry and the strength of this business has been reflected in numerous awards received by NOMOS in recent years. See “— *Competitive Strengths — Profitable and Resilient Investment Banking Business*”.

The following table sets out selected financial information for the investment banking segment as at or for the years ended 31 December 2008, 2009 and 2010.

	As at 31 December							
	2008	% of total for NOMOS	2009	% of total for NOMOS	2010	% of total for NOMOS	2010 Pro Forma ⁽¹⁾	% of total for NOMOS
	(audited)		(audited)		(audited)		(unaudited)	
(in millions of roubles, except percentages)								
Selected financial position data⁽²⁾:								
Total segment assets of which:	63,657	22.9%	76,584	27.6%	161,854	30.5%	n/a	
net loans to banks and other credit institutions	22,272	100%	17,069	63.7%	34,152	82.1%	n/a	
financial assets at fair value through profit or loss	25,337	72.5%	54,467	94.5%	55,468	99.9%	n/a	
Total segment liabilities	76,350	31.1%	32,633	13.6%	84,387	17.9%	n/a	
Selected income statement data:								
Net interest income	492	3.7%	4,000	22.8%	2,939	20.5%	3,789	18.5%
Trading and foreign exchange results	(457)	n/a	5,443	94.6%	2,329	81.8%	3,181	75.6%
Total operating income before impairment losses and provision	378	2.4%	9,667	38.4%	5,534	32.2%	7,167	23.2%
Profit before taxation	218	5.2%	8,712	157.3%	4,271	46.4%	5,070	39.0%

(1) The pro forma information provided above has been extracted without material adjustment from the pro forma financial information in the section “*Pro Forma Financial Information*”.

(2) As at 31 December of the respective year.

Investment Banking Strategy

In its investment banking strategy, NOMOS management continues to view interbank lending, repo operations, proprietary securities trading, foreign exchange trading and brokerage as its core lines of business, the key target counterparty base to be serviced being banks ranking between the 100 to 500 largest Russian banks. NOMOS also intends to deepen and expand the range of services it offers to the clients and counterparties in order to be in a position to expand its investment banking revenue and capture additional margin.

In particular, NOMOS management intends to (i) leverage its existing corporate banking customer base to further develop its debt capital markets origination franchise, (ii) intensify cross-selling of other investment banking products, such as foreign exchange services, via further integration of operations with the corporate banking business, (iii) expand its brokerage business, and (iv) leverage NOMOS's existing distribution channels to develop asset management business.

Interbank Lending and Repo Operations

NOMOS's management believes that NOMOS is one of the largest market makers by volume of operations in the Russian interbank lending and repo market, with over 400 active counterparties and clients (including banks and other financial institutions). NOMOS's key target segment in this business consists of smaller Russian banks that rank in size, in terms of their assets, from 100 to 500 among all Russian banks. NOMOS's management believes that obtaining funds at rates available to NOMOS and then on-lending such funds to these banks through secured loans constitutes a profitable and relatively low risk business. Loans are generally extended under credit line facilities with securities serving as collateral for the loans. Such loans enable small and medium-sized banks to obtain immediate access to liquidity in a currency of their choice with loans extended to

them for a term of up to one month. NOMOS is also involved in interbank lending and borrowing operations with the top 100 Russian banks, but margins on such operations are generally much lower, so profits in this segment of the market are generated through large volume of transactions.

Foreign Exchange Trading

NOMOS's management believes that NOMOS is one of the largest Russian participants in the currency spot market with an annual turnover of U.S.\$530 billion. The principal currency pairs on the Russian spot market are rouble/U.S. dollar, U.S. dollar/euro and rouble/euro. NOMOS conducts its currency conversion transactions by providing access to its two-sided quotes (bid and ask) on any currency pair to its clients and offering competitive spreads and lots during extended business hours.

NOMOS's management believes that NOMOS is also one of the largest Russian market makers in the currency futures and OTC forwards market. Clients of NOMOS enter into currency futures transactions to adjust their foreign exchange position with a time horizon of up to 12 months. The existence of open credit lines from many Western banks matched by demand from NOMOS's clients (principally small, medium and large Russian private banks and Russian corporate clients) allows NOMOS to provide competitive two-sided quotations to its clients. In addition, NOMOS actively participates in currency swap and option transactions.

Brokerage Services

NOMOS offers brokerage services on MICEX and RTS. It provides brokerage services through both traditional brokerage and internet trading systems. As at 31 December 2010, NOMOS had approximately 760 clients, most of which were private banking clients, using its brokerage services. NOMOS's brokerage services are offered both in the head office in Moscow and in its regional branches. In 2010, NOMOS's fee and commission income from brokerage operations amounted to RUB 23 million. In addition, NOMOS offers its clients custodial services for a wide range of securities, including shares, promissory notes, deposit certificates and bonds.

Capital Markets Origination

Since 2002, NOMOS has been providing arrangement and underwriting services primarily for debt securities offerings of Russian companies in the domestic market. In 2010, NOMOS co-managed 9 domestic corporate bond issues (excluding bond issues of NOMOS and BKM). NOMOS's fee and commission income from operations related to underwriting amounted to RUB 12 million in that year.

To support its debt capital markets origination, NOMOS employs a team of research specialists which regularly produces research reports on the Russian fixed income market.

Proprietary Portfolio

NOMOS engages in proprietary dealing with both fixed income and equity securities. Fixed income securities accounted for 97 per cent. of its securities portfolio as at 31 December 2010. Debt securities in NOMOS's trading portfolio consist of bonds issued by Russian banks, Russian corporate bonds, Eurobonds and local rouble-denominated bonds issued by the Russian Federation as well as municipal bonds issued by Russian municipalities. As at 31 December 2010, the majority of these debt securities were included in the CBR's Lombard List, which is a list of high-quality securities that are accepted by the CBR as collateral required to receive Lombard loans.

Income from proprietary operation is generated principally through (i) gains arising on the increase in the fair value of securities held in the portfolio, (ii) gains on sales of securities, (iii) interest and dividends on securities held in the portfolio, (iv) transactions that originate from NOMOS's two-sided quotes (bid and ask) for clients purchasing or selling domestic bonds or Eurobonds of Russian issuers and (v) arbitrage (two-sided) repo transactions for clients raising or placing funds in the repo market, with loans secured by bonds, Eurobonds or shares of Russian issuers.

In order to manage NOMOS's market risk exposure arising from proprietary operations, NOMOS sets strict limits on overall portfolio size and on positions in the same issuer.

Liquidity Management

The investment banking department is responsible for the execution of transactions required for the management of NOMOS's liquidity position. Liquidity management involves formation and management of a portfolio of marketable securities and other financial instruments, management of the overdraft portfolio and handling repo and reverse repo operations, in each case in compliance with specific instructions and guidelines from the Treasury Department (for example, no leverage of the portfolio is allowed).

Distribution Network

As at 31 December 2010, the branch network of NOMOS consisted of its head office in Moscow, 51 branches and 249 other outlets located in 41 out of 83 regions of the Russian Federation. These 41 regions represented 83.7 per cent. of total Russian gross regional product in 2008, according to Rosstat.

NOMOS views (i) Moscow and the Moscow region, (ii) the Tyumen region, including the KMAD and the Yamalo-Nenets autonomous district, (iii) St. Petersburg and the Leningrad region, (iv) the Novosibirsk region and (v) the Khabarovsk territory as its key areas of presence. As of 31 December 2010, 80.7 per cent. of NOMOS's branches and other outlets were located in these five areas of the Russian Federation.

The following table sets out more detailed on the population (as of 31 December 2009) and gross regional product (as of 31 December 2008) of the five key regions of the Russian Federation in which NOMOS has branches or other outlets and on the number of such branches and other outlets as at 31 December 2010.

	Population (in thousands)	% of total population of Russia	Gross regional product (in billions of roubles)	% of total in Russia	Number of branches
Moscow and Moscow region	17,316	12.2%	10,127	29.5%	47
St. Petersburg and Leningrad region	6,229	4.4%	1,805	5.3%	13
Khabarovsk territory	1,400	1.0%	273	0.8%	7
Novosibirsk region	2,650	1.9%	460	1.3%	49
Tyumen region ⁽¹⁾	3,430	2.4%	3,144	9.2%	126
Other 32 regions	73,763	52.0%	12,901	37.6%	58
Total for NOMOS	104,788	73.8%	28,710	83.7%	300
Total for Russia	141,909	100.0%	34,320	100.0%	

Source: Rosstat. Data from Rosstat's website last visited as of 30 April 2011.

(1) Includes the KMAD and the Yamalo-Nenets autonomous district.

NOMOS's management believes that the expansion of its regional network has helped to reduce the risks related to the concentration of NOMOS's business in Moscow.

All of NOMOS's branches offer its clients a full range of banking services. The remainder of the branch network consists of (i) 228 universal outlets that offer a full range of banking services (other than those complex corporate banking deals only permitted to be executed at certain branches and head office) and (ii) 72 retail outlets that offer a full range of NOMOS's retail services to individuals as well as conduct settlement operations for corporate clients, although these outlets do not extend loans to corporate clients.

As at 31 December 2010, NOMOS owned the premises of 170 of its branches and other outlets located outside of Moscow and rented the premises of 103 of its branches and other outlets located outside of Moscow. The majority of its Moscow branches and other outlets (19 out of 27), and its head office that consists of eight separate buildings in Moscow, operate in rented premises.

In addition to the development of its branch network, NOMOS is also actively developing other distribution channels, such as ATMs, Internet banking and telephone banking.

NOMOS operated 1,480 ATMs at as 31 December 2010. In addition, NOMOS joined the ORS ATM network giving access to over 7,000 ATMs across Russia in 2011. While the functionality of particular ATMs varies, in general, ATMs allow clients of NOMOS to (1) withdraw or deposit cash; (2) transfer funds between accounts; (3) subscribe to the SMS notification service; (4) make various payments (such as payments for the services of telephone operators, satellite TV operators and Internet services providers); (5) change the pin on a bank card; and (6) receive information about (i) account balances and the last eight transactions; (ii) available

funds on a bank card, (iii) the minimum and full amount of due payments on credit cards and the date by which such payment must be received by the bank and (iv) exchange rates at which foreign exchange transactions can be executed. All of these services, with the exception of a change of pin, which costs 10 roubles, are available to NOMOS's clients for free.

Internet banking allows clients of NOMOS to, among other things, (1) receive information about bank card-linked current accounts and term deposits, and debit and credit cards, (2) obtain statements for bank card-linked accounts, (3) change their password for Internet banking services, (4) transfer funds between accounts, (5) subscribe to an SMS notification service, (6) add funds into accounts, (7) repay loans, (8) pay for utility services or make various other commission-free payments (such as payments for the services of telephone operators, satellite TV operators and Internet services providers), (9) make repeat payments based on saved pre-filled in standard forms, (10) review the history of payments and fund transfers and (11) pre-plan payments and fund transfers.

Employees

As at 31 December 2010, NOMOS had 9,408 employees, of which 4,545 were the employees of BKM. The following table sets out information on the distribution of NOMOS's personnel across various types of offices as at 31 December 2008, 2009 and 2010.

	As at 31 December							
	2008	% of total for NOMOS	2009	% of total for NOMOS	2010 (excluding BKM)	% of total for NOMOS	2010	% of total for NOMOS
NOMOS head office	1,779	34.0%	1,550	31.8%	1,756	36.1%	1,756	18.7%
Offices in Moscow	589	11.3%	560	11.5%	355	7.3%	355	3.8%
Network outside Moscow	2,612	49.9%	2,707	55.4%	2,679	55.1%	7,206	76.6%
Non-banking subsidiaries	252	4.8%	65	1.3%	74	1.5%	92	0.9%
Total	5,232	100%	4,882	100%	4,863	100%	9,408	100%

(1) Data for NOMOS excluding BKM.

The large increase in the number of NOMOS's employees in 2010 as compared to 2009 was principally due to the acquisition of control of BKM in December 2010. In 2009, the number of employees across the branch network of NOMOS (other than branches and other outlets acquired from other banks) decreased by approximately 20 per cent. as a result of the impact of the global financial and economic crisis and NOMOS's efforts to increase the efficiency of business operations by reducing its headcount. However, the total number of NOMOS's employees increased due to the impact of the acquisitions of VEFK Siberia Bank and the branches and other outlets of Commercial Bank Moskovskiy Capital. Going forward, NOMOS expects that its headcount will grow as it expands its business activities.

NOMOS offers employees at all levels training on a variety of areas provided by both in-house specialists and external professional consultants. NOMOS is implementing a performance management system focused on increasing the effectiveness of its staff by establishing key performance indicators for different position levels within the organisation, identifying employee development needs and creating career development plans.

In determining its salary policy, NOMOS continuously monitors market salaries and seeks to remain in line with the market on total compensation of its employees.

Currently, there is no trade union representation in NOMOS.

Information Technology

NOMOS considers its IT system to be of critical importance for providing safe and reliable services to its clients, improving profitability and supporting growth of its operations. NOMOS's IT platform enables the automation of various operational processes and is key to lowering the cost of client service, improving control over all key business operations and strengthening its competitive position in the market.

All branches and other outlets of NOMOS are connected through an integrated wide area network ("WAN"). There is at least one additional backup link to each branch. In addition, Moscow locations, including the head office and the main data centre, are connected through a metropolitan area network ("MAN"). NOMOS has procedures in place for system and data emergency restoration with remote back-up data storage facilities. Data is provided to the remote back-up storage facilities from all departments at its branches and other outlets.

NOMOS continuously seeks to improve its IT infrastructure. In the past NOMOS used several core banking systems across its distribution network. To streamline operations, the management has decided to transition all relevant operations to one core banking system provided by Center of Financial Technologies (“CFT”), one of the leading Russian banking software vendors. As of 31 March 2011, the new core banking system was operational in NOMOS’s head office in Moscow and in approximately 50 per cent. of its branches. The current schedule provides that the new core banking system will be implemented and operational in all of NOMOS’s branches by June 2011 and in all subsidiary banks’ offices (other than the recently acquired BKM) by September 2011. NOMOS’s non-banking subsidiaries are expected to switch to this new core banking system by the end of 2011.

A centralised IT platform based on CFT allows NOMOS to fully integrate its business operations, centralise the collection of banking and accounting data in real-time and reduce the functional limitations on future growth, in particular, in the small business banking and corporate banking segments. In addition, having one core banking system allows NOMOS to have full information about each client immediately available across the whole territory of Russia, as well as location-independent client service and sales capabilities.

In addition to the switch to the single core banking system, NOMOS is also in the process of gradually simplifying, rationalising and harmonizing various other IT systems and applications, which are necessary to support the future growth of its operations. NOMOS’s envisioned IT platform, which also supports the operations of the recently acquired BKM, comprises the following critical components:

- *Distribution channels* — CFT (which supports corporate banking, small business banking and retail banking operations throughout NOMOS’s branch network), OpenWay (ATMs), Reuters/BL and CONDOR + (investment banking operations) and BSS (Internet banking).
- *Underwriting* — the “credit conveyer” system, which is an automated workflow system for the processing of credit applications based on Oracle BPM. Coupled with a recently implemented scoring solution from Expirian, this system is expected to provide NOMOS with advanced IT and business intelligence support for credit applications processing. The system has so far been successfully implemented for pre-approved retail loans and is currently expected to be rolled out for all retail loans by June 2011 and for loans to small businesses by the end of 2011. The roll out of this system for the corporate banking segment is currently expected to occur in 2012.
- *Products* — CFT (corporate, small business and retail products), Diasoft Custody and CONDOR + (investment banking and treasury products) and OpenWay (plastic cards).
- *Processing* — OpenWay (plastic cards) and CFT (payments).
- *Support processes* — CFT (accounting and reporting)
- *Business intelligence* — a data warehouse solution that will be supported by R-Style and SAS. NOMOS launched the project to implement the new data warehouse solution at the beginning of 2011. The initial focus is on providing business intelligence support to the risk management and marketing functions, complementing the existing solution that provides high-quality support to the finance function.

All current and planned IT projects demonstrate management’s commitment to providing clients and business managers with advanced IT solutions and are expected to improve client service, management’s control over key business operations, cross-selling capabilities and operational efficiency.

IT Integration of NOMOS and BKM

The integration of IT of NOMOS and BKM is one of the most critical components in the overall process of integrating the two banks. See “*Integration of BKM*”. NOMOS’s management currently plans to create one joint IT organisation for NOMOS and BKM by the end of 2013.

In respect of joint IT infrastructure and organisation, there will be common data centres (both main and disaster recovery sites), a common corporate network and one IT department for the combined entity, which is expected to help NOMOS to realise cost savings and to achieve operational efficiency.

In respect of software applications, the envisioned NOMOS IT platform will mostly be based on NOMOS's IT infrastructure and software applications, with specific, but limited add-ons from BKM (for example, Open Way for card processing and ATMs).

Post-integration, CFT, which is currently being implemented at NOMOS, will be the core banking system for both banks. That will enable them to be run on a fully-centralised, fully-automated core banking system. OpenWay, currently used by BKM, will be the common card processing system. Expirian and the Oracle BPM system, currently deployed by NOMOS, will become the common scoring and "credit conveyer" (credit applications processing) systems. The investment banking department will use CONDOR + as the main trading platform and Diasoft Custody for custodial services, both of which are currently used by NOMOS. Benefits of the full IT integration include quality, transparency and speed of managerial and financial reporting, the ability to access information about each client across the whole territory of Russia (essential for cross-selling and efficient sales/service interactions among NOMOS's various business units), full centralisation of risk management systems and risk monitoring processes and an increase in the level of operational efficiency.

Insurance

NOMOS's management believes that NOMOS's overall insurance coverage compares favourably with the average insurance coverage for other Russian banks. NOMOS's fixed assets, cash in transit and cash in hand are covered by general insurance arrangements covering normal risk. Adequate directors' and officers' liability insurance is in place.

Litigation

From time to time, NOMOS is involved in litigation in the ordinary course of its business activities such as disputes with clients, counterparties and tax authorities. Neither NOMOS-Bank, nor any member of NOMOS is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which NOMOS-Bank is aware) during the 12 months preceding the date of this Prospectus that may have, or has had, significant effects on the NOMOS's financial position or profitability.

PRO FORMA FINANCIAL INFORMATION

The Pro Forma Consolidated Financial Information is unaudited and was derived from the audited financial statements of NOMOS and BKM for the year ended 31 December 2010 prepared in accordance with IFRS and included elsewhere in this prospectus. The Pro Forma Financial Information is prepared on a basis consistent with the accounting policies described in the NOMOS Financial Statements included elsewhere in this Prospectus.

The unaudited pro forma consolidated income statement of NOMOS for the year ended 31 December 2010 and unaudited pro forma selected financial information for the reportable business segments of NOMOS were prepared for illustrative purposes only to show the effects on the income statement of NOMOS for the year ended 31 December 2010 as if the acquisition had occurred on 1 January 2010. The pro forma income statement and pro forma selected financial information for the reportable business segments, because of their nature, address a hypothetical situation and therefore do not represent the actual operating results of NOMOS had the acquisition been completed on 1 January 2010 and should not be construed as indicative of future operating results.

The unaudited pro forma consolidated income statement for the year ended 31 December 2010 is based on the NOMOS Financial Statements for the year ended 31 December 2010 and the BKM Financial Statements which are included elsewhere in this Prospectus. The unaudited pro forma selected financial information for the reportable business segments is based on the selected financial information for the reportable business segments of NOMOS extracted without material adjustment from the NOMOS Financial Statements for the year ended 31 December 2010 and the selected financial information for the reportable business segments of BKM for the year ended 31 December 2010 extracted without material adjustment from the BKM Financial Statements which are included elsewhere in this Prospectus. The pro forma income statement and pro forma selected financial information for the reportable business segments should be read in conjunction with the Financial Statements included elsewhere in this Prospectus.

The following table sets forth unaudited pro forma consolidated income statement of NOMOS for the year ended 31 December 2010.

	Year ended 31 December 2010			
	NOMOS ⁽¹⁾	BKM ⁽²⁾	Pro Forma Adjustments ⁽³⁾	Pro Forma
	(audited)	(in millions of roubles)	(unaudited)	
Interest income	29,350	14,671	(393) ^{(3)(a)}	43,628
Interest expense	(14,988)	(8,587)	393 ^{(3)(a)}	(23,182)
Net interest income before provision for impairment losses on interest bearing assets	14,362	6,084	—	20,446
Provision for impairment losses on interest bearing assets	(4,148)	(275)	—	(4,423)
Provision on impaired loans to customers	(3,703)	(274)	—	(3,977)
Provision on investments held to maturity	(445)	(1)	—	(445)
Net interest income after provision for impairment losses on interest bearing assets	10,214	5,809	—	16,023
Net fee and commission income	2,116	1,754	—	3,870
Fee and commission income	2,485	2,207	—	4,692
Fee and commission expense	(368)	(453)	—	(822)
Net other non-interest income	5,015	1,334	—	6,349
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	1,988	1,058	—	3,046
Securities	1,702	137	—	1,839
Derivatives on precious metals	80	1,037	—	1,117
Derivatives on foreign currency	276	(76)	—	200
Other derivatives	(71)	(40)	—	(111)
Net gain on foreign exchange operations	625	646	—	1,271
Net (loss)/gain on operations with precious metals	245	(1,049)	—	(804)
Net gain/(loss) on investments available-for-sale	(9)	705	—	696
Net gain/(loss) on disposal of loans	1,196	409	—	1,605
(Allowance)/ recovery of allowance for impairment losses on other transactions	246	(426)	—	(180)
Impairment of investments available-for-sale	(2)	—	—	(2)
Loss from revaluation of investment property	(94)	(218)	—	(312)
Other income	822	209	—	1,031
Operating income	17,345	8,897	—	26,242
Operating expenses	(8,018)	(4,831)	—	(12,849)
Impairment of buildings and constructions	(116)	(286)	—	(402)
Operating profit before income tax	9,211	3,780	—	12,991
Income tax expense	(1,785)	(761)	—	(2,546)
Net profit	7,426	3,019	—	10,445
Attributable to:				
Equity holders of the parent	7,385	3,074	(1,498) ^{(3)(b)}	8,962
Non-controlling interest	41	(55)	1,498 ^{(3)(b)}	1,483
BKM net profit attributable to equity holders of NOMOS	—	3,074	(1,498) ^{(3)(b)}	1,576

(1) Extracted from NOMOS Financial Statements.

(2) Extracted from BKM Financial Statements.

(3) Pro forma adjustments consist of (a) elimination of interest income and interest expense recorded by NOMOS and BKM during the year ended 31 December 2010 in their separate financial statements which are related to investments made by BKM in promissory notes issued by NOMOS and investments made by NOMOS in promissory notes issued by BKM during the year and (b) the allocation of part of BKM's net profit to non-controlling shareholders. These are the only pro forma adjustments directly attributable to the acquisition and expected to have a continuing impact on NOMOS's operations. There are no other adjustments attributable to the acquisition of control of BKM by NOMOS.

The following table sets forth unaudited pro forma consolidated income statement data for NOMOS broken down by business segment for the year ended 31 December 2010.

	Year ended 31 December 2010			
	NOMOS ⁽¹⁾	BKM ⁽²⁾	Pro Forma	Pro Forma
	(audited)		Adjustments	(unaudited)
Net interest income				
— corporate banking	7,360	2,412	—	9,772
— small business banking	1,203	467	—	1,670
— retail banking	2,368	2,120	—	4,488
— investment banking	2,939	850	—	3,789
— treasury and asset-liability management unit	481	235	—	716
— unallocated	11	0	—	11
Total	<u>14,362</u>	<u>6,084</u>	<u>—</u>	<u>20,446</u>
Net fee and commission income				
— corporate banking	1,215	541	—	1,756
— small business banking	560	345	—	905
— retail banking	341	890	—	1,231
— investment banking	44	(23)	—	21
— treasury and asset-liability management unit	(52)	1	—	(51)
— unallocated	8	0	—	8
Total	<u>2,116</u>	<u>1,754</u>	<u>—</u>	<u>3,870</u>
Total operating income before provision for impairment losses				
— corporate banking	10,768	3,493	—	14,261
— small business banking	1,839	1,141	—	2,980
— retail banking	2,871	3,072	—	5,943
— investment banking	5,534	1,633	—	7,167
— treasury and asset-liability management unit	137	185	—	322
— unallocated	98	74	—	172
Total	<u>21,247</u>	<u>9,598</u>	<u>—</u>	<u>30,845</u>
Operating expenses				
— corporate banking	(2,377)	(1,120)	—	(3,497)
— small business banking	(1,451)	(300)	—	(1,751)
— retail banking	(2,241)	(1,966)	—	(4,207)
— investment banking	(524)	(796)	—	(1,320)
— treasury and asset-liability management unit	(85)	(21)	—	(106)
— unallocated	(1,456)	(914)	—	(2,370)
Total	<u>(8,134)</u>	<u>(5,117)</u>	<u>—</u>	<u>13,251</u>
Profit before taxation				
— corporate banking	6,590	1,941	—	8,531
— small business banking	375	525	—	900
— retail banking	(731)	1,191	—	460
— investment banking	4,271	800	—	5,071
— treasury and asset-liability management unit	47	164	—	211
— unallocated	(1,341)	(839)	—	(2,182)
Total	<u>9,211</u>	<u>3,780</u>	<u>—</u>	<u>12,991</u>

(1) Extracted from NOMOS Financial Statements.

(2) Extracted from BKM Financial Statements.

The unaudited pro forma consolidated statement of financial position of NOMOS as at 31 December 2010 was prepared for illustrative purposes only to facilitate the discussion of the underlying performance of NOMOS excluding the impact of the acquisition of control of BKM on 16 December 2010. This information is provided to give a better understanding of the results of NOMOS. The pro forma statement of financial position, because of its nature, addresses a hypothetical situation and therefore does not represent the actual financial position of NOMOS had the acquisition not been completed in 2010.

The unaudited pro forma consolidated statement of financial position of NOMOS as at 31 December 2010 is based on the NOMOS Financial Statements as at 31 December 2010 and the BKM Financial Statements as at 31 December 2010 which are included elsewhere in this Prospectus. The pro forma statement of financial position should be read in conjunction with the Financial Statements included elsewhere in this Prospectus.

The following table sets forth unaudited pro forma consolidated statement of financial position of NOMOS excluding BKM as at 31 December 2010.

	Year ended 31 December 2010			
	2010			
	NOMOS ⁽¹⁾	BKM ⁽²⁾	Pro Forma Adjustments ⁽³⁾	Pro Forma
	(audited)		(unaudited)	
	(in millions of roubles)			
ASSETS				
Cash and balances with the Central Bank of the Russian Federation	40,489	(8,518)	—	31,971
Minimum reserve deposits with the Central Bank of the Russian Federation	2,817	(951)	—	1,866
Precious metals	4,677	(16)		4,661
Financial assets at fair value through profit or loss	55,522	(2,733)	1,479 ^{(3)(b)}	54,268
Due from banks	41,577	(22,221)	8 ^{(3)(a)}	19,364
Loans to customers	339,302	(100,833)	80 ^{(3)(a)}	238,549
Investments available-for-sale	25,763	(24,461)	12,738 ^{(3)(b)}	14,040
Investments held to maturity	852	—	—	852
Property, plant and equipment	10,976	(5,037)	157 ^{(3)(a)}	6,096
Goodwill	598	—	(598) ^{(3)(d)}	—
Intangible assets	2,602	—	(2,506) ^{(3)(d)}	96
Other assets (including deferred tax)	5,043	(3,499)	141 ^{(3)(a)}	1,685
Total assets	<u>530,217</u>	<u>(168,270)</u>	<u>11,499</u>	<u>373,446</u>
LIABILITIES AND EQUITY LIABILITIES				
LIABILITIES				
Financial liabilities at fair value through profit or loss	1,005	(530)	—	475
Deposits from banks	59,839	(14,884)	(52) ^{(3)(a)}	44,903
Customer accounts	313,376	(101,248)	(1,322) ^{(3)(a)}	210,806
Bonds and Eurobonds	34,412	(6,043)	1,997 ^{(3)(a)}	30,366
Promissory notes	33,168	(17,522)	—	15,646
Deferred income tax liabilities	1,182	(201)	(189) ^{(3)(a)}	792
Other liabilities	2,209	(841)	—	1,368
Subordinated debt	27,091	(5,288)	297 ^{(3)(a)}	22,100
Liabilities	<u>472,282</u>	<u>(146,557)</u>	<u>731</u>	<u>326,456</u>
EQUITY				
Share capital	5,741	(11,282)	11,282 ^{(3)(c)}	5,741
Share premium	15,859	(4,551)	4,551 ^{(3)(c)}	15,859
Property plant and equipment revaluation reserve	717	(873)	873 ^{(3)(c)}	717
Revaluation of investments available-for-sale	6	(273)	273 ^{(3)(c)}	6
Retained earnings	24,560	(4,701)	4,701 ^{(3)(c)}	24,560
Equity attributable to the shareholders of the parent company	<u>46,883</u>	<u>(21,681)</u>	<u>21,681^{(3)(c)}</u>	<u>46,883</u>
Non-controlling interest	11,052	(32)	(10,913) ^{(3)(e)}	107
Total Equity	<u>57,935</u>	<u>(21,713)</u>	<u>10,768</u>	<u>46,990</u>
Total Liabilities and Equity	<u>530,217</u>	<u>(168,270)</u>	<u>11,449</u>	<u>373,446</u>

- (1) Extracted from NOMOS Financial Statements.
- (2) Extracted from BKM Financial Statements.
- (3) Pro forma adjustments represent (a) the reversal of consolidation entries recorded by NOMOS as a result of the acquisition of BKM in order to reflect the fair values of the corresponding BKM assets and liabilities at the acquisition date as required by IFRS, (b) the reversal of intercompany balances eliminated in NOMOS's consolidated accounts represented by available-for-sale investments made by BKM in promissory notes issued by NOMOS and investments at fair value through profit and loss made by NOMOS in promissory notes issued by BKM, (c) the reversal of the entries recorded by NOMOS upon consolidation of BKM to eliminate BKM's equity attributable to the parent company when preparing NOMOS consolidated financial statements, (d) the reversal of goodwill and intangible assets recorded by NOMOS as a result of the acquisition of BKM and presented on pages F-36 and F-67 of this document, respectively and (e) the reversal of the interest attributable to non-controlling shareholders of BKM recorded by NOMOS upon consolidation of BKM. There are no other adjustments attributable to the acquisition of control of BKM by NOMOS.

The pro forma unaudited consolidated equity attributable to equity holders of the parent of NOMOS as at 31 December 2010 was prepared for illustrative purposes only to allow the computation of the Return on Average Equity on a pro forma basis for the year ended 31 December 2010 as if the acquisition of control of BKM by NOMOS happened on 1 January 2010 in a manner consistent with the preparation of the unaudited proforma consolidated income statement. The pro forma unaudited consolidated equity attributable to equity holders of the parent, because of its nature, addresses a hypothetical situation and therefore does not represent the actual financial position of NOMOS had the acquisition been completed on 1 January 2010 and should not be construed as indicative of future operating results or performance.

The unaudited consolidated equity attributable to equity holders of the parent of NOMOS as at 31 December 2010 is based on the NOMOS Financial Statements as at 31 December 2010 and the unaudited proforma income statement of NOMOS for the year ended 31 December 2010 which are included elsewhere in this Prospectus. The pro forma unaudited consolidated equity attributable to equity holders of the parent should be read in conjunction with the Financial Statements included elsewhere in this Prospectus.

The following table sets forth unaudited pro forma equity attributable to equity holders of the parent as at 31 December 2010 as if the acquisition of control of BKM by NOMOS happened on 1 January 2010:

	as at 31 December 2010		
	NOMOS ⁽¹⁾ (audited)	Pro Forma Adjustments (unaudited)	Pro Forma
Equity attributable to equity holders of the parent	46,883	1,576 ⁽²⁾	48,459

- (1) Extracted from NOMOS Financial statements.
- (2) BKM net profit attributable to equity holders of NOMOS presented on page 66 of this document.

SELECTED CONSOLIDATED FINANCIAL AND OTHER INFORMATION

The selected consolidated financial information presented below has been prepared in accordance with IFRS and is a summary of the Financial Statements or the Pro Forma Financial Information included elsewhere in this Prospectus, and should be read in conjunction with the Financial Statements and “Operating and Financial Review”.

NOMOS’s Consolidated Data

The following tables set forth (i) selected consolidated income statement data for NOMOS for the years ended 31 December 2008, 2009 and 2010 extracted, subject to rounding, from the NOMOS Financial Statements and the Pro Forma Financial Information; (ii) selected consolidated statement of financial position data for NOMOS as at 31 December 2008, 2009 and 2010 extracted, subject to rounding, from the NOMOS Financial Statements; and (iii) selected financial ratios derived from data extracted from the NOMOS Financial Statements, the Pro Forma Financial Information and certain unaudited information as explained in more detail in “Presentation of Financial and Other Information”.

NOMOS’s Consolidated Income Statement Data

	Year ended 31 December			
	2008	2009	2010	2010 Pro
	(audited)	(audited)	(audited)	Forma ⁽¹⁾
		(in millions of roubles)		(unaudited)
Interest income	26,332	36,425	29,350	44,021
Interest expense	(13,137)	(18,905)	(14,988)	(23,575)
Net interest income before provisions for impairment losses on interest bearing assets	13,195	17,520	14,362	20,446
Provisions for impairment losses on interest bearing assets	(5,275)	(12,048)	(4,148)	(4,423)
Net interest income	7,290	5,472	10,214	16,023
Net fee and commission income	1,606	1,753	2,116	3,870
Fee and commission income	1,887	2,080	2,485	4,692
Fee and commission expense	(281)	(327)	(368)	(822)
Net other non-interest income	220	5,671	5,015	6,349
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	(572)	3,736	1,988	3,046
Net gain on foreign exchange operations	673	1,283	625	1,271
Net gain on operations with precious metals	286	68	245	(804)
Net (loss)/gain on investments available-for-sale	10	669	(9)	696
Net gain/(loss) on disposal of loans	—	(172)	1,196	1,605
Recovery of allowance/(allowance) for impairment losses on other transactions	(446)	(233)	246	(180)
Impairment of investments available-for-sale	(2)	(116)	(2)	(2)
Loss from revaluation of investment property	—	—	(94)	(312)
Other income	269	436	822	1,032
Operating income	9,746	12,896	17,345	26,242
Operating expenses	(5,480)	(6,369)	(8,018)	(12,849)
Staff expenses	(3,179)	(3,568)	(4,954)	(7,722)
Other operating expenses	(2,301)	(2,801)	(3,064)	(5,127)
Impairment of buildings and constructions	(78)	(987)	(116)	(402)
Operating profit before income tax	4,188	5,540	9,211	12,991
Income tax expense	(957)	(1,279)	(1,785)	(2,546)
Profit from continuing operations	3,231	4,261	7,426	10,445
Income from discontinued operations	256	—	—	—
Net profit	3,487	4,261	7,426	10,445
Attributable to:				
Equity holders of the parent	3,470	4,253	7,385	8,962
Non-controlling interest	17	8	41	1,483

(1) The pro forma information provided above has been extracted without material adjustment from the pro forma financial information in the section “Pro Forma Financial Information” on page 66 of this document.

NOMOS's Selected Financial Ratios Involving Income Statement Line Items

	Year ended 31 December			
	2008 (unaudited)	2009 (unaudited) (%)	2010 (unaudited)	2010 Pro Forma ⁽¹⁾ (unaudited)
Profitability				
Net interest margin ⁽²⁾	6.6	7.7	5.6	5.3
Net interest income as a percentage of revenue ⁽³⁾	85.3	69.6	67.6	66.3
Net fee & commission income as a percentage of revenue	10.4	7.0	10.0	12.5
Cost income ratio ⁽⁴⁾	35.9	29.2	38.3	43.0
RoAE ⁽⁵⁾	11.8	12.2	18.1	21.1
RoAA ⁽⁶⁾	1.5	1.6	2.5	2.3
Asset quality				
Cost of risk ratio ⁽⁷⁾	3.0	6.1	1.8	1.3

- (1) NOMOS pro forma values included herein have been calculated as explained below; income statement information used in the calculations has been extracted without material adjustments from the Pro Forma Financial Information.
- (2) Net interest margin is calculated as net interest income before provision for impairment losses on interest bearing assets (presented on page 70 of this document) divided by the Average Balance of such interest bearing assets (presented on page 79 of this document). The 2010 pro forma net interest margin was calculated as pro forma net interest income before provision for impairment losses on interest bearing assets (presented on page 66 of this document) divided by the sum of the Average Balances of NOMOS's and BKM's interest bearing assets (presented on pages 79 and 89 of this document, respectively).
- (3) Revenue is calculated as operating income excluding provision for impairment losses on interest bearing assets and allowance for impairment losses on other transactions (presented on page 70 of this document for historical numbers and on page 66 for pro forma numbers).
- (4) The cost/income ratio represents the sum of operating expenses and impairment of buildings and constructions divided by the sum of operating income excluding provision for impairment losses on interest bearing assets and allowance for impairment losses on other transactions (presented on page 70 of this document for historical numbers and on page 66 for pro forma numbers).
- (5) RoAE is calculated as NOMOS's net profit attributable to equity holders of the parent (presented on page 70 of this document) divided by the Average Balance of equity attributable to equity holders of the parent (presented on page 79 of this document). The pro forma RoAE was calculated as pro forma net profit attributable to equity holders of the parent (presented on page 66 of this document) divided by the average of NOMOS's total equity attributable to equity holders of the parent extracted from the audited financial statements as at 31 December 2009 (presented on page 72 of this document) and the Pro Forma Financial Information (presented on page 69 of this document), respectively.
- (6) RoAA is calculated as NOMOS's net profit for the year (presented on page 70 of this document) divided by the Average Balance of its total assets (presented on page 79 of this document). For the purpose of calculating 2010 pro forma RoAA, pro forma net profit (presented on page 66 of this document) was divided by the sum of the Average Balances of NOMOS's and BKM's total assets (presented on pages 79 and 89 of this document, respectively).
- (7) The cost of risk ratio represents the provision on impaired loans to customers (presented on page 83 of this document) divided by the Average Balance of gross loans to customers in the same year (presented on page 79 of this document). The pro forma cost of risk ratio was calculated by dividing the pro forma provision on impaired loans to customers (presented on page 66 of this document) by the sum of the Average Balances of NOMOS's and BKM's gross loans to customers (presented on pages 79 and 89 of this document, respectively).

NOMOS's Consolidated Statement of Financial Position Data

	As at 31 December		
	2008	2009	2010
	(in millions of roubles)		
ASSETS			
Cash, balances and minimum reserve deposits with the CBR	11,259	15,268	43,306
Precious metals	3,309	4,615	4,677
Financial assets at fair value through profit or loss	34,950	57,666	55,522
Loans and advances to banks and other financial institutions	22,272	26,815	41,577
Loans to customers	187,721	162,650	339,302
Investments available-for-sale	91	174	25,763
Investments held to maturity	3,816	1,363	852
Property, plant and equipment	5,164	5,936	10,976
Other assets	9,178	2,540	5,042
Goodwill and intangible assets	35	85	3,199
TOTAL ASSETS	277,795	277,111	530,217
LIABILITIES AND EQUITY			
LIABILITIES			
Financial liabilities at fair value through profit or loss	2,688	504	1,005
Due to banks and the Central Bank of the Russian Federation	68,297	48,397	58,839
Customer accounts	116,071	134,204	313,376
Bonds and Eurobonds	21,642	24,950	34,412
Promissory notes issued	25,303	7,501	33,168
Deferred income tax liabilities	371	911	1,182
Other liabilities	1,161	1,368	2,209
Subordinated debt	9,759	22,664	27,091
TOTAL LIABILITIES	245,290	240,499	472,282
EQUITY			
Total equity attributable to equity holders of the parent	32,431	36,571	46,883
Non-controlling interest	74	41	11,052
Total equity	32,505	36,612	57,935
TOTAL LIABILITIES AND EQUITY	277,795	277,111	530,217

NOMOS's Other Selected Financial Ratios

	As at 31 December		
	2008	2009	2010
	(%)		
Asset quality			
NPL ratio ⁽¹⁾⁽²⁾	1.6	6.2	2.4 ⁽³⁾
NPL coverage ratio ⁽⁴⁾	371.4	153.2	182.3 ⁽³⁾
Capital adequacy (Basel I)			
Tier 1 ratio ⁽⁵⁾	11.2	13.8	10.6
Total capital ratio ⁽⁵⁾	14.9	22.6	15.6
Liquidity			
Net loans to deposits ratio	161.7	121.2	108.3

- (1) Non-performing loans to customers, or NPLs, are loans that are overdue by more than 90 days.
- (2) Ratio of non-performing loans to customers (presented on page 98 of this document) to gross loans to customers (presented on page 95 of this document) as at 31 December of the respective year.
- (3) In connection with the acquisition of control of BKM by NOMOS all loans of BKM were recorded at fair value and included in the performing loan portfolio consistent with requirements of IFRS 3. The fair value amounts include the provision for loan losses recorded in BKM's audited financial statements.
- (4) Ratio of allowance for impairment losses on loans to customers (presented on page 95 of this document) to non-performing loans to customers (presented on page 98 of this document) to as at 31 December of the respective year.
- (5) See "Operating and Financial Review — Capital — Capital Adequacy" on page 108 of this document.

OPERATING AND FINANCIAL REVIEW

The following discussion and analysis of NOMOS's and BKM's operating and financial results is based on, and should be read in conjunction with, the NOMOS Financial Statements and the BKM Financial Statements, respectively, in each case prepared in accordance with IFRS as promulgated by the IASB. Prospective investors should read the following discussion together with the whole of this Prospectus, including "Risk Factors", the NOMOS Financial Statements and the BKM Financial Statements (including the related notes) and should not rely solely on the information set out in this section. See "Selected Consolidated Financial and Other Information."

The following discussion includes certain forward-looking statements that, although based on assumptions that NOMOS's management considers to be reasonable, are subject to risks and uncertainties that could cause actual events or conditions to differ materially from those expressed or implied in this Prospectus. Among the important factors that could cause NOMOS's actual results, performance or achievements to differ materially from those expressed in such forward-looking statements are those factors that are discussed in "Forward Looking Statements" and "Risk Factors" in this Prospectus. All statements other than statements of historical fact, such as statements regarding NOMOS's future financial position and risks and uncertainties related to NOMOS's business, plans and objectives for future operations, are forward-looking statements.

Overview

NOMOS is a leading privately-owned Russian universal bank offering a wide range of banking products and services to corporate, small business and retail clients across the most economically developed regions of Russia. NOMOS also provides investment banking services. NOMOS is the eighth largest banking group in Russia by total assets and the tenth largest banking group in Russia by own capital as of the date of this Prospectus based on end 2010 data for individual banks that constitute Russian banking groups from Interfax-CEA.¹⁷ It was also the second largest privately-held Russian banking group by total assets as of the same date.

NOMOS has four principal areas of business:

- Corporate banking, which includes lending, deposit taking, trade and project finance, issuance of guarantees, settlement and cash operations, factoring and payroll services for corporate clients, with a focus on mid-sized corporates;
- Small business banking, which includes lending to small businesses and individual entrepreneurs, deposit taking, settlement and cash services, issuance of guarantees, payroll services and trade finance;
- Retail banking, which includes lending to retail clients (including consumer loans, credit cards and mortgage loans), deposit taking (current accounts and term deposits) and debit cards, settlement and cash services, as well as private banking; and
- Investment banking, which includes interbank lending, repo operations, proprietary securities trading, foreign exchange trading, brokerage services, capital markets origination, custody services and debt market research.

NOMOS services its clients through an extensive distribution network. As at 31 December 2010, NOMOS's branch network consisted of its head office in Moscow, 51 branches and 249 other outlets in 41 regions throughout the Russian Federation. In addition, as at that date NOMOS, distributed its products and services through 1,480 ATMs and remote access channels, such as Internet banking and telephone banking. NOMOS's geographic focus is principally on the following five areas of the Russian Federation: (i) Moscow and the Moscow region, (ii) the Tyumen region, including the Khanty-Mansiysk and the Yamalo-Nenets autonomous districts, (iii) St. Petersburg and the Leningrad region, (iv) the Novosibirsk region and (v) the Khabarovsk territory. In November — December 2010, NOMOS completed the acquisition of a 51.29 per cent. interest in BKM Bank. As at 31 December 2010, NOMOS's client base included approximately 8,900 corporate clients, approximately 64,000 small business clients and approximately 1.4 million retail clients.

As at 31 December 2010, NOMOS's total assets, net loans to customers and total customer accounts amounted to RUB 530 billion, RUB 339 billion and RUB 313 billion, respectively, and it had total equity of RUB 57,935 million. In 2010, NOMOS posted net profit of RUB 7,426 million. Assuming its acquisition of the controlling stake in BKM Bank had taken place on 1 January 2010, pro forma net profit of NOMOS in 2010 would have been RUB 10,445 million.¹⁸

¹⁷ Source: *Interfax-CEA. Interfax-100. Banks in Russia. Principal operational indicators*. See "Presentation of Financial and Other Information — Market Data".

¹⁸ The pro forma information provided above has been extracted without material adjustment from the pro forma financial information in the section "Pro Forma Financial Information."

Significant Factors Affecting Results of Operations and Financial Position of NOMOS and BKM

Acquisition of Controlling Interest in BKM by NOMOS

In November 2010, NOMOS acquired a 19.98 per cent. in BKM followed by an acquisition of a further stake of 31.31 per cent. on 16 December 2010. As a result of these two transactions, NOMOS acquired a controlling 51.29 per cent. interest in BKM for a total consideration of RUB 12.1 billion in cash. As at 16 December 2010, BKM became a consolidated subsidiary of NOMOS and the results of operations, assets and liabilities and cash flows of BKM were consolidated with those of NOMOS. The consolidated statement of financial position of NOMOS as at 31 December 2010 includes all assets and liabilities of BKM as at 31 December 2010. The net loans to customers, total assets and total liabilities of BKM included in NOMOS's statement of financial position as at 31 December 2010 amounted to RUB 100,833 million, RUB 168,270 million and RUB 146,557 million, respectively. The consolidated income statement of NOMOS for the year ended 31 December 2010 excludes all income statement items of BKM for the period from 16 December 2010 to 31 December 2010 as immaterial compared to the same line items for NOMOS excluding BKM for the whole year. But the acquisition of control of BKM is expected to have a significant impact of NOMOS's income statement items in the future beginning with 2011. See "Pro Forma Financial Information" to see unaudited pro forma consolidated income statement of NOMOS for the year ended 31 December 2010, which was prepared for illustrative purposes only to show the impact of the acquisition of control of BKM by NOMOS on NOMOS's income statement for the year ended 31 December 2010 as if the acquisition had occurred on 1 January 2010. For the description of the principal revenue and cost synergies from the acquisition of control of BKM by NOMOS, see "Business — Integration of BKM".

Russia's Economic Condition

Substantially all of NOMOS's assets and clients are located in, have businesses related to, revenues derived from, and expenses incurred in, the Russian Federation. As a result, NOMOS is substantially affected by Russian economic condition.

The following table sets forth certain Russian economic indicators as at and for the years ended 31 December 2008, 2009 and 2010.

	As at or for the years ended 31 December		
	2008	2009	2010
GDP (in billions of roubles at current prices)	41,276.8	38,786.4	44,939.2
Real GDP growth (in percentages)	5.2	(7.8)	4.0
Surplus/(deficit) of the federal budget of the Russian Federation (in billions of roubles)	1,705.1	(2,322.3)	(1,811.8)
Official reserves (in billions of U.S. dollars)	426.3	439.4	479.4
Inflation ⁽¹⁾ (in percentages)	13.3	8.8	8.8
Nominal appreciation/(depreciation) of the rouble against the U.S. dollar (in percentages)	3.1	(21.7)	4.3
Real appreciation/(depreciation) of the rouble against the U.S. dollar (in percentages)	13.3	(12.2)	9.7

Sources: Rosstat, CBR. Data from Rosstat's or CBR's websites last visited as of 3 April 2011.

(1) Inflation is measured as change in the consumer price index.

As demonstrated in the table above, the state of the Russian economy improved considerably in 2010, with a 4.0 per cent. real GDP growth. The resumption of economic growth had a positive effect on the Russian banking sector. According to the CBR, total loans of Russian banks increased by 11.5 per cent. in 2010 from RUB 19,878 billion as at 1 January 2010 to RUB 22,167 billion as at 1 January 2011. Total deposits increased by 23.1 per cent. during the same period from RUB 17,131 million as at 1 January 2010 to RUB 21,081 million as at 1 January 2011. The rapid improvement in the state of the Russian economy had a significant positive effect on the results of operations and financial condition of NOMOS and BKM in 2010, allowing them to resume growth of the business, while at the same time significantly increasing profitability.

In the end of 2008 and in 2009, the Russian economy was severely impacted by the global financial and economic crisis. According to Rosstat, Russia's real GDP growth was 5.2 per cent. in 2008. In 2009, however, Russia experienced a 7.8 per cent. contraction in real GDP, principally due to the impact of the global financial and economic crisis on the country's economy. The crisis resulted in declines in creditworthiness of many borrowers, a significant reduction in the number and scale of investment and construction projects and an overall decrease in demand for credit, all of which adversely affected NOMOS's and BKM's corporate banking and

small business banking businesses. Falling incomes and rising unemployment reduced consumer demand for retail banking products in the Russian Federation and, consequently, affected NOMOS's and BKM's retail banking businesses. In 2008, NOMOS's investment banking business was also adversely affected by market disruption and particularly by the declines in prices of securities during the most acute stage of the crisis at the end of 2008.

Impact of Economic Changes on Loan Portfolio and Asset Quality

NOMOS's operations were positively affected by the Russian economic recovery that commenced in the second half of 2009 and gathered speed in 2010. The proportion of non-performing loans as a percentage of NOMOS's gross loans to customers decreased from 6.2 per cent. as at 31 December 2009 to 2.4 for the whole consolidated group that included BKM as at 31 December 2010.¹⁵ Reflecting a significant improvement in the quality of its overall loan portfolio, NOMOS's provision for impairment losses on loans to customers' decreased from RUB 11,549 million in 2009 to RUB 3,703 million in 2010, which had a significant positive effect on NOMOS's net income in 2010. As economic conditions in Russia and the quality of NOMOS's overall lending portfolio improved in 2010, NOMOS removed some of the lending restrictions introduced during the crisis and started to lend more in the course of that year, while maintaining its conservative risk management approach. Taking into account both organic growth and the acquisition of control of BKM in December 2010, the size of NOMOS's net loan portfolio increased by 108.6 per cent. between these two dates.

As was the case with nearly all other Russian banks, the crisis had an adverse impact on NOMOS's and BKM's loan portfolios and certain other types of assets, giving rise to significantly increased impairment charges. Clients of NOMOS and BKM have been affected by the deterioration in economic conditions in the second half of 2008 and in 2009, which has impacted the ability of many clients to repay their loans. For example, the proportion of non-performing loans as a percentage of NOMOS's gross loans to customers increased to 6.2 per cent. as at 31 December 2009 as compared to 1.6 per cent. as at 31 December 2008. The proportion of non-performing loans as a percentage of BKM's gross loans to customers increased to 1.0 per cent. as at 31 December 2009 as compared to 0.4 per cent. as at 31 December 2008. Reflecting these developments, NOMOS's provision for impairment losses on loans and advances to customers' increased to RUB 11,549 million in 2009 from RUB 5,090 million in 2008. Similarly, BKM's loan loss allowance in respect of loans and advances to customers increased significantly in 2009 as compared to 2008. In response to the crisis and the resulting decrease in creditworthiness of its corporate and retail clients, NOMOS adopted more stringent lending policies. For measures taken by NOMOS to reduce its exposure to credit risk during the crisis, see "*Asset, Liability and Risk Management — Credit Risk — Credit Policies and Procedures — Measures Taken as a Result of the Impact of Global Financial and Economic Crisis*". Principally as a result of such measures, NOMOS's gross loans to customers decreased from RUB 199,418 as at 31 December 2008 million to RUB 179,677 million as at 31 December 2009.

Changes in the Composition of the Funding Base

In 2009, NOMOS's and BKM's funding bases were adversely affected by the impact of the recent global financial and economic crisis. In the second half of 2008 and in the course of 2009, NOMOS and BKM had to principally rely on funding from customer accounts, Russian government-related sources and shareholders' equity contributions. Beginning in 2008 and until the last quarter of 2009, increased competition for clients resulted in higher interest rates payable on customer accounts for banks operating in the Russian market, with the average interest rate on customer accounts increasing from 8.6 per cent. per annum in 2008 to 10.1 per cent. per annum in 2009 for NOMOS. In addition, the cost of all other types of funding for NOMOS also increased in 2009 as compared to 2008, with the average interest rate on NOMOS's interest bearing liabilities increasing from 8.1 per cent. per annum in 2008 to 10.0 per cent. per annum in 2009. The reduced availability of wholesale funding as a result of the global financial crisis was offset in part by Russian government-supported bank financing on commercially attractive terms. In particular, in 2008, in an effort to recapitalise the Russian banking system, the Russian government authorised VEB to extend unsecured subordinated loans to privately-owned Russian banks that met certain criteria. In 2009, the Russian government extended the above-described bank recapitalisation programme. Both in 2008 and 2009, NOMOS was able to take advantage of government-supported financing, which helped to reduce the upward pressure on funding costs. In 2010, the stability of the Russian and global financial systems increased considerably, resulting in greater availability of various types of funding and lower interest rates on such funding. In such circumstances, both NOMOS and BKM fully repaid deposits of the CBR received under repurchase contracts in 2010 as such deposits were generally a relatively expensive source of financing.

15 In connection with the acquisition of control of BKM by NOMOS all loans of BKM were recorded at fair value and included in the performing loan portfolio consistent with requirements of IFRS 3. The fair value amounts include the provision for loan losses recorded in BKM's audited financial statements.

Impact of Changes in Interest Rates

Net interest income is the largest component of NOMOS's income statement. As such, changes in interest rates in the Russian banking markets have affected NOMOS's and BKM's results of operations in the past and are likely to continue to affect NOMOS's results of operations in the future. During the 2008 through 2010 period, such changes affected NOMOS's and BKM's interest income, interest expense and net interest margin.

Beginning in the last quarter of 2009, the interest rate environment in Russia changed significantly, with the average interest rates on loans to customers and certain other types of interest bearing assets decreasing at a faster rate than the average interest rates on NOMOS's interest bearing liabilities, including re-priced customer accounts. The average interest rate on its interest bearing assets (excluding BKM) decreased by 4.5 per cent. between 2009 and 2010. The average interest rate on interest bearing liabilities of NOMOS (excluding BKM), however, decreased by 2.7 per cent. during the same period. As a result, NOMOS's net interest margin decreased from 7.7 per cent. in 2009 to 5.6 per cent. in 2010 (excluding BKM). See "*— Results of Operations of NOMOS in 2008, 2009 and 2010 — Net Interest Income — Average Balance Sheet and Interest Rate Data*"). Similar trends also affected BKM in 2010, although the magnitude of the decrease in net interest margin as compared to 2009 was smaller for BKM. See "*— Results of Operations of BKM in 2009 and 2010 — Net Interest Income — Average Balance Sheet and Interest Rate Data*"). NOMOS's management currently expects that net interest margin in 2011 will remain broadly in line with the 2010 net interest margin as NOMOS's lending rates have stabilised in the end of 2010 and the beginning of 2011 and the CBR's refinancing rate was increased on 28 February 2011 from 7.75 per cent. to 8.0 per cent.¹⁶

The higher cost of funding for NOMOS in 2009 as compared to 2008 discussed above was more than offset by higher lending rates that NOMOS was able to charge its clients on new and certain pre-existing loans. This reflected a substantial increase in interest rates on new loans to clients in the Russian market during the crisis and the ability of NOMOS to reset the interest rate on its existing loans under certain circumstances, which option was frequently exercised in the end of 2008 and 2009. The average interest rate on NOMOS's interest bearing assets increased by 2.9 per cent. between 2008 and 2009. However, the average interest rate on NOMOS's interest bearing liabilities increased by only 1.9 per cent. during the same period. As a result, NOMOS's net interest margin increased to 7.7 per cent. in 2009 as compared to 6.6 per cent. in 2008. See "*— Results of Operations of NOMOS in 2008, 2009 and 2010 — Net Interest Income — Average Balance Sheet and Interest Rate Data*").

Exchange Rate Fluctuations

Exchange rate fluctuations have affected NOMOS's and BKM's results of operations in the past and are likely to continue to affect NOMOS's results of operations in the future. The recent global financial and economic crisis caused significant exchange rate volatility. From the beginning of 2008 and until mid-summer of 2008, the rouble appreciated against the U.S. dollar from 24.55 roubles per U.S. dollar as of 1 January 2008 to 23.13 roubles per U.S. dollar as of 16 July 2008. However, the rouble fell sharply against the U.S. dollar towards the end of 2008 and in the beginning of 2009 to a low of 36.43 roubles per U.S. dollar as of 19 February 2009. Since then, the rouble has recovered somewhat and the exchange rate was 30.48 roubles per U.S. dollar as of 31 December 2010.

Relatively high volatility of rouble exchange rates against other currencies in 2009 created a favourable environment for NOMOS's foreign exchange trading operations. The sum of NOMOS's net gain on foreign exchange operations, which included the impact of translation differences, and net loss on foreign currency derivatives, increased by RUB 540 million between the two years from RUB 319 million in 2008 to RUB 859 million in 2009 due to a significant increase in net gain on dealing with foreign currency and a much lower loss from translation differences in 2009 in comparison with the prior year.

Despite the decrease in volatility of rouble exchange rates against other currencies in 2010 as compared to 2009, the sum of net gain on foreign exchange operations and net gain or loss on foreign currency derivatives remained relatively stable for both NOMOS and BKM.

Fluctuations in the Value of Securities

The value of NOMOS's and BKM's securities portfolios has fluctuated in the past and the value of NOMOS's securities portfolio is likely to continue to fluctuate in the future, which may have a direct impact on

16 The CBR stated in its official announcement that the reasons for this decision to increase the refinancing rate were high inflationary expectations, signs of capital inflows into Russia on the back of high oil prices and the presence of certain threats to stable economic growth. This was the first time when the CBR had raised the refinancing rate since 2008.

NOMOS's, results of operations and the structure of the balance sheet. For instance, NOMOS incurred a RUB 424 million net loss on its securities at fair value through profit or loss during 2008 due to the deteriorating performance of the Russian securities markets principally as a result of the onset of the global financial and economic crisis in the autumn of 2008. In 2009, however, there was a strong recovery in Russian financial markets, and NOMOS significantly increased the size of its securities portfolio in advance and during such recovery, with the size of held-for-trading securities portfolio increasing from RUB 32,178 million as at 31 December 2008 to RUB 57,160 million as at 31 December 2009. The combination of market recovery and increased size of the securities portfolio allowed NOMOS to recognise a RUB 3,524 million net gain on its securities at fair value through profit or loss in that year.

As the extraordinary conditions of 2009 have not been repeated in 2010, NOMOS's net gain on its securities at fair value through profit or loss in that year was slightly less than a half of its 2009 net gain. The same events that affected Russian securities markets also had a similar effect on BKM, with its net gain in the fair value of its securities through profit or loss decreasing from RUB 635 million in 2009 to RUB 137 million in 2010.

Results of Operations of NOMOS in 2008, 2009 and 2010

The following table sets forth selected consolidated income statement data for NOMOS in 2008, 2009 and 2010 and unaudited pro forma consolidated income statement data for NOMOS in 2010.

	Year ended 31 December			
	2008 (audited)	2009 (audited) (in millions of roubles)	2010 (audited)	2010 Pro Forma ⁽¹⁾ (unaudited)
Interest income	26,332	36,425	29,350	44,021
Interest expense	(13,137)	(18,905)	(14,988)	23,575
Net interest income before provision for impairment losses on interest bearing assets	13,195	17,520	14,362	20,446
Provision for impairment losses on interest bearing assets	(5,275)	(12,048)	(4,148)	(4,423)
Net interest income after provision for impairment losses on interest bearing assets	7,920	5,472	10,214	16,023
Net fee and commission income	1,606	1,753	2,116	3,870
Net other non-interest income	220	5,671	5,015	6,349
Operating income	9,746	12,896	17,345	26,242
Operating expenses	(5,480)	(6,369)	(8,018)	(12,849)
Impairment of buildings and constructions	(78)	(987)	(116)	(402)
Operating profit before income tax	4,188	5,540	9,211	12,991
Income tax expense	(957)	(1,279)	(1,785)	(2,546)
Profit from continuing operations	3,231	4,261	7,426	10,445
Income from discontinued operations	256	—	—	—
Net profit	3,487	4,261	7,426	10,445
Attributable:				
Equity holders of the parent	3,470	4,253	7,385	8,962
Non-controlling interest	17	8	41	1,483

(1) The pro forma information provided above has been extracted without material adjustment from the pro forma financial information in the section "Pro Forma Financial Information".

Net Interest Income

Net interest income before provision for impairment losses on interest bearing assets is calculated as the difference between interest income and interest expense. NOMOS's net interest income before provision for impairment losses was RUB 13,195 million, RUB 17,520 million and RUB 14,362 million in 2008, 2009 and 2010, respectively. The unaudited pro forma net interest income of NOMOS before provision for impairment losses on interest bearing assets, calculated assuming the acquisition of control of BKM by NOMOS had occurred on 1 January 2010, was RUB 20,446 million.¹⁷

¹⁷ The pro forma information provided above has been extracted without material adjustment from the pro forma financial information in the section "Pro Forma Financial Information".

Average Balance Sheet and Interest Rate Data

The following table sets forth the average balances of interest bearing assets and interest bearing liabilities as well as average gross loans to customers, total assets and equity attributable to equity holders of the parent of NOMOS in 2008, 2009 and 2010. The table also sets forth the amounts of interest income earned and interest expense incurred by NOMOS in 2008, 2009 and 2010, as well as the average interest rates at which interest income was earned on such assets and interest expense was incurred on such liabilities. For the purposes of this table and the following table, average balances of assets and liabilities for NOMOS in 2008 represent the average of the opening balance as at 31 December 2007, the unaudited balances at the end of the quarters ended 31 March, 30 June and 30 September 2008 and the closing balance as at 31 December 2008. Average balances of assets and liabilities for NOMOS in 2009 represent the average of the opening balance as at 31 December 2008, the unaudited balances at the end of the quarters ended 31 March, 30 June and 30 September 2009 and the closing balance as at 31 December 2009. Average balances of assets and liabilities for NOMOS in 2010 represent the average of the opening balance as at 31 December 2009, the unaudited balances at the end of the quarters ended 31 March, 30 June and 30 September 2010 and the pro forma closing balance as at 31 December 2010 extracted without material adjustment from the section “*Pro Forma Financial Information*”. Unaudited balances as at the end of the quarters were extracted from unaudited interim consolidated financial statements prepared in accordance with IFRS without material adjustments. See “*Presentation of Financial and Other Information — Average Balance Sheet and Interest Rate Data*”. The results of the analysis would likely be different if alternative or more frequent averaging methods were used and such differences could be material. For the purposes of this table and the following table, the average interest rate for any line item is calculated by dividing interest income or interest expense, as applicable, by the average balance for such line item for the relevant year. Average interest rates in this and the following table are distinct from the period-end effective interest rates discussed in the NOMOS Financial Statements.

	2008			2009			2010 ⁽¹⁾		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
(unaudited) (in millions of roubles, except percentages)									
Interest bearing assets:									
Minimum reserve deposits and foreign currency deposits with the CBR . . .	—	—	—	—	—	—	2,220	29	1.3%
Financial assets at fair value through profit or loss ⁽²⁾	26,205	3,095	11.8%	40,425	6,575	16.3%	47,437	4,526	9.5%
Loans under reverse repurchase agreements to banks and customers	5,864	550	9.4%	9,864	1,458	14.8%	28,441	2,101	7.4%
Loans and advances to banks and other credit institutions	8,608	611	7.1%	9,912	866	8.7%	8,996	396	4.4%
Net loans to customers	159,457	21,984	13.8%	164,426	26,344	16.0%	165,883	22,069	13.3%
Investments available-for-sale	—	—	—	720	613	85.2%	701	123	17.5%
Investments held to maturity	768	92	12.0%	2,423	569	23.5%	1,175	107	9.1%
Total interest bearing assets	200,902	26,332	13.1%	227,770	36,425	16.0%	254,854	29,350	11.5%
Due to banks and the CBR	46,704	3,439	7.4%	49,917	4,525	9.1%	29,341	1,271	4.3%
Customer accounts	65,198	5,607	8.6%	89,598	9,019	10.1%	118,140	8,603	7.3%
Loans under repurchase agreements from banks and customers*	7,288	547	7.5%	2,487	642	25.8%	2,244	127	5.6%
Bonds and Eurobonds	17,063	1,553	9.1%	20,153	2,174	10.8%	21,061	1,949	9.3%
Promissory notes issued ⁽³⁾	20,656	1,498	7.3%	9,632	703	7.3%	10,487	825	7.9%
Subordinated debt	5,244	493	9.4%	17,079	1,841	10.8%	22,768	2,213	9.7%
Total interest bearing liabilities at fixed rates	162,152	13,137	8.1%	188,867	18,905	10.0%	204,042	14,988	7.3%
Gross loans to customers	172,226			188,935			206,074		
Total assets	235,678			269,587			300,036		
Equity attributable to equity holders of the parent	29,351			34,931			40,793 ⁽⁴⁾		
Net interest spread			5.0%			6.0%			4.2%
Net interest income		13,195			17,520			14,362	
Net interest margin			6.6%			7.7%			5.6%

(1) Average balance sheet information for 2010 is computed using quarterly averages and the Pro Forma Statement of Financial Position data for 31 December 2010. See “Average Balance Sheet and Interest Rate Data”.

(2) Exclude equity securities as these securities are not interest earning.

(3) Include interest bearing promissory notes and deposit certificates.

(4) Average equity attributable to equity holders of the parent was calculated reflecting the pro forma equity attributable to equity holders of the parent presented on page 68 of this document.

Changes in Interest Income and Interest Expense — Volume and Rate Analysis

The following table sets forth a comparative analysis of changes in interest income and interest expense of NOMOS in 2008, 2009 and 2010. Changes in interest income or interest expense are attributed to either (i) changes in average balances (volume change) of interest bearing assets or interest bearing liabilities or (ii) changes in average rates (rate change) at which interest income was earned on such assets or at which interest expense was incurred on such liabilities or (iii) changes in rate/volume. Changes in interest income and expense due to changes in volume have been calculated as the change in volume times the prior year's average rate. Changes in interest income and expense due to changes in average rate have been calculated as the change in the average rate times the prior year's volume. Changes in rate/volume have been calculated as the change in average rate times the change in volume.

	2008/2009				2009/2010 ⁽¹⁾			
	Increase / decrease due to changes in				Increase / decrease due to changes in			
	Volume	Rate	Rate / volume	Total change	Volume	Rate	Rate / volume	Total change
(unaudited) (in millions of roubles)								
Interest income:								
Cash and balances with the CBRF less minimum reserve	—	—	—	—	—	—	29	29
Financial assets at fair value through profit or loss	1,680	1,166	633	3,479	1,140	(2,717)	(471)	(2,048)
Loans under reverse repurchase agreements to banks and customers ...	375	317	216	908	2,745	(729)	(1,373)	643
Loans and advances to banks and other credit institutions	93	140	21	254	(80)	(429)	40	(469)
Loans to customers	685	3,564	111	4,360	234	(4,469)	(40)	(4,275)
Investments available-for-sale	—	—	613	613	(16)	(488)	13	(491)
Investments held to maturity	198	88	191	477	(293)	(349)	180	(462)
Total interest income	3,030	5,276	1,786	10,092	3,730	(9,180)	(1,623)	(7,074)
Interest expense:								
Due to banks and the CBR	237	795	55	1,086	(1,865)	(2,362)	974	(3,254)
Customer accounts	2,098	956	358	3,412	2,873	(2,494)	(795)	(416)
Loans under repurchase agreements from banks and customers	(361)	1,335	(879)	95	(63)	(502)	49	(516)
Bonds and Eurobonds	281	288	52	621	98	(309)	(14)	(225)
Promissory notes issued	(799)	9	(5)	(795)	62	55	5	122
Subordinated debt	1,112	73	164	1,349	613	(182)	(60)	371
Total interest expense	2,568	3,456	(256)	5,768	1,719	(5,794)	159	(3,917)
Change in net interest income	462	1,820	2,041	4,324	2,011	(3,386)	(1,782)	(3,157)

(1) Average balance sheet information for 2010 is computed using quarterly averages and the Pro Forma Statement of Financial Position data for 31 December 2010.

Net Interest Income, Net Interest Spread, and Net Interest Margin Analysis

In 2010, NOMOS's net interest income before provision for impairment losses decreased by RUB 3,158 million, or 18.0 per cent., to RUB 14,362 million from RUB 17,520 million in 2009. The decrease was principally due to a decrease in net interest spread in 2010 partially offset by an increase in the average balances during that year. NOMOS's net interest spread was 4.2 per cent. in 2010 (excluding BKM's balances as at 31 December 2010) as compared to 6.0 per cent. in the prior year. NOMOS's net interest margin was 5.6 per cent. in 2010 (excluding BKM) as compared to 7.7 per cent. in 2009. Net interest spread is calculated as the difference between the average interest rate on interest bearing assets and the average interest rate on interest earning liabilities. Net interest margin is calculated as net interest income before provision for impairment losses on interest bearing assets divided by the average balance of such interest bearing assets during a particular year. The decreases in both net interest spread and in net interest margin in 2010 as compared to 2009 were principally due to a 4.5 per cent. decrease in the average rate on interest bearing assets in 2010, which was greater than the 2.7 per cent. decrease in the average rate on interest bearing liabilities during the same period.

In 2009, NOMOS's net interest income before provision for impairment losses increased by RUB 4,325 million, or 32.8 per cent., to RUB 17,520 million from RUB 13,195 million in 2008. The increase was due to a combination of an increase in the average volume of assets and liabilities and an increase in applicable interest rates. During this period, NOMOS's net interest spread increased to 6.0 per cent. in 2009 as compared to 5.0 per cent. in 2008 and NOMOS's net interest margin increased to 7.7 per cent. in 2009 as compared to 6.6 per cent. in 2008. The increases in both net interest spread and in net interest margin in 2009 as compared to 2008 were principally due to a 2.9 per cent. increase in the average rate on interest bearing assets between the two years, which was greater than the 1.9 per cent. increase in the average rate on interest bearing liabilities during the same period.

Interest Income

NOMOS's interest income consists of interest earned on (a) loans to customers, (b) reverse repurchase transactions, (c) loans and advances to banks and other financial institutions, (d) investments held to maturity, (e) financial assets at fair value through profit or loss held-for-trading and (f) investments available for sale.

In 2010, total interest income of NOMOS decreased by RUB 7,075 million, or 19.4 per cent., to RUB 29,350 million from RUB 36,425 million in 2009. The decrease in interest income in 2010 was principally due to a decrease in interest on loans to customers and, to a lesser extent, due to a decrease in interest earned on financial assets at fair value through profit or loss held-for-trading, which accounted for 60.4 per cent. and 29.0 per cent., respectively, of the overall change between the two years.

NOMOS's interest income on loans to customers (excluding loans under reverse repurchase transactions) decreased by RUB 4,275 million, or 18.1 per cent., from RUB 26,344 million in 2009 to RUB 22,069 million in 2010. This decrease was principally due to a decrease in the average interest rate on these loans from 16.0 per cent. in 2009 to 13.3 per cent. in 2010 that reflected changes in market interest rates. The impact of this decrease in the average interest rate on loans to customers was partially offset by an increase in the average balances of loans to customers. As economic conditions in Russia and the quality of NOMOS's overall lending portfolio improved in 2010, NOMOS started to lend significantly more during the year and also removed some of the lending restrictions introduced during the crisis, with the net loans to customers increasing from RUB 162,650 million as at 31 December 2009 to RUB 238,549 million⁽¹⁸⁾ excluding BKM as at 31 December 2010.

Interest income on financial assets at fair value through profit or loss decreased by RUB 2,049 million, or 31 per cent., from RUB 6,575 million in 2009 to RUB 4,526 million in 2010. This decrease was due to a decrease in the average interest rate earned from 16.3 per cent. in 2009 to 9.5 per cent. in 2010. The interest rates on financial assets at fair value through profit or loss started to decrease in the second half of 2009 and further decreased in 2010 alongside with the stabilisation of financial markets and the improvement of the state of the Russian economy, which significantly reduced the funding costs for the issuers of bonds. The decrease in the average interest rate earned on financial assets at fair value through profit or loss was partially offset by an increase in the average balance of such financial assets from RUB 40,425 million in 2009 to RUB 47,437 million in 2010. The increase in volumes was due to excess liquidity that resulted from NOMOS's more conservative lending policies during the peak of the global financial and economic crisis. As a result, NOMOS's holdings of financial assets at fair value through profit or loss increased significantly in the end of 2009 and the beginning of 2010.

In 2009, total interest income of NOMOS increased by RUB 10,093 million, or 38.3 per cent., to RUB 36,425 million from RUB 26,332 million in 2008. This increase was principally due to an increase in interest earned on loans to customers and, to a lesser extent, due to an increase in interest earned on financial assets at fair value through profit or loss, which accounted for 43.2 and 34.5 per cent., respectively, of the overall increase. Interest income on loans to customers increased by RUB 4,365 million, or 22.6 per cent., from RUB 21,979 million in 2008 to RUB 26,344 million in 2009. This increase was principally due to an increase in the average interest rate earned on such loans from 13.8 per cent. in 2008 to 16.0 per cent. in 2009 as NOMOS was able to charge its clients higher rates due to increased market interest rates and higher credit spreads. In addition, NOMOS benefited from its ability to re-price its existing loan portfolio and pass on increased funding cost to its borrowers. On the other hand, the average balance of NOMOS's loans to customers increased by just 3.1 per cent. in 2009 as compared to 2008 as the growth in the NOMOS's loan portfolio slowed down significantly during the global financial and economic crisis due to more stringent lending practices adopted by NOMOS during the peak of the crisis. Interest income on financial assets at fair value through profit or loss increased by

18 This pro forma information has been extracted without material adjustment from the pro forma financial information in the section "*Pro Forma Financial Information*".

RUB 3,480 million, or 112.4 per cent., from RUB 3,095 million in 2008 to RUB 6,575 million in 2009. This increase was due to increases in both the average volume of financial assets and the average rate earned on such financial assets. The increase in average volume was principally due to excess liquidity reinvested in financial assets at fair value through profit or loss as a result of NOMOS's adoption of a more conservative lending policy in 2009. The average interest rate earned on financial assets at fair value through profit or loss increased from 11.8 per cent. in 2008 to 16.3 per cent. in 2009 principally due to the impact of the crisis, which increased the yield on such instruments.

Interest Expense

NOMOS's interest expense consists of interest expense on (a) customer accounts, (b) due to banks and the CBR, (c) debt securities issued, (d) subordinated debt and (e) repurchase transactions. Amounts due to the CBR include various types of secured and unsecured loans from, and deposits by, the CBR (excluding repurchase transactions). This type of financing became important for NOMOS after the onset of the global financial and economic crisis in the autumn of 2008 when obtaining funding from other sources became increasingly difficult. NOMOS paid off all amounts due to the CBR in the course of 2010 as the terms of such funding were no longer considered to be commercially attractive by NOMOS's management.

In 2010, total interest expense of NOMOS decreased by RUB 3,916 million, or 20.7 per cent., to RUB 14,988 million from RUB 18,905 million in 2009. The decrease in interest expense incurred by NOMOS in 2010 as compared to 2009 was principally due to a decrease in interest incurred on amounts due to banks and the CBR, which accounted for 83.1 per cent. of the total change and, to a lesser extent, by decreases in interest expense incurred on repurchase transactions and on customer accounts, partially offset by an increase in interest incurred on subordinated debt. Interest expense of NOMOS on amounts due to banks and the CBR decreased by RUB 3,254 million, or 71.9 per cent., from RUB 4,525 million in 2009 to RUB 1,271 million in 2010. This decrease was due to both a decrease in the average balance and a decrease in the average interest rate on such amounts. The average balance of amounts due to banks and the CBR decreased from RUB 49,917 million in 2009 to RUB 29,341 million in 2010 principally due to repayment by NOMOS of the amounts due to the CBR, which were generally a rather expensive source of financing obtained during the financial crisis. The repayment of the amounts due to the CBR also allowed NOMOS to decrease the average interest rate paid on amounts due to banks and the CBR from 9.1 per cent. in 2009 to 4.3 per cent. in 2010. Interest expense of NOMOS on subordinated debt increased by RUB 371 million, or 20.2 per cent., from RUB 1,841 million in 2009 to RUB 2,213 million in 2010 principally due to an increase in the average balance of NOMOS's subordinated debt. The average amount of subordinated debt increased from RUB 17,079 million in 2009 to RUB 22,768 million in 2010. This increase was partially offset by a decrease in the average interest rate incurred by NOMOS on its subordinated debt from 10.8 per cent. in 2009 to 9.7 per cent. in 2010. During 2009 and 2010, interest expense on customer accounts remained relatively stable with the increase in volume resulting from NOMOS's continuing focus on increasing its deposit base offset by the decrease in the average interest rate on such accounts due to market conditions.

In 2009, total interest expense of NOMOS increased by RUB 5,768 million, or 43.9 per cent., to RUB 18,905 million from RUB 13,137 million in 2008. This increase was principally due to a large increase in interest expense on customer accounts, which accounted for 59.2 per cent. of the change and, to a lesser extent, due to increases in the amounts of interest incurred on subordinated debt, amounts due to banks and the CBR and rouble-denominated bonds and Eurobonds. These increases were offset in part by a significant decrease in the amount of interest incurred on promissory notes in 2009 as compared to 2008. Interest paid on customer accounts increased by RUB 3,412 million, or 60.9 per cent., from RUB 5,607 million in 2008 to RUB 9,019 million in 2009. This increase was due principally to an increase in the average balance of customer accounts as well as an increase in the average interest rate on such accounts. The average balance of customer accounts increased by 37.4 per cent. from RUB 65,198 million in 2008 to RUB 89,598 million in 2009, reflecting NOMOS's strategy to increase the amount of customer accounts in its funding base. In addition, the average interest rate on customer accounts increased from 8.6 per cent. in 2008 to 10.1 per cent. in 2009 reflecting the adverse impact of the global financial and economic crisis on the cost of funding, including customer accounts, due to increased competition for deposits among Russian banks. The RUB 1,349 million increase in interest expense on subordinated debt between the two years was almost entirely due to the increase in the average balance of NOMOS's subordinated debt from RUB 5,244 million in 2008 to RUB 17,079 million in 2009. This increase was the result of a RUB 4.9 billion subordinated loan from VEB made to NOMOS in February 2009 and two subordinated loans made to NOMOS by its shareholders in December 2008 in the amount of RUB 5.0 billion and in July 2009 in the amount of U.S.\$260 million. The RUB 1,086 million increase in interest expense on amounts due to banks and the CBR

was principally due to an increase in the average interest rate on such amounts from 7.4 per cent. in 2008 to 9.1 per cent. in 2009 due to market conditions. The RUB 621 million increase in interest incurred on bonds and Eurobonds was due to both an increase in the average rate on bonds and Eurobonds from 9.1 per cent. in 2008 to 10.8 per cent. in 2009 and an increase in the average balance of bonds and Eurobonds by RUB 3,090 million between the two years. While NOMOS repaid one of its Eurobond issues in early 2009, it issued another one in February 2009 with a larger principal amount. Finally, the RUB 795 million decrease in interest incurred on promissory notes was principally due to a decrease in the average balance of promissory notes in 2009 as compared to 2008 as there was very little demand for NOMOS's promissory notes from Russian corporates in the latter year due to liquidity concerns during the crisis.

Provision for Impairment Losses on Interest Bearing Assets

Provision for impairment losses on interest bearing assets consists of provision for loan impairment for loans to customers and provision for investments held to maturity.

The following table sets forth provision for impairment losses on interest bearing assets for NOMOS in 2008, 2009 and 2010.

	<u>Year ended 31 December</u>		<u>Change from 2008 to 2009</u>	<u>Year ended 31 December</u>	<u>Change from 2009 to 2010</u>
	<u>2008</u>	<u>2009</u>		<u>2010</u>	
	(in millions of roubles, except percentages)				
Provision on impaired loans to customers	5,090	11,549	126.9%	3,703	(67.9)%
Provision on investments held to maturity	185	499	170.2%	445	(10.8)%
Total provision for impairment losses on interest bearing assets	5,275	12,048	128.4%	4,148	(65.6)%
Cost of risk ratio ⁽¹⁾	3.0%	6.1%		1.8%	

(1) Represents the provision on impaired loans to customers divided by the Average Balance of gross loans to customers in the same year.

In 2010, NOMOS's provision for impairment losses on interest bearing assets decreased by RUB 7,900 million, or 65.6 per cent., to RUB 4,148 million from RUB 12,048 million in 2009. This significant decrease was due to the start of credit normalisation in the banking system due to the resumption of economic growth in Russia in 2010 and the improved creditworthiness of Russian corporate, small business and retail borrowers. This has led to a significant decrease in NOMOS's provision on impaired loans to customers between the two years. The cost of risk ratio decreased from 6.4 per cent. in 2009 to 1.8 per cent. in 2010.

In 2009, NOMOS's provision for impairment losses on interest bearing assets increased by RUB 6,773 million, or 128.4 per cent., to RUB 12,048 million from RUB 5,275 million in 2008. Similar to what was happening with loan portfolios of other Russian banks, the quality of NOMOS's loan portfolio deteriorated in 2009 due to the impact of the global financial and economic crisis on the creditworthiness of its borrowers, particularly its corporate borrowers. As a result of the increase in NOMOS's provision for impairment losses on loans to customers, the cost of risk ratio increased from 3.0 per cent. in 2008 to 6.1 per cent. in 2009. Although the non-performing loans coverage ratio decreased from 371.4 per cent. in 2008 to 153.2 per cent. in 2009, it still remained significantly above the 100 per cent. reflecting NOMOS's conservative risk management policy.

Net Non-Interest Income and Expense

NOMOS principally generates non-interest income and expense from trading securities and investments available-for-sale, fee and commission income and gains/losses on operations with foreign currency and precious metals.

Net Fee and Commission Income

Increasing fee and commission income is one of the key strategic priorities of NOMOS. Between 2008 and 2010, NOMOS's net fee and commission income increased by 31.7 per cent from RUB 1,606 million in 2008 to RUB 2,116 in 2010.

The following table sets forth the principal components of NOMOS's fee and commission income, its total fee and commission income, the principal components of its fee and commission expense, its total fee and commission expense and net fee and commission income for NOMOS in 2008, 2009 and 2010.

	Year ended 31 December		Change from 2008 to 2009	Year ended 31 December	Change from 2009 to 2010
	2008	2009		2010	
	(in millions of roubles, except percentages)				
Fee and commission income:					
Settlements	653	712	9.0%	908	27.5%
Documentary operations	572	612	6.9%	820	34.1%
Cash operations	193	406	110.0%	496	22.4%
Operations with precious metals	46	143	208.8%	120	(15.9)%
Brokerage operations	121	39	(67.7)%	23	(41.2)%
Operations related to underwriting	194	18	(90.6)%	12	(57.7)%
Depository services	4	13	225%	6	(33.1)%
Other	104	137	31.7%	100	(27.3)%
Total fee and commission income	1,887	2,080	10.2%	2,485	19.5%
Fee and commission expense:					
Settlement	(124)	(145)	17.2%	(185)	26.8%
Cash operations	(56)	(68)	21.3%	(65)	(3.7)%
Documentary operations	(34)	(60)	79.3%	(45)	(25.5)%
Securities operations	(22)	(23)	5.7%	(20)	(16.5)%
Depository services	(10)	(14)	33.1%	(15)	8.6%
Other	(35)	(16)	(53.9)%	(39)	143.3%
Total fee and commission expense	(281)	(327)	16.3%	(369)	12.8%
Net fee and commission income	1,606	1,753	9.1%	2,116	20.7%

In 2010, NOMOS total fee and commission income increased by RUB 405 million, or 19.5 per cent., to RUB 2,485 million from RUB 2,080 million in 2009. Net fee and commission income increased by RUB 364 million between the two years. NOMOS's unaudited pro forma fee and commission income, fee and commission expense and net fee and commission income in 2010 were RUB 4,692 million, RUB 822 million and RUB 3,870 million, respectively.¹⁸ Each of the three largest components of NOMOS's fee and commission income (income from settlement, documentary operations and cash operations) experienced growth exceeding 20 per cent. in 2010. These increases reflected the strong emphasis placed by NOMOS's management on the development of this part of NOMOS's business. In combination with the recovery of the Russian economy in 2010 that positively affected business volumes. NOMOS's management expects that it would be possible to generate approximately 15 per cent of NOMOS's total revenue from fee and commission income in the medium term.

In 2009, NOMOS total fee and commission income increased by RUB 193 million, or 10.2 per cent., to RUB 2,080 million from RUB 1,887 million in 2008. Net fee and commission income increased by RUB 146 million between the two years. This increase was achieved despite large decreases in fee and commission income from brokerage operations and operations related to underwriting due to the impact of the recent global financial and economic crisis. On the other hand, fees and commissions from settlement operations and documentary operations increased by 9.0 per cent. and 6.9 per cent., respectively, between the two years and fees and commissions from cash operations experienced a particularly rapid growth increasing from RUB 193 million in 2008 to RUB 406 million in 2009. The increase in fees and commissions from cash operations was principally due to the increase in the volume of cash operations of NOMOS driven, in part, by the acquisition of new banks during the crisis that had their own cash operations on which they earned fee and commission income.

¹⁸ This pro forma information has been extracted without material adjustment from the pro forma financial information in the section "Pro Forma Financial Information".

Net Other Non-Interest Income (Excluding Fee and Commission Income and Expense)

The following table sets forth the principal components of net other non-interest income (excluding fee and commission income and expense) of NOMOS in 2008, 2009 and 2010 and of unaudited pro forma net other non-interest income (excluding fee and commission income and expense) of NOMOS in 2010.

	Year ended 31 December		Change from 2008 to 2009	Year ended 31 December 2010	Change from 2009 to 2010	2010 Pro Forma ⁽¹⁾
	2008	2009				
	(audited)		(audited)	(audited)	(audited)	(unaudited)
	(in millions of roubles, except percentages)					
Net gain/(loss) from trading securities	(424)	3,524	n/a	1,702	(51.7)%	1,839
Net gain/(loss) on operations with precious metals ⁽²⁾	494	768	55.4%	325	(57.7)%	313
Net gain on foreign exchange operations ⁽³⁾	319	859	169.8%	901	4.9%	1,471
Net gain/(loss) on investments available for sale ⁽⁴⁾	8	553	6,738%	(11)	n/a	694
Net gain/(loss) on other derivatives	—	(64)	—	(71)	11.1%	(111)
Net gain/(loss) on disposal of loans	—	(172)	—	1,196	n/a	1,605
Loss from revaluation of investment property . . .	—	—	—	(94)	—	(313)
Recovery of allowance/(allowance) for impairment losses on other transactions	(446)	(233)	47.6%	246	n/a	(180)
Other income	269	436	61.8%	822	88.6%	1,032
Net other non-interest income (excluding fee and commission income and expense)	220	5,671	2,482%	5,015	(11.6)%	6,349

(1) The pro forma information provided above has been extracted without material adjustment from the pro forma financial information in the section “Pro Forma Financial Information”.

(2) Calculated as the sum of net gain or loss on operations with precious metals and net gain or loss on derivatives on precious metals.

(3) Calculated as the sum of net gain or loss on foreign exchange operations and net gain or loss on derivatives on foreign currency.

(4) Calculated as net gain on investments available-for-sale minus impairment of investments available-for-sale.

In 2010, NOMOS’s net other non-interest income (excluding fee and commission income and expense) decreased by RUB 656 million, or 11.6 per cent., to RUB 5,015 million from RUB 5,671 million in 2009. The decrease in NOMOS’s net other non-interest income (excluding fee and commission income and expense) was principally due to a smaller gain on securities at fair value through profit or loss between the two years in part due to stabilisation of the markets after the financial crisis. This decrease was partially offset by a RUB 1,196 million net gain on disposal of non-performing loans in 2010.

In 2009, NOMOS’s net other non-interest income (excluding fee and commission income and expense) increased by RUB 5,451 to RUB 5,671 million from RUB 220 million in 2008. This increase was principally due to a change from a RUB 572 million net loss on financial assets and liabilities at fair value through profit or loss in 2008 to a RUB 3,736 million net gain in 2009. The large net gain on financial assets and liabilities at fair value through profit or loss in 2009 was principally due to the RUB 3,524 million net gain in the fair value of NOMOS’s securities. The gain was realised as a result of a combination of a strong recovery in Russian financial markets in the aftermath of the particularly acute stage of the financial crisis in the end of 2008 and the beginning of 2009 and the increase in the size of NOMOS’s securities portfolio in 2009, with the size of held-for-trading securities portfolio increasing from RUB 32,178 million as at 31 December 2008 to RUB 57,160 million as at 31 December 2009. NOMOS increased the size of its securities portfolio in 2009 in order to be better positioned for a recovery in the Russian financial markets. The net loss on financial assets and liabilities at fair value through profit or loss in 2008 resulted principally from a RUB 424 million net loss in the fair value of NOMOS’s securities due to the deteriorating performance of the Russian securities markets as a result of the onset of the global financial and economic crisis in the autumn 2008. In addition, the increase in NOMOS’s net non-interest income (excluding fee and commission income and expense) was affected by (i) a RUB 545 million increase in net realised gain on investments available-for-sale in the year ended 31 December 2009 as compared to the prior year principally resulting from the strong recovery in Russian financial markets in 2009 and (ii) a RUB 540 million increase in net gain on foreign exchange operations between the two years due to a significant increase in net gain on dealing with foreign currency and a much lower loss from translation differences in 2009 in comparison with the prior year.

Operating Expenses

The following table sets forth the principal components of operating expenses of NOMOS in 2008, 2009 and 2010. Payroll and bonuses was the largest component of operating expenses in all three years, accounting for 51.0 per cent., 49.0 per cent. and 55.1 per cent. of such expenses in 2008, 2009 and 2010, respectively.

	Year ended 31 December		Change	Year ended	Change
	2008	2009	from 2008	31 December	from 2009
			to 2009	2010	to 2010
	(in millions of roubles, except percentages)				
Payroll and bonuses	2,793	3,120	11.7%	4,440	42.3%
Unified social tax	386	448	16.1%	514	14.7%
Depreciation of property, plant and equipment	270	395	46.2%	435	10.2%
Rent expenses	469	403	(14.2)%	342	(15.2)%
Taxes other than income tax	276	325	17.9%	325	(0.0)%
Property, plant and equipment maintenance	250	265	6.1%	301	13.5%
Professional services	149	158	6.0%	319	101.4%
Security expenses	78	189	141.8%	204	8.0%
Payments to the Deposit Insurance Fund	138	175	26.4%	210	19.9%
Telecommunications	108	156	44.4%	162	4.0%
Stationery and other office expenses	164	131	(19.8)%	116	(11.7)%
Advertising expenses	191	167	(12.5)%	144	(13.7)%
Amortisation of intangible assets	32	60	85.8%	83	(39.1)%
Representation expenses	67	51	(24.3)%	74	45.4%
Insurance expenses	20	16	(23.1)%	24	53.0%
Write-off goodwill	—	134	—	—	—
Other expenses	89	176	97.8%	326	85.5%
Total operating expenses	5,480	6,369	16.2%	8,018	25.9%
Cost/income ratio ⁽²⁾	35.9%	29.2%		38.3%	

(1) Cost/income ratio represents operating expenses and impairment of buildings and constructions divided by operating income before provision for impairment losses on interest bearing assets and allowance for impairment losses on other transactions.

In 2010, NOMOS's total operating expenses increased by RUB 1,649 million, or 25.9 per cent., to RUB 8,018 million from RUB 6,369 million in 2009. NOMOS's unaudited pro forma operating expenses were RUB 12,848 million in 2010.¹⁹ The increase in payroll and bonuses in 2010 as compared to 2009 accounted for 78.5 per cent. of the change in total operating expenses between these two years. This increase was principally due to (i) payment of bonuses in 2010 as compared to 2009 when bonuses were generally not paid due to the impact of the crisis and, to a lesser extent, (ii) an increase in the average number of employees and (iii) an increase in salaries of NOMOS's employees in 2010 due in part to more frequent promotions which had generally been suspended in 2009 due to the impact of the crisis. In addition, as a result of the growth in NOMOS's distribution network, charges in respect of depreciation of property, plant and equipment increased from RUB 395 million in 2009 to RUB 435 million in 2010. Together with the increase in NOMOS's expenses on professional services from RUB 158 million in 2009 to RUB 318 million in 2010, these higher depreciation charges accounted for 18.0 per cent. of the total increase in NOMOS's operating expenses between 2009 and 2010.

In 2009, NOMOS's total operating expenses increased by RUB 889 million, or 16.2 per cent., to RUB 6,369 million from RUB 5,480 million in 2008. Payroll and bonuses increased by RUB 327 million due to both an increase in the average number of employees of NOMOS in 2009, in large part, as a result of the growth in the number of branches following the acquisition of certain distressed banks, as well as an increase in average annual compensation paid to NOMOS's employees in that year. Other significant increases in operating expenses included a RUB 134 million write-off of goodwill in 2009 due to the impact of the recent global financial and economic crisis and a RUB 111 million increase in security expenses due to changes in Russian legislation.

Income Tax Expense

NOMOS's principal tax liability is corporate income tax. NOMOS pays income taxes in accordance with the laws of the Russian Federation. The statutory tax rate was 24 per cent. in the year ended 31 December 2008 and 20 per cent. in each of the years ended 31 December 2009 and 2010.

19 This pro forma information has been extracted without material adjustment from the pro forma financial information in the section "Pro Forma Financial Information".

NOMOS's income tax expense is based on the taxable profit of NOMOS and each of its subsidiaries for each year and takes into account deferred tax attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. NOMOS and each of its subsidiaries separately pays taxes, on an unconsolidated basis, under Russian tax law and, accordingly, losses in one entity in a tax reporting period may not be offset against gains in another entity in that period.

In 2010, NOMOS's income tax expense increased by RUB 506 million, or 40 per cent., to RUB 1,785 million from RUB 1,279 million in 2009, principally due to the increase in NOMOS's operating profit before income tax from RUB 5,540 million in 2009 to RUB 9,211 million in 2010. In addition, in 2010, NOMOS benefited from a tax loss carried forward as it was allowed to offset VEFK Sibir loss at the date of its acquisition by NOMOS in 2009 in the amount of RUB 1,015 million against its income earned after 2009. In large part as a result of this tax loss carried forward, NOMOS's effective tax rate calculated as income tax expense divided by operating profit before income tax decreased from 23.1 per cent. in 2009 to 19.4 per cent. in 2010. NOMOS's unaudited pro forma income tax expense was RUB 2,546 million in 2010.²⁰

In 2009, NOMOS's income tax expense increased by RUB 320 million, or 33.6 per cent., to RUB 1,279 million from RUB 957 million in 2008, principally due to a 32.3 per cent. increase in NOMOS's profit before taxation from RUB 4,188 million in 2008 to RUB 5,540 million in 2009. Despite the reduction in the statutory income tax rate applicable to NOMOS's income from 24 per cent. in 2008 to 20 per cent. in 2009, NOMOS's effective tax rate actually increased from 22.9 per cent. in 2008 to 23.1 per cent. in 2009 principally as a result of: (i) an increase in non-deductible expenses in 2009 as compared to 2008 and (ii) the tax effect due to change in tax rates that was taken into consideration in calculation of deferred tax in 2008 and resulted in lower effective tax rate for that year.

The following table reconciles income tax expense to tax at the statutory rate of NOMOS in 2008, 2009 and 2010.

	Year ended 31 December		
	2008	2009	2010
	(in millions of roubles, except percentages)		
Operating profit before income tax	4,188	5,540	9,211
Statutory tax rate	24%	20%	20%
Tax at the statutory tax rate	1,005	1,108	1,842
Tax effect due to different tax rates	(34)	(42)	(32)
Change in unrecognised deferred tax assets	15	(21)	101
Tax effect due to change in tax rates	(63)	—	—
Additional tax charge related to 2008	—	19	—
Tax loss carried-forward	—	—	(131)
Recognition of deferred tax asset related to unrecognised tax loss at the end of the period	—	—	(72)
Non-deductible costs, non-taxable income and taxable income not recognised in accounting income	34	215	76
Income tax expense	957	1,279	1,785

20 This pro forma information has been extracted without material adjustment from the pro forma financial information in the section "Pro Forma Financial Information".

Other Comprehensive Income

NOMOS's other comprehensive income was relatively insignificant during the 2008 to 2010 period, amounting to RUB 82 million in 2008, loss of RUB 131 million in 2009 and loss of 54 million in 2010.

Results of Operations of BKM for the Years Ended 31 December 2010 and 2009

The following table sets forth selected consolidated income statement data for BKM for the years ended 31 December 2009 and 2010.

	Year ended 31 December	
	2009	2010
	(in millions of roubles)	
Interest income	14,194	14,671
Interest expense	(8,914)	(8,587)
Net interest income before provision for impairment losses in interest bearing assets	5,280	6,084
Provision for impairment losses on interest bearing assets	(3,160)	(275)
Net interest income	2,120	5,809
Net fee and commission income	1,421	1,754
Net other non-interest income	1,231	1,334
Operating income	4,772	8,897
Operating expenses	(3,896)	(4,831)
Impairment of buildings and constructions	(64)	(286)
Operating profit before income tax	812	3,780
Income tax expense	(216)	(761)
Net profit	596	3,019
Attributable:		
Equity holders of the parent	596	3,074
Non-controlling interest	—	(55)

Net Interest Income

BKM's net interest income before provision for impairment losses on interest bearing assets increased by RUB 804 million, or 15.2 per cent., from RUB 5,280 million in 2009 to RUB 6,084 million in 2010. BKM's net interest spread decreased from 4.8 per cent. in 2009 to 4.3 per cent. in 2010, while BKM's net interest margin decreased slightly to 4.6 per cent. in 2010 as compared to 4.9 per cent. in 2009.

Average Balance Sheet and Interest Rate Data

The following table sets forth the average balances of interest bearing assets and interest bearing liabilities as well as average gross loans to customers and total assets of BKM in 2009 and 2010. The table also sets forth the amounts of interest income earned and interest expense incurred by BKM for these years, as well as the average interest rates at which interest income was earned on such assets and at which interest expense was incurred on such liabilities. For the purposes of this table and the following table, average balances of assets and liabilities for BKM represent the average of the opening balance as at 31 December 2008 (which is unaudited. See "*Presentation of Financial and Other information*") and the closing balance as at 31 December 2009 in 2009; and the average of the opening balance as at 31 December 2009 and the closing balance as at 31 December 2010 in 2010. The results of the analysis would likely be different if alternative or more frequent averaging methods were used and such differences could be material. For the purposes of this table and the following table, the average interest rate for any line item is calculated by dividing interest income or interest expense, as applicable, by the average balance for such line item for the relevant year. Average interest rates in this and the following table are distinct from the period-end effective interest rates discussed in the BKM Financial Statements.

	2009			2010		
	Average Balance	Interest Income/ Expense	Average Yield/Rate	Average Balance	Interest Income/ Expense	Average Yield/Rate
	(unaudited)					
	(in millions of roubles, except percentages)					
Interest bearing assets:						
Loans and advances to banks and other financial institutions	12,317	315	2.6%	17,779	372	2.1%
Net loans to customers	69,079	10,863	15.7%	78,472	10,764	13.7%
Loans under reverse repurchase agreements to banks and customers	6,814	742	10.9%	11,947	889	7.4%
Financial assets at fair value through profit or loss ⁽¹⁾	3,366	190	5.7%	2,704	179	6.6%
Investments available-for-sale	17,265	2,083	12.1%	22,032	2,466	11.2%
Total interest bearing assets	108,841	14,194	13.0%	132,935	14,671	11.0%
Interest bearing liabilities:						
Due to banks and the CBR	26,405	2,348	8.9%	12,908	538	4.2%
Customer accounts	59,347	4,209	7.1%	83,059	5,100	6.1%
Loans under repurchase agreements to banks and customers	5,270	257	4.9%	6,898	219	3.2%
Bonds	3,066	415	13.6%	4,552	494	10.9%
Promissory notes issued ⁽²⁾	9,369	1,138	12.2%	15,294	1,696	11.1%
Subordinated debt	4,651	547	11.8%	5,490	540	9.8%
Total interest bearing liabilities	108,108	8,914	8.3%	128,200	8,587	6.7%
Gross loans to customers	n/a			96,733		
Total assets	n/a			149,547		
Net interest spread			4.8%			4.3%
Net interest income		5,280			6,084	
Net interest margin			4.9%			4.6%

(1) Exclude equity securities as these securities are not interest earning.

(2) Include interest bearing promissory notes and deposit certificates.

Changes in Interest Income and Interest Expense — Volume and Rate Analysis

The following table sets forth a comparative analysis of changes in interest income and interest expense of BKM in 2009 and 2010. Changes in interest income or interest expense are attributed to either (i) changes in average balances (volume change) of interest bearing assets or interest bearing liabilities or (ii) changes in average rates (rate change) at which interest income was earned on such assets or at which interest expense was incurred on such liabilities or (iii) changes in rate/volume. Changes in interest income and expense due to changes in volume have been calculated as the change in volume times the prior year's average rate. Changes in interest income and expense due to changes in average rate have been calculated as the change in the average rate times the prior year's volume. Changes in rate/volume have been calculated as the change in average rate times the change in volume.

	2009/2010			
	Increase / decrease due to changes in			
	Volume	Rate	Rate / Volume	Total Change
	(unaudited)			
	(in millions of roubles)			
Interest income:				
Financial assets at fair value through profit or loss	(37)	33	(7)	(11)
Loans under reverse repurchase agreements to banks and customers	559	(235)	(177)	147
Loans and advances to banks and other financial institutions	140	(57)	(25)	57
Loans to customers	1,477	(1,387)	(189)	(99)
Investments available for sale	575	(151)	(42)	383
Change in total interest income	2,714	(1,797)	(439)	477
Interest expense:				
Due to banks and the CBR	(1,200)	(1,247)	637	(1,810)
Customer accounts	1,682	(565)	(226)	891
Loans under reverse repurchase agreements to banks and customers	79	(89)	(28)	(38)
Bonds	201	(83)	(40)	79
Promissory notes issued	720	(99)	(63)	558
Subordinated debt	99	(89)	(16)	(7)
Change in total interest expense	1,580	(2,173)	265	(328)
Change in net interest income	1,133	377	(705)	806

Interest Income

Interest income of BKM increased by RUB 477 million, or by 3.4 per cent., from RUB 14,194 million in 2009 to RUB 14,671 million in 2010. This increase was principally due a RUB 383 million increase in interest earned on investments available for sale. Interest on BKM's investments available for sale increased by 18.4 per cent. from RUB 2,083 million in 2009 to RUB 2,466 million in 2010, principally due to a significant increase in the average balance from RUB 17,265 million in 2009 to RUB 22,032 million in 2010. This increase in average balance was partially offset by a decrease in the average interest rate on investments available for sale from 12.1 per cent. in 2009 to 11.2 per cent. in 2010.

Interest Expense

Interest expense of BKM decreased by RUB 327 million, or 3.7 per cent., from RUB 8,914 million in 2009 to RUB 8,587 million in 2010. This change was principally due to a RUB 1,864 million decrease in interest incurred on amounts due to banks and the CBR, offset in part by a RUB 907 million increase in interest incurred on customer accounts and a RUB 558 million increase in interest incurred on outstanding promissory notes. Interest incurred on amounts due to banks and the CBR decreased by 72.4 per cent. from RUB 2,573 million in 2009 to RUB 709 million in 2010. This decrease was due to both a decrease in the balance of amounts due to banks and the CBR from RUB 24,728 million in 2009 to RUB 14,884 million in 2010 and a decrease in the average interest rate on such amount from 8.9 per cent. in 2009 to 3.8 per cent. in 2010, which principally resulted from a full repayment of deposits of the CBR received under repurchase contracts in 2010 as such deposits were generally a relatively expensive source of financing. Interest incurred on BKM's customer accounts increased by 21.4 per cent. from RUB 4,241 million in 2009 to RUB 5,147 million in 2010. This

increase was principally due to a large increase in the average balance of customer accounts from RUB 59,347 million in 2009 to RUB 83,059 million in 2010, which reflected more active search for new deposits by BKM in 2010 and greater availability of funds among BKM's corporate, small business and retail customers as a result of the significant improvement in the state of the Russian economy in that year. The increase in the average balance of customer accounts was partially offset by a decrease in the average interest rate on such accounts from 7.1 per cent. in 2009 to 6.1 per cent. in 2010, which reflected a positive impact of the improved economic situation in Russia on market rates in 2010. Interest incurred on BKM's promissory notes increased by 49.0 per cent. from RUB 1,138 million in 2009 to RUB 1,696 million in 2010. This increase was principally due to a large increase in the average balance of outstanding promissory notes from RUB 9,369 million in 2009 to RUB 15,294 million in 2010, which reflected a greater interest in BKM's promissory notes from Russian corporates in 2010 due to the improvement in the liquidity position of such corporates after the crisis. The impact of the increase in the average balance of outstanding promissory notes was partially offset by a decrease in the average interest rate on such promissory notes from 12.2 per cent. in 2009 to 11.1 per cent. in 2010.

Provision for Impairment Losses on Interest Bearing Assets

BKM's provision for impairment losses on interest bearing assets decreased by RUB 2,885 million, or 91.3 per cent., from RUB 3,160 million in 2009 to RUB 275 million in 2010. This significant decrease was due to the start of credit normalisation in the system due to the resumption of economic growth in Russia in 2010 and the improved creditworthiness of Russian corporate, small business and retail borrowers. As a result, the cost of risk ratio decreased from 4.0 per cent. in 2009 to 0.3 per cent. in 2010.

Net Non-Interest Income and Expense

Net Fee and Commission Income

The following table sets forth the principal components of BKM's fee and commission income, its total fee and commission income, the principal components of its fee and commission fees and commission expense, its total fee and commission expense and net fee and commission income in 2009 and 2010.

	31 December		Change
	2009	2010	from 2009 to 2010
	(in millions of roubles, except percentages)		
Fee and commission income:			
Settlement	732	1,043	42.6%
Cash operations	607	806	32.9%
Documentary operations	141	238	68.8%
Other ⁽¹⁾	155	120	(22.6)%
Total fee and commission income	1,635	2,207	35.1%
Fee and commission expense:			
Settlements	213	432	102.8%
Other ⁽²⁾	0	21	—
Total fee and commission expense	213	453	112.7%
Net fee and commission income	1,422	1,754	23.3%

(1) Includes brokerage operations and other.

(2) Includes cash operations and other.

BKM's total fee and commission income increased by RUB 572 million, or 35.1 per cent., from RUB 1,635 million in 2009 to RUB 2,207 million in 2010, while net fee and commission income increased by RUB 333 million between the two years. These increases were principally due to the impact of the ongoing economic recovery in Russia during 2010 and the related focus by BKM on increasing these business activities, which positively affected business volumes.

Net Other Non-Interest Income (Excluding Fee and Commission Income and Expense)

The following table sets forth the principal components of net other non-interest income (excluding fee and commission income and expense) of BKM in 2009 and 2010.

	Year ended 31 December		Change from 2009 to 2010
	2009	2010	
	(in millions of roubles, except percentages)		
Net gain from trading securities	635	137	(78.4)%
Net (loss)/gain on operations with precious metals ⁽¹⁾	87	(12)	n/a
Net gain on foreign exchange operations ⁽²⁾	633	570	(10.0)%
Net gain/(loss) on investments available for sale	(82)	705	n/a
Net (loss)/gain on other derivatives	103	(-40)	n/a
Net gain on disposal of loans	—	409	n/a
Loss from revaluation of investment property	—	(218)	n/a
Allowance for impairment losses on other assets and credit related commitments	(92)	(426)	362.6%
Other income	(53)	209	84.8%
Net non-interest income (excluding fee and commission income and expense)	1,231	1,334	8.4%

- (1) Calculated as the sum of net loss on operations with precious metals and net gain on derivatives on precious metals.
- (2) Calculated as the sum of net gain or loss on foreign exchange operations and net gain or loss on derivatives on foreign currency.

BKM's net other non-interest income (excluding fee and commission income and expense) increased by RUB 103 million, or 8.4 per cent., from RUB 1,231 million in 2009 to RUB 1,334 million in 2010. BKM's net other non-interest income (excluding fee and commission income and expense) in 2010 was positively affected by a RUB 787 million change from a net loss on investments available for sale of RUB 82 million in 2009 to a net gain on investments available for sale of RUB 705 million in 2010 and, to a lesser extent, by a RUB 409 million net gain on disposals of loans in 2010. These positive developments were partially offset by a RUB 498 million decrease in trading securities from RUB 635 million in 2009 to RUB 137 million in 2010 and by a RUB 334 million increase in allowance for impairment losses on other assets and credit related commitments. The total amount of allowance for impairment losses on other assets and credit related commitments consisted of RUB 126 million impairment of investment property and RUB 300 million allowance on guarantees issued by BKM.

Operating Expenses

The following table sets forth the components of BKM's operating expenses excluding revaluation of land and buildings in 2009 and 2010. Staff costs was the largest component of operating expenses in both 2009 and 2010, accounting for 52.7 per cent. and 49.4 per cent. of such expenses in 2009 and 2010, respectively.

	31 December		Change from 2009 to 2010
	2009	2010	
	(in millions of roubles, except percentages)		
Staff costs	2,053	2,387	16.3%
Unified social tax	309	381	23.3%
Depreciation and amortisation expense	284	350	23.2%
Taxes other than income tax	192	233	21.4%
Payments to the Deposit Insurance Fund	125	175	40.0%
Property, plant and equipment maintenance	114	175	53.5%
Security expenses	60	124	106.7%
Telecommunications	100	98	(1.6)%
Other expenses	659	908	37.8%
Total operating expenses	3,896	4,831	24.0%
Cost/income ratio ⁽¹⁾	49.4%	53.3%	

- (1) Cost/income ratio represents operating expenses and impairment of buildings and constructions divided by operating income before provision for impairment losses on interest bearing assets and allowance for impairment losses on other transactions.

BKM total operating expenses excluding revaluation of land and buildings increased by RUB 935 million, or 24.0 per cent., from RUB 3,896 million in 2009 to RUB 4,831 million in 2010 in large part due to the increase in staff costs. This increase in staff costs was principally due to a 13.5 per cent. increase in the average number of employees of BKM from 3,442 in 2009 to 3,905 in 2010.

Income Tax Expense

BKM's income tax expense increased by RUB 545 million, or 252.5 per cent., from RUB 216 million in 2009 to RUB 761 million in 2010 principally due to the increase in BKM's operating profit before income tax. The impact of this increase was partially offset by a decrease in BKM's effective tax rate from 26.6 per cent. in 2009 to 20.1 per cent. in 2010. BKM's effective tax rate in 2009 was adversely affected by its non-deductible expenses in the amount of RUB 63 million.

The following table reconciles income tax expense to tax at the statutory rate of BKM in 2009 and 2010.

	Year ended 31 December	
	2009	2010
	(in millions of roubles, except percentages)	
Operating profit before income tax	811	3,780
Statutory tax rate	20%	20%
Tax at the statutory tax rate	162	756
Effect of application of various income tax rates	(3)	(1)
Tax withheld abroad subject to reimbursement/offset from the Russian Federation budget in future periods	11	8
Prior year tax expenses adjustment	(18)	0.2
Bargain purchase gain recognised and gain from revaluation of interest in an associate	—	(39)
Non-deductible expenses		
Interest expenses on customer accounts	0	2
Interest expenses on securities issued	28	—
Charity	20	0.4
Loss in funds	—	16
Other non-deductible expenses	15	18
Income tax expense	<u>216</u>	<u>761</u>

Other Comprehensive Income

BKM's other comprehensive income was RUB 3,950 million in 2009 and a loss of RUB 158 million in 2010. This change was principally due to changes in the fair value of investments available-for-sale in 2009. BKM currently treats the change in the fair value of investments available-for-sale in comprehensive income, while the result from the disposal of investments available-for-sale is treated in the income statement as net gain or loss on investments available for sale. A strong recovery in Russian financial markets in 2009 led to a net gain of RUB 2,526 million in 2009 due to the change in the fair value of investments available-for-sale and a further RUB 1,897 gain as a result of reclassification adjustment relating to amounts recognised in the income statement.

Financial Position of NOMOS

Assets

The following table sets forth the breakdown of total assets of NOMOS as at 31 December 2008, 2009 and 2010. On 16 December 2010, NOMOS acquired a controlling interest in BKM and, as a result, the consolidated statement of financial position of NOMOS as at 31 December includes all assets of BKM as at 31 December 2010.

	As at 31 December					
	2008	% of total assets	2009	% of total assets	2010	% of total assets
	(in millions of roubles, except percentages)					
Assets						
Cash and balances with the CBR	11,021	4.0%	14,075	5.1%	40,489	7.6%
Minimum reserve deposit with CBR	238	0.1%	1,192	0.4%	2,817	0.5%
Precious metals	3,309	1.2%	4,615	1.7%	4,677	0.9%
Financial assets at fair value through profit or loss	34,950	12.6%	57,666	20.8%	55,522	10.5%
Loans and advances to banks and other financial institutions	22,272	8.0%	26,815	9.7%	41,577	7.8%
Loans to customers	187,721	67.6%	162,650	58.7%	339,302	64.0%
Investments available-for-sale	91	0.0%	174	0.1%	25,763	4.9%
Investments held to maturity	3,816	1.4%	1,363	0.5%	852	0.2%
Property, plant and equipment	5,164	1.9%	5,936	2.1%	10,976	2.1%
Goodwill	—	—	—	—	598	0.1%
Intangible assets	35	0.0%	85	0.0%	2,602	0.5%
Other assets	9,178	3.3%	2,540	0.9%	5,042	0.9%
Total assets	277,795	100%	277,111	100%	530,217	100%

Loans to Customers

Loans to customers were the largest category of NOMOS's assets throughout the period under review and represented 67.6 per cent., 58.7 per cent. and 64.0 per cent. of total assets as at 31 December 2008, 31 December 2009 and 31 December 2010, respectively. NOMOS's net loans to customers increased to RUB 339,302 million as at 31 December 2010 as compared to RUB 162,650 million as at 31 December 2009 and RUB 187,721 million as at 31 December 2008.

During 2010, NOMOS's net loans to customers increased due to a combination of the acquisition of control of BKM by NOMOS on 16 December 2010 and organic growth in NOMOS's loan portfolio. As economic conditions in Russia and the quality of NOMOS's overall lending portfolio improved in 2010, NOMOS removed some of the lending restrictions introduced during the crisis and started to lend more in the course of that year, while maintaining its conservative risk management approach. The organic growth of NOMOS's net loan portfolio in 2010 amounted to RUB 75,899 million, or 43.0 percent of the total RUB 176,652 million increase in the size of NOMOS's net loan portfolio in that year. Taking into account both organic growth and the acquisition of control of BKM in December 2010, the size of NOMOS's net loan portfolio increased by 108.6 per cent. between 31 December 2009 and 31 December 2010. BKM's net loan portfolio also grew rapidly in 2010 increasing by RUB 20,828 million, or 26.0 per cent., in the course of that year due to similar reasons.

The decrease in NOMOS's net loan portfolio as at 31 December 2009 as compared to 31 December 2008 reflects (i) the reduction of NOMOS's lending activity due to the adverse impact of the global financial and economic crisis on the Russian economy and the creditworthiness of NOMOS's corporate, small business and retail clients combined with the repayment of existing loans by clients at maturity and (ii) a significant increase in allowance for impairment losses in 2009 as compared to 2008.

Composition of Loan Portfolio by Types of Loans. The following table sets forth the breakdown of gross and net loans to customers of NOMOS as at 31 December 2008, 2009 and 2010 by type.

	As at 31 December		
	2008	2009	2010
	(in millions of roubles)		
Loans to legal entities			
Corporate loans	172,162	138,828	251,461
Loans under reverse repurchase agreements	2,131	17,381	43,471
Small business loans	7,787	6,761	19,973
Net investments in finance lease	—	1,046	2,284
Total loans to legal entities	182,080	164,016	317,189
Loans to individuals			
Mortgage loans	11,217	10,130	21,979
Consumer loans	4,482	4,235	13,194
Car loans	1,119	826	2,202
Loans to individual entrepreneurs	—	—	265
Other	519	470	31
Total loans to individuals	17,337	15,661	37,671
Less allowance for impairment losses	(11,696)	(17,027)	(15,558)
Total net loans to customers	187,721	162,650	339,302

Composition of Loan Portfolio by Economic Sector or Nature of Counterparty. The following table sets forth the breakdown of gross loans to customers of NOMOS as at 31 December 2008, 2009 and 2010 by economic sector in which the borrowers operate or the nature of the counterparty.

	As at 31 December					
	2008	% of total	2009	% of total	2010	% of total
	(in millions of roubles, except percentages)					
Industrial manufacturing	36,582	18%	21,071	12%	52,556	15%
Loans to investment and asset management companies/loans for M&A transactions/loans for purchases of securities	13,693	7%	23,797	13%	51,014	14%
Brokerage and dealing in securities ⁽¹⁾	2,131	1%	17,281	10%	42,789	12%
Wholesale trade	39,148	20%	21,726	12%	40,967	12%
Leasing	16,141	8%	19,313	11%	17,889	5%
Services	4,823	2%	3,431	2%	16,451	5%
Construction of industrial real estate	12,463	6%	5,176	3%	15,163	4%
Housing construction	8,914	4%	13,682	8%	14,194	4%
Retail trade	14,928	7%	13,198	7%	12,528	4%
Construction of commercial real estate	3,070	2%	4,687	3%	11,495	3%
Operations with real estate	11,452	6%	9,687	5%	9,847	3%
Transport and communication	4,479	2%	3,045	2%	9,482	3%
Energy	3,854	2%	2,050	1%	3,853	1%
Agriculture	2,257	1%	331	0%	3,230	1%
Government finance	—	—	—	—	1,987	1%
Precious metals extraction	6,453	3%	1,800	1%	1,011	0%
Other	1,689	1%	3,742	2%	12,753	3%
Total gross loans to customers excluding loans to individuals	182,081	91%	164,016	91%	317,189	89%
Individuals	17,337	9%	15,661	9%	37,671	11%
Total gross loans to customers	199,418	100%	179,677	100%	354,860	100%

(1) Principally consists of loans under reverse repurchase transactions.

Composition of Loan Portfolio by Currency. The following table sets forth the breakdown of net loans to customers of NOMOS as at 31 December 2008, 2009 and 2010 as at 31 December 2010 by currency.

	As at 31 December					
	2008	% of total	2009	% of total	2010	% of total
	(in millions of roubles, except percentages)					
Roubles	142,083	76%	103,394	64%	219,304	65%
U.S. dollars	36,576	20%	48,734	30%	103,573	30%
Euro	8,400	4%	10,282	6%	16,285	5%
Other	662	0%	240	0%	140	0%
Net loans to customers	187,721	100%	162,650	100%	339,302	100%

The composition of NOMOS's loan portfolio by currency remained almost unchanged as at 31 December 2010 compared to 31 December 2009. However, during 2009, the proportion of rouble-denominated loans decreased from 76 per cent. as at 31 December 2008 to 64 per cent. as at 31 December 2009, while the proportion of U.S. dollar-denominated loans increased from 20 per cent. as at 31 December 2008 to 30 per cent. as at 31 December 2009. These changes were due to NOMOS offering more attractive rates on U.S.-dollar denominated loans to good quality corporate borrowers in 2009 reflecting greater stability of U.S. dollar as compared to the rouble during the crisis.

Composition of Loan Portfolio by Maturity. The following table sets forth the breakdown of net loans to customers of NOMOS as at 31 December 2008, 2009 and 2010 by maturity of loans.

	As at 31 December					
	2008		2009		2010	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of roubles, except percentages)					
Less than one month	11,197	6.0%	32,012	19.7%	48,120	14.2%
One month to three months	14,217	7.6%	13,695	8.4%	28,774	8.5%
Three months to one year	66,886	35.6%	50,523	31.1%	107,830	31.8%
One year to five years	79,374	42.3%	52,337	32.2%	126,899	37.4%
More than five years	16,047	8.5%	14,083	8.7%	27,679	8.1%
Total loans to customers	187,721	100%	162,650	100%	339,302	100%

In 2010, in response to the resumption of growth of the Russian economy and improved creditworthiness of its corporate, small business and retail clients, NOMOS started cautiously to increase tenor of its new loans. As a result, the proportion of loans with a term of less than one month decreased from 19.7 per cent. as at 31 December 2009 to 14.2 per cent. as at 31 December 2010, while the proportion of loans with a term between one year and five years increased from 32.2 per cent. as at 31 December 2009 to 37.4 per cent. as at 31 December 2010. During 2009, the opposite trend occurred when the proportion of loans with a term of less than one month in NOMOS's net loan portfolio increased from 6.0 per cent. as at 31 December 2008 to 19.7 per cent. as at 31 December 2009, while the proportion of loans with a term between one year and five years decreased from 42.3 per cent. as at 31 December 2008 to 32.2 per cent. as at 31 December 2009 principally due to a market trend to shorten the tenor of loans during the crisis reflecting lenders risk considerations.

Composition of Loan Portfolio by Region. NOMOS's geographic focus is principally on the following five areas of the Russian Federation: (i) Moscow and the Moscow region, (ii) the Tyumen region, including the Khanty-Mansiysk and the Yamalo-Nenets autonomous districts, (iii) St. Petersburg and the Leningrad region, (iv) the Novosibirsk region and (v) the Khabarovsk territory. The following table sets forth the breakdown of gross loans to customers of NOMOS as at 31 December 2008, 2009 and 2010 by the area of the Russian Federation in which the office of NOMOS that originated the loans was located.

		As at 31 December					
		2008		2009		2010	
	Federal District	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of roubles, except percentages)							
Moscow and Moscow region . . .	Central	138,639	69.5%	136,713	76.1%	195,862	55.2%
Tyumen region ⁽¹⁾	Urals	—	0.0%	—	0.0%	74,450	21.0%
St. Petersburg and Leningrad region	Northwestern	11,299	5.7%	6,017	3.3%	18,383	5.2%
Khabarovsk territory	Far Eastern	8,001	4.0%	6,148	3.4%	7,428	2.1%
Novosibirsk region	Siberian	6,724	3.4%	7,331	4.1%	13,830	3.9%
Other areas of the Russian Federation		34,755	17.4%	23,468	13.1%	44,907	12.6%
Total		199,418	100%	179,677	100%	354,860	100%

(1) Includes the Khanty-Mansiysk autonomous district and the Yamalo-Nenets autonomous district.

The acquisition of control of BKM by NOMOS on 16 December 2010 significantly improved the geographic diversification of its loan portfolio. While Moscow accounted for 76.1 per cent. of all of NOMOS's gross loans as at 31 December 2009, its proportion of the gross loan portfolio decreased to 55.2 per cent. as at 31 December 2010. At the same time, NOMOS's exposure to Tyumen region, including the KMAD and the Yamalo-Nenets autonomous district, one of the most developed regions of Russia in terms of total gross regional product and gross regional product per capita, increased from nil to 21.0 per cent. as at 31 December 2010 due to the acquisition of control of BKM.

Composition of Loan Portfolio by Loan Status. The following table sets forth the composition of the gross loan portfolio of NOMOS as at 31 December 2008, 2009 and 2010 by the status of such gross loans (loans without signs of impairment; loans with signs of impairment further divided into not past due, overdue by less than 90 days and non-performing; and renegotiated loans).

	As at 31 December					
	2008		2009		2010	
	Amount	Ratio ⁽¹⁾	Amount	Ratio ⁽¹⁾	Amount	Ratio ⁽¹⁾
(in millions of roubles, except percentages)						
Corporate loans:						
Gross loans without individual indicators of impairment	164,590	4.0%	144,886	3.9%	283,178	2.0%
Gross loans with individual indicators of impairment:						
— not past due	6,023	31.3%	2,445	53.9%	4,427	35.0%
— overdue by less than 90 days	660	67.1%	409	59.5%	2,565	34.7%
— non-performing loans ⁽²⁾	3,020	57.3%	9,515	79.1%	6,907	78.2%
Total gross loans to corporate clients	174,294	6.1%	157,255	9.3%	297,077	4.5%
Small business loans to legal entities:						
Gross loans without individual indicators of impairment	7,670	4.9%	5,354	2.4%	18,921	1.3%
Gross loans with individual indicators of impairment:						
— not past due	—	n/a	314	66.1%	329	50.8%
— overdue by less than 90 days	2	100%	143	98.0%	69	74.9%
— non-performing loans ⁽²⁾	115	100%	950	100%	793	98.5%
Total gross loans to small business clients	7,787	6.3%	6,761	21.1%	20,112	6.2%
Loans to individuals:						
— not past due	17,241	3.2%	14,911	4.5%	36,376	10.2%
— overdue by less than 90 days	82	3.2%	98	32.6%	460	7.9%
— non-performing loans ⁽²⁾	14	2.0%	651	34.5%	835	91.5%
Total gross loans to individuals	17,337	3.2%	15,660	6.0%	37,671	2.3%
Total gross loans	199,418	5.9%	179,677	9.5%	354,860	4.4%
Renegotiated loans that would have been past due or impaired if not renegotiated	762		3,839		5,512	
Ratio of allowance for impairment losses to gross loans to customers		5.9%		9.5%		4.4%
NPL ratio		1.6%		6.2%		2.4% ⁽³⁾

(1) Ratio of allowance for impairment losses on loans to customers to gross loans in the respective category.

(2) Non-performing loans to customers, or NPLs, are loans that are overdue by more than 90 days.

(3) In connection with the acquisition, consistent with the requirements of IFRS 3, all loans of BKM were recorded at fair value and classified as performing loans. The fair value amounts include the provision for loan losses recorded in BKM's audited financial statements.

In 2010, the proportion of non-performing loans in the loan portfolio of NOMOS decreased to 2.4 per cent. as at 31 December 2010 as compared to 6.2 per cent. as at 31 December 2009. This decrease was principally due to three reasons. First, as the Russian economy returned to growth in 2010 and the creditworthiness of NOMOS's corporate, small business and retail clients improved, NOMOS started to lend more in the course of this year, while maintaining its conservative risk management approach. The proportion of non-performing loans in the portfolio of new loans was much smaller than in the portfolio of loans made prior to or during the crisis. Second, NOMOS reduced the exposure to non-performing loans through a sale of a significant amount of non-performing loans in 2010, generating a net gain of RUB 1,196 million from such sales. Finally, the acquisition of BKM further decreased the NPL ratio by 80 basis points due to an increase in the proportion of the performing loans.

As a result, all portfolios experienced a net decline in the NPL ratios. As at 31 December 2010, the proportion of non-performing loans in the gross corporate and small business loan portfolios of NOMOS decreased from 6.1 per cent to 2.3 per cent. for corporate loans, from 14.1 per cent. to 4.0 per cent. for small business loans and from 4.2 per cent. to 2.2 per cent for loans to individuals, in each case between 31 December 2009 and 31 December 2010.

Changes in Allowance for loan Impairment. The following table sets forth changes in allowances for loan impairment of NOMOS for the years ended 31 December 2008, 2009 and 2010.

	Year ended 31 December		
	2008	2009	2010
	(in millions of roubles)		
Allowance at the beginning of the year.	6,635	11,696	17,027
Provision	5,090	11,549	3,703
Disposal of loans		(4,998)	(3,287)
Bad debt written off	(7)	(3,371)	(1,885)
Acquisition of subsidiaries	(22)	2,151	—
Allowance at end of the year	11,696	17,027	15,558

In 2010, the recovery of the Russian economy and the related improvement in the creditworthiness of its corporate, small business and retail clients, coupled with the prudent collection and underwriting policies, allowed NOMOS to reduce provisioning levels more than threefold in comparison with 2009 despite a significant increase in the overall size of its gross loan portfolio since 2009. NOMOS's provisioning methodology incorporates consideration of the historical portfolio performance, perceived level of credit risk, as well as assessment of the overall economic conditions in determining the inherent losses existent in the portfolio as of the balance sheet date. The provision levels as at 31 December 2009 are reflective of the magnitude of the shock to the Russian banking system caused by the global financial and economic crisis that reached its peak in the end of 2008 and the early 2009. Management continued to maintain prudent coverage ratio of 182.3 per cent as at 31 December 2010 as compared to 153.2 per cent. and 371.4 per cent. as at 31 December 2009 and 31 December 2008, respectively.

Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss comprised Russian corporate bonds, bonds issued by Russian and foreign banks, Russian state bonds otherwise known as OFZ bonds, Russian government Eurobonds, promissory notes issued by Russian banks, municipal bonds issued by local authorities of the Russian Federation, corporate shares of Russian companies and derivative financial instruments. The OFZ bonds are rouble-denominated government securities issued at discount to face value and guaranteed by the Ministry of Finance of the Russian Federation.

The following table sets forth the breakdown of financial assets at fair value through profit or loss of NOMOS as at 31 December 2008, 2009 and 2010.

	As at 31 December					
	2008		2009		2010	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of roubles, except percentages)					
Bonds and Eurobonds issued by banks	14,096	40.3%	17,258	29.9%	21,455	38.6%
Corporate bonds and Eurobonds	7,270	20.8%	22,547	39.1%	13,596	24.5%
Promissory notes	—	0.0%	—	0.0%	7,038	12.7%
Russian government Eurobonds	6,427	18.4	1,606	2.8%	5,300	9.5%
Municipal bonds	2,747	7.9%	3,270	5.7%	2,894	5.2%
Corporate shares	186	0.5%	2,335	4.0%	1,973	3.6%
OFZ bonds	1,453	4.2%	10,144	17.6%	52	0.1%
Total financial assets held-for trading	32,179	92.1 %	57,160	99.1 %	52,308	94.2 %
First to default credit linked notes	—	0.0 %	—	0.0 %	1,817	3.3 %
Total derivative financial instruments	2,772	7.9 %	506	0.9 %	1,397	2.5 %
Total financial assets at fair value through profit or loss	34,952	100 %	57,666	100 %	55,522	100 %

The overall amount of financial assets at fair value through profit or loss of NOMOS remained relatively constant in absolute terms between 31 December 2009 and 31 December 2010, but the proportion of financial assets at fair value through profit or loss in NOMOS's total assets decreased from 20.8 per cent as at 31 December 2009 to

10.5 per cent. as at 31 December 2010. This decrease reflected the ability of NOMOS to significantly increase lending in 2010 as the state of the Russian economy and the creditworthiness of its corporate, small business and retail clients continued to improve in that year. The increase in financial assets at fair value through profit or loss between 31 December 2008 and 31 December 2009 was principally due to NOMOS's investing excess liquidity into these assets as it became more difficult to originate client loans following the introduction of stricter loan underwriting standards after the onset of the global financial and economic crisis. As a result, NOMOS's investment in corporate bonds increased from RUB 7,270 million as at 31 December 2008 to RUB 22,547 million as at 31 December 2009. For the same reasons, NOMOS also significantly increased its holding of OFZ bonds from RUB 1,453 million as at 31 December 2008 to RUB 10,144 million as at 31 December 2009.

Loans and Advances to Banks and Other Financial Institutions

The following table sets forth information on loans and advances to banks and other financial institutions of NOMOS as at 31 December 2008, 2009 and 2010.

	As at 31 December					
	2008		2009		2010	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of roubles, except percentages)					
Loans to banks	9,487	42.6%	13,137	49.0%	24,546	59.0%
Correspondent accounts with banks	7,299	32.8%	13,377	49.9%	14,771	35.5%
Loans under reverse repurchase agreements	5,486	24.6%	300	1.1%	2,260	5.4%
Total loans and advances to banks and other financial institutions	22,272	100%	26,815	100%	41,577	100%

The increase in loans and advances to banks and other financial institutions of NOMOS between 31 December 2009 and 31 December 2010 was principally due to the acquisition of control of BKM by NOMOS in December 2010. The increase in loans and advances to banks and other financial institutions of NOMOS between 31 December 2008 and 31 December 2009 was principally due to the investment of NOMOS's excess liquidity into these assets as it became more difficult to originate customer loans in 2009. As a result, NOMOS increased the amount of its loans to banks from RUB 9,487 million as at 31 December 2008 to RUB 13,137 as at 31 December 2009 as well as the amount of its correspondent accounts with other banks from RUB 7,299 million as at 31 December 2008 to RUB 13,377 as at 31 December 2009, which were partially offset by a large decrease in loans under reverse repurchase agreements.

Investments Available for Sale

The following table sets forth information on NOMOS's investments available-for-sale as at 31 December 2008, 2009 and 2010.

	As at 31 December					
	2008		2009		2010	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of roubles, except percentages)					
Promissory notes	—	0.0%	—	0.0%	12,074	46.9%
Units of investment funds	—	0.0%	—	0.0%	5,235	20.3%
Corporate bonds and Eurobonds	—	0.0%	117	67.1%	4,725	18.3%
Russian government bonds and Eurobonds	—	0.0%	—	0.0%	1,215	4.7%
Bonds issued by banks	—	0.0%	—	0.0%	859	3.3%
Bonds of foreign countries	—	0.0%	—	0.0%	856	3.3%
Corporate shares	60	65.4%	57	32.9%	417	1.6%
OFZ bonds	—	0.0%	—	0.0%	209	0.8%
Municipal bonds and Eurobonds	—	0.0%	—	0.0%	172	0.7%
Share participation in LLC	32	34.6%	—	0.0%	1	0.0%
Total investments available for sale	92	100%	174	100%	25,763	100%

The increase in investments available for sale of NOMOS between 31 December 2009 and 31 December 2010 was principally due to the acquisition of control of BKM by NOMOS in December 2010. In contrast to NOMOS, which classifies most of its securities as financial assets at fair value through profit or loss, BKM

historically classified most of its securities as investments available-for-sale. Out of the RUB 25,763 million of NOMOS's investments available-for-sale as at 31 December 2010, RUB 24,461 million were held by BKM as at that date. In the future, newly acquired securities will be classified by NOMOS under its existing principles for classifying securities, which is expected to lead to a reduction in the proportion of investments available for sale in NOMOS's total assets.

Liabilities

The following table sets forth total liabilities of NOMOS as at 31 December 2008, 2009 by type.

	As at 31 December					
	2008	% of total liabilities	2009	% of total liabilities	2010	% of total liabilities
	(in millions of roubles, except percentages)					
Liabilities						
Financial liabilities at fair value through profit or loss	2,688	1.1%	504	0.2%	1,005	0.2%
Due to banks and the CBR	68,297	27.8%	48,397	20.1%	59,839	12.7%
Customer accounts	116,071	47.3%	134,204	55.8%	313,376	66.4%
Bonds and Eurobonds	21,642	8.8%	24,950	10.4%	34,412	7.3%
Promissory notes issued	25,303	10.3%	7,501	3.1%	33,168	7.0%
Deferred income tax liabilities	371	0.2%	911	0.4%	1,182	0.3%
Other liabilities	1,161	0.5%	1,368	0.6%	2,209	0.5%
Subordinated debt	9,759	4.0%	22,664	9.4%	27,091	5.7%
Total liabilities	245,290	100%	240,496	100%	472,282	100%

Customer Accounts

Customer accounts represent NOMOS's principal source of funding. As at 31 December 2010, customer accounts of NOMOS amounted to RUB 313,376 million, or 66.4 per cent. of NOMOS's total liabilities as at that date. The consistent growth in customer accounts and in the proportion of customer accounts in NOMOS's total liabilities reflects the success in implementation of NOMOS's policy to increase the proportion of customer accounts in its overall funding structure that has been in effect since the onset of the global credit crunch in the summer of 2007.

As economic conditions in Russia and the liquidity position of NOMOS's clients improved in 2010, NOMOS was able to benefit from these positive developments by rapidly increasing its deposit base. Organic growth of NOMOS's customer accounts in 2010 amounted to RUB 76,602 million, or 42.8 percent of the total RUB 179,172 million increase in the size of NOMOS's total customer accounts in that year. Taking into account both organic growth and the acquisition of control of BKM in December 2010, the size of NOMOS's customer accounts increased by 133.5 per cent. between 31 December 2009 and 31 December 2010. BKM's customer accounts also grew rapidly in 2010 increasing by RUB 36,377 million, or 56.1 per cent., significantly exceeding the rate of growth of its loan portfolio.

Size and Composition of Customer Accounts by Type. The following table sets forth the composition of customer accounts of NOMOS as at 31 December 2008, 2009 and 2010 by type which is unaudited (See "Presentation of Financial and Other Information — Customer Accounts").

	As at 31 December					
	2008	% of total	2009	% of total	2010	% of total
	(in millions of roubles, except percentages)					
Term deposits	72,586	62.5%	100,948	75.2%	222,144	70.9%
Current accounts	32,544	28.0%	25,744	19.2%	83,753	26.7%
Time deposits from Deposit Insurance Agency	10,404	9.0%	6,466	4.8%	6,363	2.0%
Loans under repurchase agreements	537	0.5%	1,046	0.8%	1,116	0.4%
Total customer accounts	116,071	100%	134,204	100%	313,376	100%

As at 31 December 2010, 2009 and 2008, NOMOS had deposits from three customers amounting to RUB 27,160 million in the aggregate, from five customers amounting to RUB 35,370 million in the aggregate and from four customers amounting to RUB 31,707 million in the aggregate, respectively, with deposits from each such individual customer exceeding 10 per cent. of NOMOS's equity.

Composition of Customer Accounts by Economic Sector or Nature of Counterparty. The following table sets forth the breakdown of customer accounts of NOMOS as at 31 December 2008, 2009 and 2010 and of NOMOS as at 31 December 2010 by economic sector in which the depositors operate or the nature of the counterparty.

	As at 31 December					
	2008	% of total	2009	% of total	2010	% of total
	(in millions of roubles, except percentages)					
Investment and asset management companies ..	29,937	25.8%	20,501	15.3%	38,351	12%
Regional and local budgets funds	500	0.4%	13	0.0%	27,320	9%
Industrial manufacturing	6,651	5.7%	7,969	5.9%	19,922	6%
Services	5,049	4.3%	7,433	5.5%	16,633	5%
Construction of industrial real estate	4,185	3.6%	4,980	3.7%	14,285	5%
Wholesale trade	7,496	6.5%	9,802	7.3%	13,314	4%
Transport and communications	614	0.5%	15,710	11.7%	12,577	4%
Insurance	4,231	3.6%	6,128	4.6%	9,249	3%
Energy	6,011	5.2%	357	0.3%	9,141	3%
Other	8,477	7.3%	11,331	8.4%	33,956	11.0%
Total customer accounts excluding customer accounts of individuals	73,151	63.0%	84,225	62.8%	194,748	62.1%
Individuals	42,920	37.0%	49,979	37.2%	118,629	37.9%
Total customer accounts	116,071	100%	134,204	100%	313,376	100%

Composition of Customer Accounts by Maturity. The following table sets forth the breakdown of customer accounts of NOMOS as at 31 December 2008, 2009 and 2010 by maturity of deposits.

	As at 31 December					
	2008		2009		2010	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of roubles, except percentages)					
Customer accounts:						
On demand and less than one month	48,575	41.9%	53,286	39.7%	135,438	43.2%
One month to three months	8,135	7.0%	25,263	18.8%	46,614	14.9%
Three months to one year	37,887	32.6%	46,040	34.3%	109,545	35.0%
One year to five years	11,134	9.5%	9,616	7.2%	21,771	6.9%
More than five years	10,400	9.0%	—	0%	9	0.0%
Total customer accounts	116,071	100%	134,204	100%	313,376	100%

In terms of maturity, a very large proportion of customer accounts was short-term in nature as shown in the table above. The maturity profile of NOMOS's customer accounts remained relatively stable between 31 December 2009 and 31 December 2010. The principal change in the breakdown of customer accounts by maturity of deposits as at 31 December 2009 as compared to 31 December 2008 was the decrease in the proportion of deposits with a term of more than five years from 9.0 per cent. to nil. This decrease was due to one large deposit from the Deposit Insurance Agency that had a term of over five years as of 31 December 2008. This deposit was still with NOMOS as at 31 December 2009, but its term was less than five years as at that date.

Due to Banks and the CBR

The following table sets forth the amounts due to banks and the CBR from NOMOS as at 31 December 2008, 2009 and 2010 by type.

	As at 31 December					
	2008	% of total	2009	% of total	2010	% of total
	(in millions of roubles, except percentages)					
Deposits from banks	31,681	46.4%	22,367	46.2%	41,167	68.8%
Correspondent accounts of other banks	2,330	3.4%	10,952	22.6%	8,802	14.7%
Syndicated loans	6,945	10.2%	—	0.0%	3,013	5.0%
Loans under repurchase agreements	6,991	10.2%	1,358	2.8%	6,856	11.5%
Deposits from the CBR	20,350	29.8%	13,720	28.3%	—	0.0%
Total deposits due to banks and the CBR	68,297	100%	48,397	100%	59,839	100%

The increase in the amounts due to banks and the CBR between 31 December 2009 and 31 December 2010 was principally due to the acquisition of control over BKM by NOMOS in December 2010. Excluding BKM, amounts due to banks and the CBR decreased to RUB 44,903 million as at 31 December 2010 compared to RUB 48,397 million as at 31 December 2009. This decrease was principally due to the repayment by NOMOS of the amounts due to the CBR due to relatively high interest rates on these amounts. As at 31 December 2010, NOMOS had one U.S.\$100 million syndicated loan outstanding, which was raised in September 2010 and is due in August 2011. NOMOS occasionally uses syndicated loans for funding purposes although they are generally more expensive than bilateral facilities with similar terms.

As at 31 December 2009, deposits from banks decreased significantly compared to 31 December 2008. This decrease, however, was almost fully offset by the increase in correspondent accounts of other banks. The decrease in deposits from the CBR was due to a relatively high cost of this source of funding, which caused NOMOS to start repayment of these obligations when other sources of financing became more readily available in the aftermath of the most acute stage of the global financial and economic crisis in the end of 2008 and the beginning of 2009. In addition, NOMOS had no syndicated loans outstanding as at 31 December 2009, while the amounts due to banks under two syndicated loans obtained by NOMOS were RUB 6,945 million as at 31 December 2008.

Bonds and Eurobonds

The following table sets forth information on rouble-denominated bonds and Eurobonds issued by NOMOS as at 31 December 2008, 2009 and 2010.

	As at 31 December					
	2008	% of total	2009	% of total	2010	% of total
	(in millions of roubles, except percentages)					
Bonds issued in the local market	11,126	51.4%	12,839	51.5%	16,678	48.5%
Eurobonds due in 2013	—	0.0%	—	0.0%	12,167	35.4%
Eurobonds due in 2012	—	—	6,033	24.2%	5,566	16.2%
Eurobonds due in 2010	6,064	28.0%	6,077	24.4%	—	0.0%
Eurobonds due in 2009	4,453	20.6%	—	—	—	0.0%
Total Eurobonds	10,517	48.6%	12,111	48.5%	17,734	51.5%
Total bonds and Eurobonds issued	21,642	100%	24,950	100%	34,411	100%

As at 31 December 2010, rouble-denominated bonds and Eurobonds issued by NOMOS comprised (i) six rouble-denominated bond issues in the aggregate principal amount of RUB 16,678 million, two of which were issued by BKM, (ii) a U.S.\$200 million 9.25 per cent. loan participation notes due 2012 and (iii) a U.S.\$350 million 6.5 per cent. loan participation notes due 2013. NOMOS redeemed in full its U.S.\$200 million 8.19 per cent. loan participation notes due 2010 in February 2010. The increase in the total outstanding amount under rouble-denominated bonds and Eurobonds issued by NOMOS between 31 December 2008 and 31 December 2009 was principally due to a larger amount of outstanding Eurobonds. NOMOS repaid one of its Eurobond issues in early 2009, but issued another one in February 2009 with a larger principal amount. In addition, the outstanding amount of rouble-denominated bonds also increased from RUB 11,126 million as at 31 December 2008 to RUB 12,839 million as at 31 December 2009, as NOMOS taps this source of funding when it deems the terms to be attractive.

Promissory Notes

As at 31 December 2010, the total outstanding amounts of promissory notes (including discount bearing promissory notes, settlement promissory notes that are sold at face value, interest earning promissory notes and certificates of deposit) issued by NOMOS amounted to RUB 33,168 million, or 7.0 per cent. of NOMOS's total liabilities as at that date, as compared to RUB 7,501 million, or 3.1 per cent. of NOMOS's total liabilities as at 31 December 2009 and RUB 25,303 million, or 10.3 per cent. of NOMOS's total liabilities as at 31 December 2008. Promissory notes in Russia are issued by banks principally to Russian corporates. There was a demand for these tradeable instruments in the Russian market prior to the crisis, and promissory notes were relatively popular among banks as the cost of this form of financing was lower than in the case of Eurobonds or even rouble-denominated bonds. The proportion of promissory notes in NOMOS's funding base decreased significantly as at 31 December 2009 as compared to 31 December 2008 as there was very little demand for NOMOS's promissory notes from Russian corporates in 2009 due to liquidity concerns during the crisis. In 2010, the strong improvement of the state of the Russian economy and continued stabilisation of financial markets led to renewed interest of Russian corporates in promissory notes and, accordingly, to the increase of promissory notes issuance by NOMOS.

Subordinated Debt

The following table sets forth subordinated bonds and loans of NOMOS with the outstanding principal amount exceeding RUB 100 million and the total amount of NOMOS's subordinated debt, in each case as at 31 December 2008, 2009 and 2010.

	Principal Amount Outstanding			Nominal Interest Rate			Maturity
	As at 31 December			As at 31 December			
	2008	2009	2010	2008	2009	2010	
	(in millions of roubles)			(%)			
Subordinated bonds	—	—	10,750	—	—	8.75	2015
Subordinated loan	—	4,900	4,900	—	8.0	8.0	2019
Subordinated bonds	3,724	3,835	3,863	9.75	9.75	9.75	2016
Subordinated bonds	—	—	3,263	—	—	11.0	2018
Subordinated loan	—	—	1,500	—	—	9.25	2021
Subordinated loan	—	—	1,493	—	—	6.5	2019
Subordinated loan	—	—	650	—	—	7.85	2015
Subordinated loan	—	—	436	—	—	7.75	2015
Subordinated loan	—	7,863	—	—	12.0	—	2020
Subordinated loan	5,000	5,000	—	11.0	11.0	—	2020
Subordinated loan	650	650	—	13.1	10.1	—	2015
Subordinated loan	386	415	—	11	10.5	—	2015
Total subordinated debt	9,759	22,664	27,091				

In 2008, in an effort to recapitalise the Russian banking system, the Russian government authorised VEB to extend unsecured subordinated loans to privately-owned Russian banks provided that (a) the shareholders of such banks provide subordinated funding in the amount of not less than that sought from VEB and (b) the loan amount provided by VEB does not exceed 15 per cent. of the bank's total equity. In November 2008, NOMOS received a ten-year subordinated loan in the amount of RUB 5,000 million from its shareholders, following which VEB granted it a ten-year subordinated loan in the amount of RUB 4,900 million in February 2009. In 2009, the Russian government extended the above-described bank recapitalisation programme authorising VEB to extend unsecured subordinated loans in the amount not exceeding 300 per cent. of the subordinated funding provided to private Russian banks by their shareholders. To attract VEB financing, NOMOS received a U.S.\$260 million subordinated loan due 2020 from its shareholders in July 2009. However, as the market conditions started to improve towards the end of 2009 and the beginning of 2010, the Russian government scaled down its bank recapitalisation programme and the availability of VEB's financing has been reduced. Therefore, the U.S.\$260 million subordinated loan due 2020 was repaid in May 2010 from the proceeds of subordinated loan participation notes issued in April 2010. Moreover, NOMOS replaced the RUB 5,000 million subordinated loan from its shareholders with a combination of equity contribution and a new subordinated loan from the shareholders in the second half of 2010. The RUB 5,000 million subordinated loan was repaid in September 2010, but shortly thereafter NOMOS's capital was increased by the same amount through an additional issue of ordinary shares in the amount of RUB 3,500 million and a new subordinated loan from NOMOS's shareholders in the amount of RUB 1,500 million.

Contingent Liabilities and Credit Commitments

Contingent liabilities and credit commitments consist of (i) commitments on loans and unused credit lines, (ii) guarantees issued and similar commitments and (iii) letters of credit and other contingent commitments related to settlement operations. Guarantees and standby letters of credit, which represent irrevocable assurances that NOMOS will make payments in the event that a client cannot meet its obligations to third parties, carry the same risk as loans. Documentary and commercial letters of credit, which are written undertakings by NOMOS on behalf of a client authorising a third party to draw drafts in NOMOS up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct borrowing. All credit commitments other than loans are only made after the satisfactory completion of the credit analysis and assessment process that is similar to the processes in respect of loans. While NOMOS is potentially exposed to loss in an amount equal to the total unused commitments to extend credit, the management of NOMOS believes that the likely amount of loss is significantly smaller than the total unused commitments because most commitments to extend credit are contingent upon clients maintaining specific credit standards.

The following table sets out the nominal or contract amounts and risk-weighted amounts of the outstanding contingent liabilities and credit commitments of NOMOS as at 31 December 2008, 2009 and 2010. The risk-weighted amounts are obtained by applying credit conversion factor and counterparty risk weightings according to the principles employed by the Basle Committee on Banking Supervision (Basel I).

	As at 31 December					
	2008		2009		2010	
	Nominal amount	Risk- weighted amount	Nominal amount	Risk- weighted amount	Nominal amount	Risk- weighted amount
	(in millions of roubles)					
Commitments on loans and unused credit lines	18,867	7,494	19,720	8,459	74,330	18,405
Guarantees issued and similar commitments	26,526	26,241	25,192	24,601	73,609	73,285
Letters of credit and other contingent commitments related to settlement operations	10,066	8,662	7,196	6,178	7,626	3,202
Total contingent liabilities and credit-related commitments	55,459	42,397	52,108	39,238	155,565	94,891

As at 31 December 2008, 2009 and 2010, allowances for guarantees and other off-balance sheet commitments were RUB 585 million, RUB 591 million and RUB 324 million, respectively.

For information on BKM's contingent liabilities and credit commitments, see note 33 in the BKM Financial Statements.

Operating Lease Commitments

The following table sets out the future minimum rental payments under non-cancellable operating leases of office premises of NOMOS in effect as at 31 December 2008, 2009 and 2010.

	As at 31 December		
	2008	2009	2010
	(in millions of roubles)		
Not later than one year	324	322	405
Later than one year and not later than five years	538	464	817
Later than five years	37	49	205
Total operating leases	899	835	1,427

Obligations to Provide Funding for Precious Metal Extraction Operations

As at 31 December 2010, NOMOS had obligations to provide funding for precious metals extraction operations in the amount of RUB 32,905 million, which were not recognised in the consolidated statement of financial position as at 31 December 2010 as they had no stated maturity.

Derivative Financial Instruments

NOMOS enters into various derivative financial instruments, including forwards, swaps and options on foreign currency, precious metals and securities, to manage its exposure to interest rate and foreign exchange risks. Derivative financial instruments entered into by NOMOS are not designated as hedges and do not qualify for hedge accounting.

The following table sets forth certain information about derivative financial instruments of NOMOS as at 31 December 2010.

	Nominal amount	Fair value	
		Asset	Liability
Foreign currency contracts			
Forwards	(182,152)	1,173	(751)
Options	—	35	(35)
Precious metals contracts			
Forwards	6,616	58	(13)
Dealing security contracts			
Forwards	(155)	1	—
Futures	—	10	—
Other derivative instruments:			
Swaps	0	120	(207)
Total derivative financial instruments		1,397	(1,005)

Segment Information of NOMOS

NOMOS is organised on the basis of six reportable business segments:

- *Corporate banking*, which involves direct debt facilities, current accounts, deposits, overdrafts, loan and other credit facilities for large and medium-sized enterprises;
- *Small business banking*, which involves direct debt facilities, current accounts, deposits, overdrafts, loan and other credit facilities for small businesses and individual entrepreneurs;
- *Retail banking (including private banking)*, which involves current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages for individual clients (excluding individual entrepreneurs);
- *Investment banking*, which involves trading of fixed income and equity products, currencies, precious metals and derivatives on such products and underwriting public and private offerings of fixed income securities, including municipal securities offerings;
- *Treasury and asset-liability management*, which involves operations of NOMOS's treasury, which lends and borrows funds on the money market, undertakes NOMOS's funding through issuance of debt securities, including subordinated facilities, and conducts foreign exchange operations. This segment is also responsible for redistribution of all funds attracted by other segments; and
- *Other segments*, which involves certain immaterial operating segments which cannot be aggregated to any of the business segments above

Funds are allocated to segments through the Treasury Department, which results in internal funding charges. Such charges are calculated using rates, which are based on current market borrowing rates. Funding allocated to segments is adjusted for funding provided by an allocation of capital. Capital is allocated to each business segment based on the level of risk-weighted assets.

The following table sets forth unaudited pro forma selected financial information (income statement data) for the reportable business segments of NOMOS for the year ended 31 December 2010.²⁴

Year ended 31 December 2010							
	Corporate banking	Small business banking	Retail banking	Investment banking	Treasury and asset- liability management unit	Other segments	Total
	(unaudited) (in millions of roubles)						
Selected income statement data:							
Net interest income	9,772	1,670	4,488	3,789	715	12	20,446
Net fee and commission income	1,756	905	1,231	21	(50)	7	3,870
Total operating income before impairment losses and provision	14,261	2,981	5,943	7,167	321	172	30,845
Operating expenses including impairment of buildings	(3,498)	(1,751)	(4,206)	(1,320)	(106)	(2,370)	(13,251)
Profit before taxation	8,531	901	460	5,070	211	(2,182)	12,991

The following table sets forth selected financial information (balance sheet data) for the reportable business segments of NOMOS as at 31 December 2010.

Year ended 31 December 2010							
	Corporate banking	Small business banking	Retail banking	Investment banking	Treasury and asset- liability management unit	Other segments	Total
	(in millions of roubles)						
Selected financial position data:							
Total segment assets	264,491	21,124	52,973	161,854	25,445	4,328	530,217
of which, net loans to customers . .	248,580	19,129	36,533	35,051	—	9	339,301
Total segment liabilities	170,218	24,630	120,877	84,387	69,789	2,381	472,282
of which, customer accounts	146,653	21,989	120,088	2,684	21,949	13	313,376

Capital

Capital Contributions (Excluding Subordinated Loans)

The shareholders of NOMOS have periodically contributed capital to fund the rapid growth of NOMOS's banking operations and the expansion of its network of regional branches and additional offices. During the period under review, the shareholders have increased NOMOS's share capital in September 2008 in the amount RUB 4,700 million (including RUB 4,374 million of share premium) and in October 2010 in the amount of RUB 3,500 million (including RUB 3,257 million of share premium).

The shareholders of BKM have also periodically contributed capital to fund the rapid growth of BKM's banking operations. During the period under review, the shareholders have increased BKM's share capital in 2008 in the amount RUB 5,985 million and in 2009 in the amount RUB 3,990 million.

²⁴ The pro forma information provided below has been extracted without material adjustment from the pro forma financial information in the section "Pro Forma Financial Information".

Capital Adequacy

NOMOS and BKM are regulated by the CBR and must meet the CBR's capital adequacy requirements based on their respective RAS stand-alone financial statements. In addition, both banks monitor their compliance with the capital requirements calculated in accordance with Basel I Accord guidelines under IFRS accounting.

Set forth below are capital ratios calculated in accordance with the CBR's capital adequacy requirements based on RAS stand-alone financial statements for both NOMOS and BKM as at 31 December 2008, 2009 and 2010. For more information on the N1 capital adequacy ratio, see *"The Banking Sector and Banking Regulation in Russia — Mandatory Economic Ratios"*.

	NOMOS			BKM	
	As at 31 December			As at 31 December	
	2008	2009	2010	2009	2010
Capital adequacy ratio	13.2%	18.6%	11.5%	19.9%	15.2%

The table below sets out Tier 1 and Tier 2 capital and the Tier 1 and total capital ratios of NOMOS as at 31 December 2008, 2009 and 2010 calculated in accordance with the international framework for capital measurement and capital standards of banking institutions set by the Basel Committee on Banking Regulations and Supervisory Practices.

	As at 31 December		
	2008	2009	2010
	(in millions of roubles, except percentages)		
Tier 1 capital	31,776	36,014	56,614
Tier 2 capital	10,488	23,031	26,660
Total regulatory capital	42,264	59,046	83,274
Risk-weighted assets:			
Credit risks	234,909	200,367	478,827
Market risks	49,359	61,346	54,500
Total risk-weighted assets	284,268	261,713	533,327
Tier 1 capital ratio	11.2%	13.8%	10.6%
Total capital ratio	14.9%	22.6%	15.6%

Return on Equity and Assets

The following table shows a breakdown of the return on equity and assets of NOMOS for the years ended 31 December 2008, 2009 and 2010 and of unaudited pro forma information for NOMOS in 2010.

	As at or for the year ended 31 December			
	2008	2009	2010	2010 Pro Forma ⁽¹⁾
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(in millions of roubles, except percentages)			
Net profit	3,487	4,261	7,426	10,445
Net profit attributable to equity holders of the parent	3,470	4,253	7,385	8,962
Average total assets ⁽²⁾	235,678	269,587	300,036	449,583
Average equity attributable to equity holders of the parent	29,351	34,931	40,793	42,516
Net profit as a percentage of:				
Average total assets ⁽²⁾	1.5%	1.6%	2.5%	2.3%
Average equity ⁽²⁾	11.8%	12.2%	18.1%	21.1%
Declared cash dividends	61	—	—	—
Average equity attributable to equity holders of the parent as a percentage of average total assets ⁽²⁾	12.5%	13.0%	13.6%	9.5%

(1) The pro forma information provided above has been extracted without material adjustment from the pro forma financial information in the section *"Pro Forma Financial Information"*.

(2) The numbers and ratios tabulated above are based on the annual audited and quarterly unaudited consolidated financial statements.

Critical Accounting Policies

NOMOS's management is required to make estimates and judgments that affect the reported amounts of assets and liabilities at the relevant reporting date and the reported amount of income and expenses during the relevant reporting period. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances and re-evaluates its estimates and judgments on an ongoing basis. Actual results may differ from these estimates.

The most significant areas requiring the use of management's estimates and judgments are as follows:

Allowance for Impairment of Loans

A loan is impaired when there is objective evidence that events since the loan was granted have affected expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate. The estimation of allowances for impairments involves the exercise of significant judgment. NOMOS estimates allowances for impairment with the goal of maintaining balance sheet provisions at a level believed by management to be sufficient to absorb losses incurred in its loan portfolio. The calculation of provisions on impaired loans is based on the likelihood of the asset being written off and the estimated loss on such a write-off. These assessments are made using statistical techniques based on historic experience. These determinations are supplemented by the application of management judgment.

Loans, in the vast majority, are individually assessed for impairment. Impairment losses are recognised as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from the sale of any collateral held. These estimates take into account the clients' financial solvency and liquidity as well as their historic loan servicing, general business risks and national and local economic trends and conditions, all of which may be affected by future economic conditions.

NOMOS estimates the impairment allowance for loans to individuals based on its past loss experience for these types of loans. The significant assumptions used in determining the impairment allowance for loans to individuals are as follows:

- Management assumes that loss migration rates can be estimated based on historic loss migration pattern using historical data; and
- Management adjusts its past historical loss experience taking into account the current economic situation and the impact of the economic crisis on the quality of the loan portfolio.

NOMOS's management considers accounting estimates related to provisions for loans as key sources of estimation uncertainty because: (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of losses relating to impaired loans and advances are based on recent performance experience, and (ii) any significant difference between estimated losses (as reflected in the provisions) and actual losses will require NOMOS to take additional provisions which, if significant, could have a material impact on its future income statement and its statement of financial position. NOMOS's assumptions about estimated losses are based on past performance, past customer behavior, the credit quality of recent underwritten business and general economic conditions, which are not necessarily an indication of future losses.

Allowance for Impairment Losses for Investments Held to Maturity

NOMOS accounts for impairment of investments held to maturity when there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition.

For the financial instruments recorded at amortised cost, the impairment represents the difference between the carrying value of the financial asset and current value of the estimated future cash flows discounted using the current market interest rate for a similar financial instrument.

Allowance for Impairment Losses for Other Assets

The impairment for other assets is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding other assets being material individually and on the basis of an individual or joint evaluation of other assets not being material individually.

Valuation of Land, Buildings and Investment Property

NOMOS uses the valuation performed by its external valuers as the fair value of its land, buildings and investment properties.

The valuation of NOMOS's property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental revenues from that particular property. As a result, the valuations NOMOS places on its property portfolio are subject to a degree of uncertainty and are made on the basis of assumptions which may not prove to be accurate, particularly in periods of volatility or low transaction flow in the commercial property market.

The investment property valuation contains a number of assumptions upon which the external valuers has based its valuation of NOMOS's properties. Those assumptions include, but are not limited to, matters such as ground conditions at the properties, structural condition of the properties, prevailing market yields and comparable market transactions, inflation rate, tenure and tenancy details for the properties. If any assumptions made by the property valuer prove to be inaccurate, this may mean that the value of NOMOS's properties differs from the valuation, which could have a material effect on NOMOS's financial condition.

Provision for Guarantees and Other Off-Balance Sheet Commitments

The accounting estimates and judgments related to the provision for off-balance sheet commitments is an area of significant management judgment because the underlying assumptions used for both the individually and collectively assessed impairment can change from period to period and may significantly affect NOMOS's results of operations.

In 2010, NOMOS changed the methodology of estimation of provisions for guarantees and other off-balance sheet commitments. Currently, to determine the value of provision for guarantee and other off-balance sheet commitments, NOMOS performs the analysis of historical trends based on collected statistical information. The calculation of estimated future losses is performed based on the statistics on actual loss incurred by NOMOS during previous periods.

Fair Value Estimates

Certain of NOMOS's financial instruments are carried at fair value with changes in fair value recognised in the income statement. Fair value is defined as the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, willing parties, other than in a forced or liquidation sale. In reaching estimates of fair value, management judgment needs to be exercised. The areas requiring significant management judgment are identified, documented and reported to senior management as part of the valuation control framework and the standard monthly reporting cycle.

The level of management judgment required in establishing fair value of financial instruments for which there is a quoted price in an active market is minimal. Similarly, there is little subjectivity or judgment required for instruments valued using valuation models that are standard across the industry and where all parameter inputs are quoted in active markets.

The level of subjectivity and degree of management judgment required is more significant for those instruments valued using specialised and sophisticated models and those where some or all of the parameter inputs are not observable. Management judgment is required in the selection and application of appropriate parameters, assumptions and modeling techniques. In particular, where data are obtained from infrequent market transactions, extrapolation and interpolation techniques must be applied. In addition, where no market data is available, parameter inputs are determined by assessing other relevant sources of information such as historical data, fundamental analysis of the economics of the transaction and proxy information from similar transactions with appropriate adjustments to reflect the terms of the actual instrument being valued and current market conditions. Where different valuation techniques indicate a range of possible fair values for an instrument, management has to establish what point within the range of estimates best represents fair value.

IFRS Standards and Interpretations Issued and Not Yet Adopted

For the descriptions of the IFRS standards and interpretations that were issued but have not yet been adopted by NOMOS, see "*the NOMOS Financial Statements — Selected Explanatory Notes to the Consolidated Financial Statements for the Years Ended 31 December 2010, 2009 and 2008 — 3. Significant Accounting Policies — Standards and interpretations issued and not yet adopted*".

ASSET, LIABILITY AND RISK MANAGEMENT

Introduction

Asset, liability and risk management is an essential element of NOMOS's operations. The purpose of NOMOS's asset, liability and risk management policy is to evaluate, monitor and manage the degree and concentration of risks within NOMOS's activities. The principal types of risk inherent in NOMOS's business are credit risk, liquidity risk, market risk (including interest rate risk, currency risk and securities price risk), operational risk and legal risk.

NOMOS's risk management policies focus on identifying and analysing the above mentioned risks, establishing mechanisms designed to manage, mitigate and monitor these risks on a regular basis as well as facilitating compliance with risk management procedures. NOMOS's risk management policies, procedures and methodologies are regularly reviewed in order to improve them and reflect changing market conditions, the effect of new products and services offered by NOMOS, the growth in scope of its operations and the development of risk management methodologies used in the international and Russian banking sectors.

In developing its risk management policies, NOMOS follows international best practices, principles and guidelines from the Basel Committee on Banking Supervision as well as the requirements of Russian laws and regulations, including recommendations issued by the CBR.

NOMOS uses the following primary tools for monitoring and managing its risk exposure:

- various limits on exposures to single borrowers/counterparties or groups of affiliated borrowers/counterparties, individual industries, certain types of loans and securities and open currency positions;
- monitoring risk exposure on a regular basis;
- clear segregation of duties and responsibilities among the main bodies of NOMOS involved in the risk management process;
- regular training of personnel; and
- internal audit of risk management systems.

BKM is currently being integrated into the overall risk management system of NOMOS. In the short-term, all important decisions on matters related to risk management (other than in respect of limits on authority of various BKM's risk management bodies which will be set in the NOMOS's head office) delegated to BKM should be taken by the BKM's Supervisory Board, which includes top managers from NOMOS, and is ultimately controlled by NOMOS. At the next stage of the integration process, risk management policies, procedures and methodologies used at BKM will be gradually modified to conform to the group-wide standards to be set by the management of NOMOS with consideration of best practices at BKM, such as, for instance, BKM's risk reporting standards.

Recent initiatives in the risk management area at NOMOS have been focused on:

- consolidation of risk-management function, headed by the Chief Risk Officer (the "CRO") who is responsible for monitoring NOMOS's overall risk position and designing and modifying risk management policies, procedures and methodologies;
- adjustment of credit policy to changes in the economic environment caused by the impact of the recent global financial and economic crisis and the gradual economic recovery in its aftermath;
- improving credit risk assessment capabilities in the small business segment;
- introduction of the "credit conveyor" (credit applications processing) system integrated with databases of the national credit bureaus in the retail segment; and
- introduction of dedicated workout units in the corporate and retail segments.

Risk Management Organisational Structure

One of the key principles for managing risks at NOMOS is collective decision making, which emphasises the roles of the Supervisory Board, the Management Board and various types of committees as well as other

collective decision-making bodies in risk management. Another key principle of risk management at NOMOS is the strict segregation of duties among the main bodies involved in the risk management process that provides necessary checks and balances for the risk management system. NOMOS's risk management organisational structure is based on the principle of separation of (i) the bodies responsible for strategic planning and developing risk management strategy, policies and procedures and monitoring compliance with such strategy, policies and procedures, (ii) decision making bodies and (iii) day-to-day policy and decision-execution bodies, as further discussed below. In addition, NOMOS's risk management policies are also based on principle of clear separation of responsibilities of departments that conduct operations that entail risk from those departments that supervise and monitor compliance with NOMOS's risk management policies. The third key principle of risk management at NOMOS is common risk management policies and procedures for its head office, its subsidiary banks, branches and other outlets, which are designed and modified by the appropriate risk management bodies in the NOMOS's head office.

The main bodies involved in the risk management process at NOMOS, each of which is described below, are:

- policy making and monitoring bodies, which comprise the Supervisory Board, the Management Board, Credit Committees and the Financial Committee;
- decision-making bodies, which comprise the CRO, the Risk Analysis and Reporting Department, the Risk Strategy and Policy Department, the Market Risk Department, the Operational Risks Analysis Department and the Internal Control Service; and
- day-to-day policy and decision-execution bodies, which comprise the Credit Department, the Credit Risk Management Department, the Retail Risk Management Department, the Treasury Department, the Legal Department, the Collateral Department, the Problem Asset Committee, the Problem Loan Department and the Economic Security Department.

Policy Making and Monitoring Bodies

Supervisory Board

NOMOS's risk management strategy is established by its Supervisory Board based and reviewed on an annual basis. The latest version of NOMOS's risk management strategy was approved by the Supervisory Board on 5 October 2009. The Supervisory Board assesses the efficiency of risk management processes, sets high-level guidelines for acceptable levels for various types of risks and supervises certain bodies involved in the risk management process at NOMOS. The Supervisory Board also has the authority to approve loans to related parties or loans that constitute major transactions as defined in the Joint Stock Companies Law.

Management Board

NOMOS's Management Board is involved in the decision-making process in respect of the structure, functioning and enhancement of the risk management system. The Management Board allocates responsibilities in respect of risk management, sets limits of authority for employees engaged in risk management processes, unless such power is delegated to other committees of NOMOS, and approves internal policies and procedures relating to risk management. The Management Board has the sole authority to approve all loans exceeding RUB 2 billion, except for loans to related parties and loans that constitute major transactions as defined in the Joint Stock Companies Law. Meetings of the Management Board are sometimes attended by other members of NOMOS's management on an as required basis.

Credit Committees

NOMOS has several levels of credit committees which review and approve all loan applications from corporate and small business clients and some applications from retail customers, other than loans approved by the Supervisory Board and the Management Board. Loans are approved by a majority vote of the respective members at the relevant credit committee. Credit committees are comprised of representatives from various management bodies as well as departments of NOMOS and normally meet at least once a week, or more frequently if required. NOMOS has four credit committees in Moscow at the head office level and additional credit committees at some of its branches. Credit committees operating at the head office level are the Principal Credit Committee, the Small Credit Committee, Small Business Credit Committee and the Retail Business Credit Committee. See “— Credit Risk — Credit Policies and Procedures — Credit Approval Process”. Members of the credit committees operating at the head office level are appointed by the President of NOMOS.

Financial Committee

The Financial Committee is responsible for managing liquidity risk and market risk as well as for managing credit risks in the interbank market. The committee sets limits on credit exposure to banks in the context of NOMOS's interbank operations and limits on minimum as well as maximum interest rates for placement and receipt of funds on the interbank market. The Financial Committee is comprised of the President of NOMOS, who chairs the committee, the Financial Director of NOMOS, who is a deputy chairman of the Financial Committee, the Chief Accountant, the Deputy Chief Accountant, representatives of each principal business line, a representative of the Treasury Department and certain other senior managers of NOMOS. The Financial Committee meets on a weekly basis, or more frequently if required.

Decision Making Bodies

Chief Risk Officer

NOMOS's CRO is responsible for oversight of NOMOS's risk position and compliance with risk appetite and strategy. The CRO is responsible for providing adequate information on risk exposures to the Management Board and reviewing and making recommendations in respect of the risk management organisational structure. The CRO is in charge of updating or upgrading of NOMOS's risk management policies, procedures and methodologies, as well as for their harmonisation across various subsidiaries, branches and other outlets.

Risk Analysis and Reporting Department

The Risk Analysis and Reporting Department is responsible for the analysis and reporting on NOMOS's overall risk exposure. As part of its responsibilities, the department provides reports on its consolidated risk position, as well as on exposure to separate types of risk. This department also serves as a centre of risk modelling expertise and provides analytical support to the Credit Department and the Credit Risk Management Department in developing credit underwriting tools.

Risk Strategy and Policy Department

The Risk Strategy and Policy Department is responsible for design and periodic reviews of the overall risk strategy of NOMOS, which is approved by the Supervisory Board, as well as for principal risk strategies and policies, primarily in respect of credit risk. The Risk Strategy and Policy Department facilitates the development and review of NOMOS's risk appetite for the major types of risk. This department also assists the CRO in harmonising risk management policies, procedures and methodologies across NOMOS's subsidiaries, branches and other outlets.

Market Risk Department

The Market Risk Department is responsible for establishing limits on market risk exposure as well as other procedures aimed at mitigating market risk based on the results of ongoing monitoring of NOMOS's market risk exposures. This department also develops and implements policies and procedures designed to identify, evaluate, monitor and generate reports on market risk. Furthermore, it is responsible for implementing procedures aimed at identifying the aggregate level of market risk to NOMOS's capital, including under the Basel framework.

Operational Risks Analysis Department

The Operational Risks Analysis Department is responsible for maintaining and improving the system designed to identify and classify operational risks, analyse and classify potential losses from operational risks and design procedures aimed at preventing losses from operational risk events including both internal and external fraud and at reducing other types of operational risk.

Internal Control Service

The Internal Control Service is responsible for monitoring compliance with internal procedures and applicable legislation at all levels within NOMOS on a day-to-day basis. The Internal Control Service also participates in the development of procedures designed to mitigate various risks as well as banking operations standards and procedures for banking operations, and analyses the adequacy of NOMOS's internal policies and regulations designed to manage various risks that NOMOS faces as part of its operations.

Day-to-day Policy and Decision-Execution Bodies

Credit Department

The Credit Department is responsible for the review of loan applications and the initial assessment of potential borrowers' financial condition, creditworthiness and existing debt service history. The Credit Department also supervises the activities of branches, including monitoring the performance of their loan portfolios and the value of collateral for certain types of loans with the help of the Collateral Department.

Credit Risk Management Department

The Credit Risk Management Department is responsible for credit risk management and is involved in the assessment of clients' financial condition and creditworthiness. In particular, it monitors NOMOS's exposure to credit risks and reviews credit policies on an annual or, if required, more frequent basis.

In addition, the Credit Risk Management Department prepares analytical reports for NOMOS credit committees and suggestions on reducing credit risk, supervises compliance with credit limits established by NOMOS (including CBR limits, internal limits per borrower and groups of affiliated borrowers and internal limits per branch and industry limits), analyses the quality of NOMOS's credit portfolio, develops and implements internal credit risk management policies, procedures and methodologies, contributes to development of new banking products designed to mitigate credit risks and cooperates with the Problem Asset Committee discussed below and makes suggestions thereto.

Retail Risk Management Department

The Retail Risk Management Department is responsible for credit approval, loan monitoring and problem loan management and recovery in respect of loans to retail clients. As part of the recently introduced "credit conveyor" (credit applications processing) system, this department verifies information provided by the potential borrowers, identifies potential cases of fraud and evaluates the creditworthiness of potential borrowers using data from the national credit bureaus. This department also monitors the quality of the retail loan portfolio on the regular basis and is responsible for "soft" collection of loans that are overdue for a period of less than two months and for coordinating the "hard" collection activities in the regions in respect of loans that are overdue for a period of more than two months.

Treasury Department

The Treasury Department is responsible for day-to-day management of liquidity risk and, jointly with the Market Risk Department, market risk. In addition, it is responsible for preparing reports on NOMOS's liquidity position as well as currency and securities price risks. The Treasury Department is also involved in credit risk management and assesses the financial condition and creditworthiness of counterparties that are credit institutions.

Legal Department

The Legal Department is primarily responsible for managing legal risks and monitors changes in law and applicable regulations with a view to assessing the impact of any such changes on NOMOS's business and any resulting risks.

The Legal Department is also responsible for the review of NOMOS's legal documents and preparation of standard form documentation used for different types of banking products offered by NOMOS. In addition, the Legal Department is responsible for confirming the capacity of counterparties on transactions entered into by NOMOS, including any loans to customers, and assessing legal risks relating to collateral provided as security. Representatives of the Legal Department are also members of the credit committees of all levels.

Collateral Department

The Collateral Department performs the initial valuation of assets proposed as collateral as well as the ongoing monitoring of the value of collateral throughout the life of the relevant loan. It also conducts regular inspections of inventories provided as collateral.

Problem Asset Committee

The Problem Asset Committee is involved in the management and recovery of problem assets, including, in particular, overdue loans. It accepts for review all overdue loans except for loans that are in default for purely

technical reasons (such as delays in money transfers by the bank involved in settlement). Its principal goals are to approve a strategy for recovery of each overdue loan and to monitor implementation of such strategy. The committee operates at the head office level and consists of representatives of the Credit Department, the Credit Risk Management Department, the Legal Department and the Economic Security Department. The Problem Asset Committee usually meets weekly but used to meet three or four times a week during the most acute stage of the recent global financial and economic crisis.

Problem Asset Department

The Problem Asset Department deals with loans to corporate customers that are transferred to it by the corporate banking department when they become overdue. This department develops a strategy for recovery of each overdue loan and proposes it for the approval of the Problem Asset Committee and then implements the strategies approved by it.

Economic Security Department

The Economic Security Department performs security checks for loan applicants.

Credit Risk

NOMOS is exposed to credit risk, which is the risk that a borrower, a securities issuer or a counterparty will not be able to meet their obligations in full when due. NOMOS is primarily exposed to credit risk through its loan portfolio, securities portfolio, guarantees, commitments and other on- and off-balance sheet credit exposures.

NOMOS manages its credit risk by investigating and assessing the financial condition and creditworthiness of each of its borrowers and counterparties at the time of entering into a loan transaction and during the life of the loan as well as by establishing and monitoring compliance with limits on credit risk exposure to counterparties, individual industries and certain types of loans and securities. Letters of credit, guarantees and other commitments to extend credit are subject to the same credit review procedures as loans, including ongoing monitoring of the performance of counterparties. NOMOS also aims to obtain adequate collateral in respect of its loans and other extensions of credit and monitors the value of collateral throughout the life of the underlying credit obligation. The management of credit risk is performed by credit committees of all levels, the Financial Committee, the Credit Department, the Credit Risk Management Department, the Treasury Department and the Collateral Department. For information on various credit committees, see “— *Credit Policies and Procedures — Credit Approval Process*” below.

Credit Policies and Procedures

Credit Application Process for Corporate and Small Business Clients

Each corporate and small business client of NOMOS has its own dedicated client manager, who is responsible for the sale of all of NOMOS’s products and services to that client, including the origination of loans. Client managers are assisted by support managers, who principally deal with transaction documentation, help to structure transactions with the bank’s corporate clients and otherwise support client managers. NOMOS had a total of 296 client managers and support managers as at 31 December 2010, 88 of whom were located in the head office in Moscow and the remaining 208 of whom were located in the various branches. Client managers, with the assistance of support managers when necessary, assist corporate clients with completing loan application forms and creating loan files. A prospective borrower typically must disclose on its loan application information regarding its business, the purpose of the loan and proposed collateral, guarantee and other assurance arrangements and must also provide certain documents to support its application such as, for example, financial statements.

Once a loan application is received from a corporate or small business client, the Credit Department or a specialised department responsible for the review of a particular type of loans, such as the Project Finance Department in the case of project finance loans, with the assistance of the Credit Risk Management Department, conducts an initial investigation based on the information provided in the loan application, the documents enclosed by the borrower with its loan application, publicly available information about the borrower as well as the information contained in NOMOS’s database. NOMOS also evaluates the applicant’s current and historical financial statements and, to the extent available, the borrower’s market position, cash flow, purpose of the loan, level of existing indebtedness, credit and debt service history, proposed collateral, guarantee or other assurance

arrangements as well as the industry prospects. Following an evaluation that uses an internal points-based grading system, the Credit Department assigns a preliminary rating to every potential borrower. Currently, this rating can be one of 13 internal grades and is one of the key factors for determining loan pricing. The grading system and internal ratings are currently being reviewed and redesigned with a goal to provide more granular and accurate assessment of the borrower's risk profile. The Credit Risk Management Department provides an independent evaluation of each application and then issues an opinion on each application for the use of the credit committee that will be making a decision on whether or not to extend a loan. The Legal Department, the Economic Security Department and the Collateral Department, if collateral is involved, provide assistance to the Credit Department. The Legal Department evaluates legal aspects of the proposed transaction, the prospective borrower's legal status and authority to enter into a loan agreement as well as its capacity to provide any collateral, guarantee or other assurance. The Economic Security Department performs security checks for loan applicants. On the basis of the input from other departments and its internal analysis of each loan application, the Credit Department makes a decision on whether to submit such application to an appropriate credit committee for decision and on its recommendations regarding the terms of the loan.

Credit Application Process for Retail Clients

Loan applications for retail clients are completed by the applicant. As part of their loan application, individuals must provide information on their income, the purpose of the loan and the proposed collateral, guarantee or other assurance arrangements. Because many individuals in Russia do not have credit histories, in order to manage credit risk, NOMOS conducts investigations of prospective retail borrowers. NOMOS assesses and seeks to verify information contained in the loan application, evaluates the prospective borrower's income, education, employment, employment history and existing indebtedness and reviews supporting documentation, including verifying employment and income. Three retail risk management units, each of which reports to the retail risk director, are involved in the application approval process. The verification unit is responsible for, among other things, the review and verification of the submitted documents, obtaining information from credit bureaus and the verification of submitted phone numbers. The fraud-prevention unit checks available databases for possible involvement in any fraud-related activities, including for evidence of a criminal record. The underwriting unit makes a final recommendation on the approval of a loan application on the basis of the criteria established in NOMOS's credit policy. The Retail Risk Department has its own dedicated server for credit reporting and analysis.

NOMOS has installed and uses a new scoring system software designed by Experian to assist in assessing credit risk during credit decision making. In addition, NOMOS has entered into agreements with the three main credit bureaus in Russia, National Bureau of Credit History, Equifax and Experian-Interfax, and uses credit history information supplied by them in its assessment of borrowers' credit standing. Furthermore, NOMOS has entered into an agreement with Equifax's National Fraud Bureau pursuant to which NOMOS is participating in the creation of a fraud bureau.

Credit Approval Process

Depending on the type of loan or other credit application, its amount and the location of the applicant, loans or other credit applications are typically approved by one of NOMOS's four credit committees in Moscow at the head office level or by one of the credit committees at some of its branches. Set out below is a description of these credit committees.

Principal Credit Committee. The Principal Credit Committee is comprised of representatives of the Credit Department, the Legal Department and the Collateral Department. The Principal Credit Committee is authorised to approve loans in amounts from RUB 75 million to RUB 2 billion. Loans exceeding RUB 2 billion require approval by the Management Board. In addition, the Principal Credit Committee is responsible for developing and implementing NOMOS's credit policy as well as for monitoring and managing NOMOS's credit risk, including off-balance sheet credit commitments, which are subject to the same credit approval process as on-balance credit commitments. The Principal Credit Committee sets lending limits in respect of industries and specific clients as well as approval limits for lower level credit committees. It is also responsible for managing the composition of NOMOS's loan portfolio, provisioning for loan impairment, writing off non-performing loans and making decisions on initiation of legal proceedings against defaulted clients.

Small Credit Committee. The Small Credit Committee is responsible for the review and approval of loans to corporate clients and operates within the limits established by the Principal Credit Committee. The Small Credit Committee is comprised of representatives of the Credit Department, the Legal Department and the Collateral Department. It is authorised to approve loans in amounts of up to RUB 75 million.

Small Business Credit Committee. The Small Businesses Credit Committee is comprised of representatives of the Credit Department, the Legal Department and the Collateral Department. The Small Businesses Credit Committee is authorised to approve loans within limits established by the Principal Credit Committee and authorised to approve loans to small businesses in amounts not in excess of RUB 80 million.

Retail Business Credit Committee. The Retail Business Credit Committee is responsible for the review and approval of loans to individual clients and is authorised to approve loans within the limits established by the Principal Credit Committee. It is authorised to approve loans to individuals in amounts of up to RUB 25 million.

Credit Committees at the Branch Level. As at 31 December 2010, NOMOS had credit committees at 14 of its branches (excluding BKM). All of the credit committees at the branch level are authorised to approve loans within the limits established by the Principal Credit Committee. Branch credit committees comprise representatives of the Credit Department, the Legal Department and the Collateral Department. The authority of branch credit committees to approve loans was suspended during the most acute stage of the global financial and economic crisis. As the economic situation in Russia began to improve in 2010, however, NOMOS's management began to gradually restore such authority of branch credit committees beginning in March 2010.

Branches that do not have a credit committee must seek approval of a head office credit committee (the Principal Credit Committee, the Small Credit Committee, the Small Businesses Credit Committee or the Retail Business Credit Committee) for all loans.

Credit Exposure Limits

NOMOS establishes and monitors on a regular basis various limits on its credit risk exposure. These include limits of credit exposure to a single borrower or counterparty, to a group of affiliated borrowers or counterparties, limit per branch that has its own credit committee, an aggregate limit for non-secured debt, limits on open foreign currency position as well as limits on particular industries. Industry limits are currently set at 30 per cent. of the total loan portfolio for any industry except for the construction industry, which is limited to 20 per cent. of the total loan portfolio or the agricultural and housing services sectors, each of which is limited to 5 per cent. of the total loan portfolio, as these sectors are currently viewed as more risky by NOMOS. NOMOS's credit policy also establishes a limit on the proportion of project finance loans of its gross loan portfolio, which is currently 20 per cent. Credit risk exposure to any single borrower is further restricted by sub-limits covering on- and off-balance sheet exposures. These limits are set by the Principal Credit Committee and are reviewed on a regular basis. NOMOS is subject to mandatory regulations of the CBR applicable to the management and monitoring of credit risk exposures. These regulations require Russian banks to monitor their borrowers' financial condition on at least a quarterly basis. NOMOS generally assesses the financial condition of its borrowers on a monthly basis.

CBR regulations also set mandatory limits for credit exposure to an individual borrower or a group of affiliated borrowers. These limits require that the maximum amount granted to a single borrower or a group of affiliated borrowers not exceed 25 per cent. of the bank's capital calculated in accordance with CBR regulations. For the purposes of determining such maximum amount the full amount of off-balance sheet credit exposures (such as guarantees and letters of credit) as well as 50 per cent. of unutilised loan facilities (less provisions) are taken into account.

Monitoring compliance with credit risk exposure limits is performed on a regular basis by the Credit Department and the Credit Risk Management Department.

Collateral and Guarantees

As part of the loan review and approval process, NOMOS typically requires security and/or guarantee or other assurance arrangements for its loans and loan facilities. Usually, the amount of collateral is required to be sufficient to cover principal and interest payments for at least one year, as well as costs associated with the potential realisation of such collateral. The type and the ratio of the value of the collateral to the loan amount are determined based on the borrower's internal rating. Acceptable collateral includes, among other things, real estate, securities (including sovereign and municipal debt securities and shares in Russian blue-chip companies which are subject to margin calls), securities issued by NOMOS, contract proceeds, industrial equipment, vehicles and rights to purchase precious metals. Various forms of collateral are assigned different weight factors that are used when assessing the impact of the collateral on the loan interest rate.

The collateral valuation process depends on the type of collateral and the type of loan. Valuation is carried out by the Collateral Department, which is also responsible for the ongoing monitoring of the collateral's value. For real estate collateral, independent appraisers' reports may also be used for valuation purposes. Valuations are based on current market quotes or by reference to the nominal value of the collateral, discounted to account for its liquidity. Acceptance of guarantees from third parties is subject to satisfactory assessment of the guarantor's solvency, which is performed by the Credit Department.

The following tables set forth the breakdown of gross loans to legal entities and to individuals into loans secured by various types of collateral, guaranteed loans and loans that were neither secured nor guaranteed as at 31 December 2008, 2009 and 2010 for NOMOS. The amounts set forth below are the carrying amounts of the loans, rather than the value of the collateral or guarantees.

	As at 31 December					
	2008	% of total	2009	% of total	2010	% of total
	(in millions of roubles, except percentages)					
Loans to corporate customers collateralised by:						
Securities	14,665	8.1%	29,332	17.9%	66,212	20.9%
Real estate	46,328	25.4%	35,329	21.5%	50,660	16.0%
Contract proceeds	16,198	8.9%	6,938	4.2%	30,327	9.6%
Securities of NOMOS	6,361	3.5%	3,119	1.9%	102	0.0%
Rights to purchase precious metals	915	0.5%	240	0.1%	—	0.0%
Other property	27,292	15.0%	22,460	13.7%	21,121	6.7%
Total secured loans	111,757	61.4%	97,417	59.4%	168,422	53.1%
Guaranteed loans ⁽¹⁾	39,066	21.5%	31,782	19.4%	95,021	30.0%
Unsecured loans	31,257	17.2%	34,817	21.2%	53,745	16.9%
Total gross loans to legal entities	182,080	100%	164,016	100%	317,189	100%
Loans to individuals collateralised by:						
Real estate	9,398	54.2%	9,650	61.6%	18,382	48.8%
Securities	525	3.0%	315	2.0%	1,587	5.5%
Vehicles and other property	1,260	7.3%	910	5.8%	1,587	4.2%
Contract proceeds	1,626	9.4%	968	6.2%	471	1.3%
Securities of NOMOS	8	0.0%	160	1.0%	6	0%
Total secured loans	12,817	73.9%	12,003	76.6%	22,521	59.8%
Guaranteed loans ⁽²⁾	3,813	22.0%	2,418	15.4%	10,270	27.3%
Unsecured loans	708	4.1%	1,240	7.9%	4,881	12.9%
Total gross loans to individual clients	17,338	100%	15,661	100%	37,671	100%

(1) Guarantees provided by enterprises and banks.

(2) Guarantees provided by enterprises.

Ongoing Monitoring of Loan Portfolio

NOMOS monitors compliance with credit exposure limits in respect of its loan portfolio as well as the financial condition and creditworthiness of its borrowers and counterparties and collateral values. Monitoring of compliance with credit exposure limits is performed by the Credit Department and is carried out in accordance with CBR regulations and NOMOS's internal methodology. In addition, NOMOS undertakes periodic sector diversification analysis of its loan portfolio in order to monitor compliance with its internal sector exposure limits. Assessment of the financial condition and creditworthiness of NOMOS's corporate and small business clients is performed by the Credit Department and is carried out throughout the life of the relevant loan. The process takes into account the flow of funds into the client's accounts, the client's most recent financial statements and other business and financial information submitted by the client or otherwise available to NOMOS.

The Collateral Department monitors the value of collateral throughout the life of the relevant loan and re-values collateral based on market research on the relevant market segment. In accordance with internal guidelines, NOMOS carries out on-site monitoring inspections of equipment and real estate collateral on a quarterly basis and of inventory provided as collateral on a monthly basis. If the fair value of original collateral declines or if the risk of default by the borrower increases, NOMOS frequently requires borrowers to provide additional security under existing loans. The results of the credit portfolio assessment and analysis are reviewed at the meeting of the Principal Credit Committee on a monthly basis. Based on the review results, NOMOS's credit policy is revised if deemed necessary.

NOMOS regularly analyses and monitors the quality of its loan portfolio. Risk management reports are delivered to the members of the Management Board and the Principal Credit Committee on a monthly basis or as needed, with members of the Supervisory Board also receiving reports on a monthly basis. When loans are being restructured, NOMOS considers each case individually and, depending on the borrower's financial condition and business performance, NOMOS may require borrowers to provide additional collateral or personal guarantees from the owners of the borrower's business or agree to an alteration of interest rates.

Overview of Asset Quality

Managing the loan portfolio is one of the key priorities of NOMOS's risk management efforts. Unimpaired loans to legal entities are classified into two categories based on the degree of perceived potential default risk of the loan, and as such a borrower may be classified as standard or the watch list category. The standard category includes loans to borrowers that have positive operating and financial activity, demonstrate stability in their business, have a sufficient amount of net assets, profitability and solvency, with no signs of any negative tendencies that may influence the financial sustainability of the borrower. A loan is placed on the watch list if the operating and financial performance are positive, but potential negative facts or tendencies in the foreseeable future could lead to the emergence of financial difficulties to the borrower and lead to potential impairment signs being manifested. All past due loans of legal entities are included in the "loans with individual indicators of impairment" category and managed by the Problem Loan Department to seek to maximise potential recovery. See "*Problem Loan Management and Recovery — Loans to Corporate and Small Business Clients*".

The following table sets forth the breakdown of NOMOS's gross loans to corporates and small businesses (legal entities only) as at 31 December 2008, 2009 and 2010 by NOMOS's internal credit quality category.

As at 31 December						
		Ratio of allowance for impairment losses on loans to customers to gross loans in the respective category		Ratio of allowance for impairment losses on loans to customers to gross loans in the respective category		Ratio of allowance for impairment losses on loans to customers to gross loans in the respective category
	2008		2009		2010	
(in millions of roubles, except percentages)						
Corporate loans:						
Gross loans without individual indicators of impairment:						
— standard loans	156,845	3.9%	133,821	3.7%	269,455	1.9%
— watch list loans	7,745	6.1%	11,065	6.3%	13,723	3.5%
Gross loans with individual indicators of impairment ⁽¹⁾	9,704	41.8%	12,370	73.4%	13,899	56.4%
Total gross loans to corporate clients	174,294	6.1%	157,255	9.3%	297,077	4.5%
Small business loans to legal entities:						
Gross loans without individual indicators of impairment:						
— standard loans	7,306	4.7%	4,922	2.4%	18,161	1.3%
— watch list loans	363	9.6%	432	2.2%	760	2.4%
Gross loans with individual indicators of impairment ⁽¹⁾	117	100%	1,407	92.2%	1,191	83.9%
Total gross loans to small business clients	7,787	6.3%	6,761	21.1%	20,112	6.2%

(1) For the breakdown of gross loans with individual indicators of impairment, see "*Operating and Financial Review — Financial Position of NOMOS — Assets — Loans to Customers — Composition of Loan Portfolio by Loan Status*".

Provisioning Policy

As NOMOS prepares its financial statements both under IFRS and RAS, it must calculate provisions for impairment of loans and other financial assets under both IFRS and RAS.

IFRS Provisioning. NOMOS establishes an allowance for impairment losses on financial assets when there is objective evidence that a financial asset, or group of financial assets, is impaired. Allowance for impairment losses is measured as the difference between carrying amounts and the present value of expected future cash flows, which includes amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate for financial assets that are carried at amortised cost. If in a subsequent period the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognised, the previously recognised impairment loss is revised and the allowance is adjusted accordingly.

The determination of the allowance for impairment losses is based on the analysis of assets under risk and reflects the amount which, in management's judgment, is adequate to provide for future losses. Allowances are made as a result of an individual appraisal of financial assets that are individually significant and an individual or collective assessment of financial assets that are not individually significant. The change in the allowance for impairment losses is charged to the income statement and the total of the allowance for impairment losses is deducted from the assets as shown on the statement of financial position.

As at 31 December 2010, NOMOS's allowance for impairment losses on corporate loans amounted to 4.5 per cent. of its gross corporate loan portfolio, as compared to 9.3 per cent. as at 31 December 2009 and 6.1 per cent. as at 31 December 2008. As at 31 December 2010, NOMOS's allowance for impairment losses on small business loans amounted to 6.2 per cent. of its gross small business loan portfolio, as compared to 21.1 per cent. as at 31 December 2009 and 6.3 per cent. as at 31 December 2008. As at 31 December 2010, NOMOS's allowance for impairment losses on retail loans amounted to 2.3 per cent. of its gross retail loan portfolio, as compared to 6.0 per cent. as at 31 December 2009 and 3.2 per cent. as at 31 December 2008.

RAS Provisioning. For CBR regulatory purposes, NOMOS applies a methodology based on RAS to calculate loan provisioning and determine expected losses.

Under the CBR regulations, provisions for loan impairment are established following a borrower's default under a loan or where there is objective evidence of the potential inability of the borrower to repay the loan. NOMOS creates provisions by reference to homogeneous loan portfolios (i.e., groups of loans consolidated on the basis of certain credit risk criteria, for example type of credit product or the borrowers' industry sector or geographical region of operation) as well as by reference to individual credit products. Provisions with respect to homogeneous loan portfolios are created by reference to the aggregate of the amount of actual and expected losses. Provisions with respect to individual credit products are calculated based on the borrower's financial condition and debt service quality. NOMOS has developed and implemented a policy for classification of loans into potential loss categories depending on the internal credit rating of the borrower and the quality of the credit product.

See "*The Banking Sector and Banking Regulation in Russia — Loss Provisions*" for the table setting forth the loan risk categories prescribed by the CBR regulations.

Problem Loan Management and Recovery

Loans to Corporate and Small Business Clients. Loans are classified as overdue by the responsible account manager of the Credit Department on the day a default in payment of either principal or interest under such loan occurs. The overdue loan, along with information contained in the relevant loan file, is then transferred to the Problem Loan Department, which submits information on the overdue loan to the Problem Asset Committee for review. The Credit Department may also submit for review of the Problem Asset Committee a loan which is not yet in arrears if the Credit Department believes that there are special circumstances that may lead to a default, for example, if it has information that the client intends to file a voluntary bankruptcy petition.

The Problem Asset Committee, which usually meets weekly, but which met three or four times a week during the most acute stage of the global financial and economic crisis, then considers the case based on the information collected by the Credit Department and determines further steps to be taken in respect of the overdue loan. If the default was caused by purely technical reasons (such as delays in money transfers by the bank involved in the settlement), a decision may be taken to extend the term of the relevant loan or waive the default.

NOMOS has developed a process for managing overdue loans, which envisions using all available information sources to determine the reason for the default and establishing guidelines for managing overdue loans from the time of default until the commencement of court proceedings.

Several measures are used by NOMOS to seek to maximise the recoveries of overdue or non-performing loans, including negotiations with the borrower, court proceedings and enforcement of security, or filing for the commencement of bankruptcy proceedings in respect of the borrower. Negotiations with the borrower are usually

aimed at obtaining additional security, personal guarantees of shareholders and senior management or revising existing terms of the loan agreement, including increase of interest rates or revising repayment schedules, to facilitate borrowers' repayment of the loans. In certain cases, NOMOS seeks to claim outstanding amounts under loan agreements in court. The consideration of enforcement claims in court is time-consuming and until final rulings are granted, the overdue loans remain on NOMOS's books. In addition, NOMOS may from time to time sell or assign loans to unrelated third parties, or obtain repayment by receiving high-value real estate assets as part of the settlement. The amount of any discount or premium payable by third party buyers of loans is established on the basis of the operating performance and financial condition of the defaulting borrower and general market conditions.

In certain cases, NOMOS considers the restructuring and sale of overdue loans to be impractical in accordance with its risk management policies. Loans that are considered uncollectible are considered to be "bad debt" and are usually written off. In 2010, NOMOS wrote off RUB 1,885 million of bad debt as compared to RUB 3,371 million of bad debt written off in 2009 and RUB 7 million of bad debt written off in 2008.

Loans to Retail Clients. NOMOS collection of overdue retail loans is split into "soft" and "hard" collection processes. Soft collection methods are applied to retail loans that are overdue by not more than 60 days. Collection activities at this stage involve calls to delinquent borrowers by specially trained employees of NOMOS who work from its head office in Moscow. Such employees work in shifts seven days a week. NOMOS has a special incentive scheme in place for such employees, which takes into consideration both individual results of each employee involved in soft collection and the performance of this unit as a whole. A separate unit works on improvements to NOMOS's phone database and on delinquent borrowers searches.

Loans that are overdue by more than 60 days are transferred to "hard" collection regional units that work under the supervision of the head office. Employees of these units initially rely on different telephone scripts and visits to delinquent borrowers. If need arises, cases are taken to court by the Legal Department. There are also follow-up activities in the aftermath of court decisions. These activities are typically performed in close cooperation with bailiffs.

NOMOS's dedicated collection system database is used by both soft and hard collection units. All information about delinquent borrowers, missed payments and follow-up developments such as promises made by such borrowers, promises kept and any collection actions taken are reflected in this database, which facilitates the use of different types of collection activities based on customer risk.

Measures Taken as a Result of the Impact of Global Financial and Economic Crisis

Following the onset of the global financial and economic crisis in the autumn of 2008, NOMOS has implemented various measures, some of which still remain in place, aimed at maintaining or improving the quality of its loan portfolio, including the following:

- *Centralisation of credit approvals in the head office.* NOMOS has credit committees both at the head office level and at the branch level. Following the onset of the global financial and economic crisis, NOMOS temporarily withdrew the authority of credit committees at the branch level to approve the extension of loans and therefore centralised the decision-making process in respect of credit approvals at the head office level;
- *New maximum loan amount limits.* NOMOS implemented new limits on the maximum amount of new loans to be extended to any corporate or small business client. In particular, the maximum amount of any new overdraft financing was reduced to 30 per cent. of the borrower's monthly turnover through its bank accounts held with NOMOS, as compared to the 40 to 50 per cent. limit that applied prior to the onset of the crisis in the autumn of 2008;
- *Cessation of lending to companies operating in certain economic sectors.* NOMOS temporarily suspended new loans to companies operating in certain economic sectors, including construction, leasing and car manufacturing and sales;
- *Additional credit checks and clearances.* Clients from a number of economic sectors (including the retail trade sector) were required to undergo additional credit checks and clearances; and
- *Temporary suspension of project finance and lease finance operations.* NOMOS temporarily suspended project finance and lease finance operations.

Given the relative stabilisation of market conditions in Russia in the third and fourth quarters of 2009 and the resumption of economic growth in 2010, NOMOS restored the authority of the credit committees of several

branches to approve the extension of loans beginning in March 2010, resumed lending to prospective borrowers in certain economic sectors such as construction and relaxed certain maximum limits established during the acute stage of the recent global financial and economic crisis.

Managing Credit Risk of Securities Portfolio

Most fixed income securities included in the “financial assets at fair value through profit and loss”, “investments available-for-sale”, “investments held to maturity” and “other financial assets” line items of NOMOS’s balance sheet are subject to credit risk. All fixed income securities are graded by NOMOS according to the current credit rating available. In order to manage credit risk associated with its securities portfolio, NOMOS primarily invests in securities that are included in the CBR’s Lombard List, which is a list of high-quality securities that are accepted by the CBR as collateral required to receive Lombard loans (short-term loans provided by the CBR to credit institutions against securities to meet their temporary borrowing requirements).

Liquidity Risk

Liquidity risk arises due to a mismatch in the maturities of assets and liabilities. NOMOS is actively involved in the management of the maturities of its assets and liabilities. NOMOS’s policy in respect of the management of liquidity is approved by the Supervisory Board, which also approves a liquidity plan. The Management Board approves internal regulations governing liquidity management, manages the assets and liabilities of NOMOS and coordinates the activities of those departments, the activities of which may affect NOMOS’s liquidity position. Liquidity risk is primarily managed by the Financial Committee, which is also responsible for NOMOS’s liquidity forecasts and stress test analysis and sets various limits for the purposes of liquidity management. Day-to-day management of liquidity risks is performed by the Treasury Department within the limits prescribed by the Financial Committee. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors that NOMOS uses in assessing liquidity and exposure to changes in interest and exchange rates.

NOMOS’s risk management policy distinguishes between short-term liquidity risk and long-term liquidity risk. Short-term liquidity risk is managed by implementing and monitoring compliance with mandatory short-term liquidity ratios set by the CBR, distribution of assets between “Nostro” accounts, collection of information in respect of proposed major transactions and clients’ payments and the use of money market instruments such as swap and repo operations. Limits used in managing the short-term liquidity risk are limits of minimum allowable balances on “Nostro” accounts and limits on the concentration of NOMOS’s liabilities with individual counterparties and groups of affiliated counterparties. Long-term liquidity risk is managed by implementing and monitoring compliance with a pre-established assets and liabilities structure in respect of currencies, maturity and types of instruments and compliance with mandatory ratios in respect of long-term liquidity. As part of its long-term liquidity management, NOMOS also may raise and allocate funds on certain terms, review operation limits, sell some of its assets and review pricing on the allocation of funding among NOMOS’s departments. Limits applied by NOMOS to manage long-term liquidity risk include limits on the minimum amount of highly liquid assets, maturity limits in respect of asset allocation, limits on the maximum imbalances in assets and liabilities structure and limits on the concentration of NOMOS’s liabilities with individual counterparties and groups of affiliated counterparties.

The following table presents an analysis of NOMOS's liquidity risk based on carrying value of its assets and liabilities as at 31 December 2010.

	Up to one month	One month to three months	Three months to one year	One year to five years	Over five years	Maturity undefined	31 December 2010 total
(in millions of roubles)							
ASSETS							
Cash and balances with the CBR . . .	40,489	—	—	—	—	—	40,489
Minimum reserve deposits with the CBR	—	—	—	—	—	2,817	2,817
Precious metals	4,677	—	—	—	—	—	4,677
Financial assets at fair value through profit or loss	53,166	837	1,125	394	—	—	55,522
Loans and advances to banks and other financial institutions	28,737	3,969	6,781	2,091	—	—	41,577
Loans to customers	48,120	28,774	107,830	126,899	27,680	—	339,302
Investments available-for-sale	1,845	6,959	3,938	9,734	3,287	—	25,763
Investments held to maturity	—	—	—	827	25	—	852
Property, plant and equipment	—	—	—	—	—	10,976	10,976
Goodwill	—	—	—	—	—	598	598
Intangible assets	—	—	—	—	—	2,602	2,602
Other assets	1,792	303	2,714	122	98	14	5,043
TOTAL ASSETS	178,826	40,841	122,388	140,066	31,089	17,006	530,217
LIABILITIES							
Financial liabilities at fair value through profit or loss	289	120	422	174	4,597	—	1,005
Due to banks and the CBR	25,613	7,233	15,237	8,428	3,327	—	59,839
Customer accounts	135,438	46,614	109,545	21,771	9	—	313,376
Bonds and Eurobonds	80	1,835	1,874	25,911	4,711	—	34,412
Promissory notes issued	2,681	4,327	24,395	1,761	3	—	33,168
Subordinated debt	—	—	272	11,749	15,070	—	27,091
Deferred income tax liabilities	—	—	—	0	—	1,182	1,182
Other liabilities	787	258	888	273	3	—	2,209
TOTAL LIABILITIES	164,889	60,387	152,633	70,067	23,124	1,182	472,282
Liquidity gap	13,937	(19,547)	(30,245)	70,000	7,965	—	—

Market Risk

Market risk arises from potential changes in the value of financial instruments due to fluctuations in the market prices of various assets, changes in interest rates, market volatility and mismatches between market positions intended to offset one another. Market risk applies to financial instruments, including securities, loans, deposits, borrowings and derivative instruments. NOMOS has exposure to market risk arising from its securities portfolio and open positions in respect of interest rate, currency and precious metals financial instruments and products. NOMOS's market risk management distinguishes three principal types of market risk: currency risk, interest rate risk and securities price risk.

NOMOS manages market risk through limits and by using value-at-risk ("VaR") analysis, gap analysis, sensitivity analysis and stress testing. The overall limits are generally set by the Management Board. The Financial Committee sets specific limits on the value of risk that may be accepted, which is monitored on a regular basis. Market risk is managed by the Financial Markets Operations Division and the Treasury Department. The Financial Markets Operations Division assesses NOMOS's exposure to currency and securities price risks. The Treasury Department assesses interest rate sensitivity and sets guidelines for interest rate risks. The Market Risk Department monitors the open positions against limits on a daily basis.

Depending on the instrument, NOMOS uses different VaR calculations to assess market risk in respect of its trading and investment activities. NOMOS also uses gap analysis, sensitivity analysis and stress testing to assess consequences of unfavourable market developments.

VaR Methodology Adopted by NOMOS for Risk Measurement Purposes

NOMOS applies VaR methodology to assess its exposure to currency and securities price risks. VaR is the maximum volume of loss for the concerned position of financial instrument/portfolio/transaction that may arise during a given period of time with a given probability. The loss value is estimated using statistical and probabilistic analysis.

VaR methodology is applied based on historical simulation method, i.e. modelling of the possible values of a random variable based on a historical data sample. The simulation period used to assess the possible unfavourable market value fluctuation of the currency position as a result of exchange rate changes for the currency risk or to assess the possible decline of securities quotes for securities price risk is one day.

NOMOS assumes the accuracy of assessing the maximum value at risk (confidence level) at 99 per cent. and uses a two-year sampling period for simulation purposes to determine VaR. To exercise control over the adequacy of measuring the above exposures NOMOS uses backtesting procedure that determines the extent to which risk assessment model corresponds to the real market situation.

The following table sets forth the results of the VaR assessment in respect of currency and securities price risks as at 31 December 2010.

	<u>minimum</u>	<u>average</u>	<u>maximum</u>	<u>year end</u>
	(in millions of roubles)			
Currency risk	15	191	348	56
Fixed income securities price risk	278	694	1,559	896
Equity securities price risk	49	145	422	94

Although VaR is a valuable tool for measuring market risk exposure, it has a number of limitations, especially in less liquid markets, such as the following: (i) the use of historic data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature; (ii) a short holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in many cases but may not be the case in a situation in which there is severe market illiquidity for a prolonged period; (iii) the use of a 99 per cent. confidence level does not take into account losses that may occur beyond this level. There is a 1 per cent. probability that the loss could exceed the VaR; (iv) technological changes; and (v) VaR is calculated only on an end-of-day basis and does not necessarily reflect exposure that may arise on positions during the trading day.

In light of the above, NOMOS applies other risk measurement methods in addition to VaR, including gap analysis and net interest income sensitivity analysis for interest rate risk.

Interest Rate Risk

In the ordinary course of business, NOMOS is exposed to interest rate risk, which is the risk that NOMOS's interest income could decrease or interest expense could increase, as a result of adverse changes in market interest rates. NOMOS is exposed to interest rate risk mainly as a result of lending at fixed interest rates in amounts and for periods that differ from those of its fixed interest rates borrowings.

NOMOS manages its interest rate risk by seeking to match its interest bearing assets and liabilities, balancing the structure of assets and liabilities, and implementing controls over risks of fund withdrawals and loan prepayments prior to maturity and controls over interest rate changes. The main instruments for interest rate risk management used by NOMOS are (i) establishing limits on the gap between the maturity of its assets and liabilities that are exposed to changes in base interest rates, (ii) stress-testing and setting maximum and minimum acceptable interest rates, and (iii) maintaining a balanced proportion of assets and liabilities exposed to interest rate changes.

In assessing interest rate sensitivity, NOMOS uses a list of financial instruments sensitive to changes in interest rates. For these purposes instruments with maturity exceeding one year, non-monetary assets and liabilities, cash, balances on settlement accounts placed without a contract on payment, as well as mandatory cash balances with the CBR are disregarded. For the purposes of assessing interest rate sensitivity, NOMOS also uses gap analysis, which is based on the assessment of interest rate risk resulting from mismatch of maturities of financial instruments, including the risk of repricing of financial instruments.

The following table presents financial assets and liabilities maturity based on projected re-pricing dates. These re-pricing dates are determined by management and are contained within the risk reports provided to key management personnel.

	Up to one month	One month to three months	Three months to one year	One year to five years	Over five years	Financial assets not sensitive to interest rate fluctuations	31 December 2010
(in millions of roubles)							
ASSETS							
Cash and balances with the CBR	30,892	—	—	—	—	9,597	40,489
Minimum reserve deposits with the CBR	—	—	—	—	—	2,817	2,817
Precious metals	4,677	—	—	—	—	—	4,677
Financial assets at fair value through profit or loss . . .	415	1,876	18,047	20,334	11,600	3,249	55,522
Loans and advances to banks and other financial institutions	24,311	3,969	6,748	2,091	—	4,458	41,577
Loans to customers	54,572	28,594	106,998	123,462	25,676	—	339,302
Investments available-for-sale	1,845	7,164	4,965	4,569	1,567	5,653	25,763
Investments held to maturity	—	—	—	827	25	—	852
Property, plant and equipment	—	—	—	—	—	10,976	10,976
Goodwill	—	—	—	—	—	598	598
Intangible assets	—	—	—	—	—	2,602	2,602
Other assets	—	—	—	—	—	5,043	5,043
Total assets	116,712	41,603	136,757	151,284	38,868	44,992	530,217
LIABILITIES							
Financial liabilities at fair value through profit or loss	91	6	—	110	—	798	1,005
Due to banks and the CBR	32,611	12,895	10,386	3,447	—	499	59,839
Customer accounts	84,923	46,614	107,835	23,480	9	50,516	313,376
Bonds and Eurobonds	80	1,835	8,003	24,493	—	—	34,412
Promissory notes issued . . .	2,681	4,327	24,395	1,761	3	—	33,168
Subordinated debt	—	—	4,063	15,002	8,025	—	27,091
Deferred income tax liabilities	—	—	—	—	—	1,182	1,182
Other liabilities	—	—	—	—	—	2,209	2,209
Total liabilities	120,387	65,677	154,683	68,294	8,037	55,204	472,282
Interest gap based on projected re-pricing dates	(3,675)	(24,074)	(17,925)	82,990	30,831		
Interest-based derivative financial instruments based on projected re-pricing dates	2,616	406	(202)	(2,820)	—		
Interest gap, based on projected re-pricing dates including interest-based derivative financial instruments	(1,059)	(23,668)	(18,127)	80,170	30,831		

The following table sets out a sensitivity analysis of NOMOS's interest rate risk. The numbers in the top half of the table are based on the assumption that market interest rates rise or fall by two percentage points. The sensitivity analysis applied to the profit and equity as a result of potential changes in the market interest rates is for the twelve months ended 31 December 2010. The numbers reflect the immediate effect on the income statement of each scenario for NOMOS's interest rate positions on variable rate instruments. The numbers in the bottom half of the table in the section entitled "changes in value" reflect the equivalent effect on debt securities in the trading and available-for-sale category.

	Year ended 31 December 2010		
		Equity	Net profit
		(in millions of roubles)	
Net interest income for the reporting period			
Increased interest rates	+2%	(136)	(136)
Decreased interest rates	-2%	136	136
Change in value			
Market interest rate	+2%	(1,916)	(1,622)
Market interest rate	-2%	2,177	1,843

Currency Risk

Currency risk is the risk of a decline in the value of an asset or item of income, or an increase in the value of a liability or item of expense, as a result of depreciation or appreciation, respectively, of the currency in which the asset or liability is denominated. NOMOS's consolidated results of operations, financial position and cash flows are exposed to fluctuations in foreign currency exchange rates, primarily in the context of NOMOS's foreign currency lending and trading in foreign currency securities and money market instruments.

NOMOS manages its currency risk primarily through VaR methodology as described above as well as through a system of limits on open currency positions, regular monitoring and analysis of current and potential losses and profits due to currency fluctuations, diversification of NOMOS's currency basket and compliance with mandatory ratios applicable to foreign currency positions.

The system of limits used by NOMOS to manage its currency risks includes a general open currency position limit and open currency position limits set for particular currencies. Currency positions are opened and monitored against estimated potential rouble devaluation and other macroeconomic indicators, and the ratio between amounts subject to currency risk and NOMOS's own capital. This approach aims to allow NOMOS to supervise, manage and mitigate currency risks, manage currency mismatches and seek to minimise losses resulting from significant foreign currency fluctuations against the rouble. NOMOS seeks to minimise its open currency position, except for relatively small open currency positions maintained by the trading desk of NOMOS's investment banking department and the precious metals department. Any open currency position in excess of prescribed limits is hedged using various hedging instruments such as swaps and futures.

The Financial Committee is responsible for the implementation of currency risk policy, in particular for the identification, assessment, supervision and management of currency risk. The operational management of currency risk is performed by the Treasury Department, which is also responsible for the daily monitoring of open currency positions and compliance with established limits. In addition, the Treasury Department is responsible for developing and ongoing analysis of internal policies and procedures relating to currency risk management and for assessment of currency risk. The Treasury Department also provides analytical support to the Management Board and assesses the potential impact of the Management Board's decisions on currency risks.

The table below sets forth NOMOS's foreign currency exposure as at 31 December 2010.

	<u>RUB</u>	<u>USD 1 USD = RUB 30.4769</u>	<u>Euro 1 EUR = RUB 40.3331</u>	<u>Gold 1 ounce = RUB 42,980.05</u>	<u>Other</u>	<u>31 December 2010 total</u>
		(in millions of roubles)				
ASSETS						
Cash and balances with the CBR	39,006	791	682	—	9	40,489
Minimum reserve deposits with CBR	2,817					2,817
Financial assets at fair value through profit or loss	32,339	22,844	281	54	4	55,522
Loans and advances to banks and other financial institutions	14,174	16,497	10,526	5	376	41,577
Loans to customers	219,304	103,573	16,285	—	140	339,302
Investments available-for-sale	21,096	4,559	108	—	—	25,763
Investments held to maturity	852	—	—	—	—	852
Other financial assets	1,578	15	111	—	1	1,704
Total financial assets	331,166	148,279	27,993	59	531	508,027
Precious metals	—	—	—	4,189	488	4,677
Property, plant and equipment	10,976	—	—	—	—	10,976
Goodwill	598	—	—	—	—	598
Intangible assets	2,602	—	—	—	—	2,602
Other non-financial assets	3,150	68	22	39	60	3,338
Total non-financial assets	17,325	68	22	4,228	547	22,190
Total assets	348,491	148,346	28,015	4,287	1,078	530,217
LIABILITIES						
Financial liabilities at fair value through profit or loss	592	271	126	12	5	1,005
Due to banks and the CBR	17,820	20,893	20,485	582	59	59,839
Customer accounts	266,837	27,959	14,577	3,338	665	313,376
Bonds and Eurobonds	16,678	17,734	—	—	—	34,412
Promissory notes issued	31,164	621	1,383	—	—	33,168
Other financial liabilities	1,240	12	0	—	0	1,252
Subordinated debt	9,215	17,876	—	—	—	27,091
Total financial liabilities	343,546	85,364	36,571	3,933	728	470,143
Deferred income tax liabilities	1,182	—	—	—	—	1,182
Other non-financial liabilities	948	2	7	—	0	957
Total non-financial liabilities	2,131	2	7	—	0	2,139
Total liabilities	345,677	85,366	36,578	3,933	728	472,282
Open balance sheet position	2,815	62,980	(8,563)	354	350	
Net position for derivative financial instruments and spot deals	56,330	(64,128)	8,135	(227)	(110)	
Total open position	59,145	(1,149)	(427)	127	239	

An open currency position is calculated as the difference between the value of assets and the value of liabilities denominated in foreign currencies. An open currency position for each currency is restated into its rouble equivalent at the official exchange rate of the CBR at each calculation date. The total of open currency positions is determined in accordance with regulatory guidelines of the CBR prescribing the procedure for calculating open currency positions.

Securities Price Risk

Securities price risk is the risk of incurring losses as a result of unfavourable fluctuations of market prices for financial instruments in NOMOS's securities portfolio. The Treasury Department reports on a monthly basis to the Financial Committee on securities price risk exposures and VaR analysis of such exposures. To mitigate

securities price risk, the Financial Committee sets exposure limits for debt and equity securities. NOMOS manages securities price risk using limits on open positions in respect of instruments exposed to such risk.

The following instruments are included in the securities price risk calculation under the VaR methodology:

- quoted shares including those sold in direct repo agreements;
- quoted debt instruments including those sold in direct repo agreements; and
- derivative financial instruments the underlying assets of which are securities.

In order to manage securities price risk of its proprietary trading portfolio, NOMOS has established position limits on total portfolio and on different types of securities. The Treasury Department monitors compliance with these limits. NOMOS primarily invests in fixed income instruments, and approximately 80 per cent. of instruments in NOMOS's proprietary trading portfolio are securities from the CBR Lombard List.

Operational Risk

NOMOS is exposed to operational risk which is the risk of losses resulting from inadequate management and control procedures, fraud, poor business decisions, system errors relating to employee mistakes and abuse by employees of their positions, technical failures, settlement errors, natural disasters and misuse of NOMOS's property.

NOMOS has established internal control systems intended to comply with Basel II guidelines and the CBR requirements regarding operational risk. The Supervisory Board adopts general risk management policy, assesses the efficiency of risk management, approves NOMOS's management structure, adopts measures designed to ensure continuous business activities of NOMOS including measures designed for extraordinary and emergency situations and supervises other executive bodies in respect of operational risk management. The Management Board generally oversees the implementation of risk management processes at NOMOS including relevant internal policies, adopts internal regulations on NOMOS's risk management, determines limits for monitoring operational risks and allocates duties among various bodies responsible for operational risk management. The Operational Risks Analysis Department monitors and controls operational risks and reports to the Supervisory Board. It also prepares and submits internal control reports to the CBR.

Regular monitoring of activities are intended to detect in a timely manner and correct deficiencies in policies and procedures designed to manage operational risk, which can reduce the potential frequency and/or severity of a loss event. In order to minimise operational risk, NOMOS strives to regularly improve its business processes and its organisational structure as well as incentivise its staff.

In 2010, the Operational Risks Analysis Department initiated 25 self-assessments for various operating units, introduced amendments to 67 internal procedures or regulations, reviewed 354 applications and complaints from clients and developed recommendations on operational risk mitigation for 15 units of NOMOS.

NOMOS insures against operational risks through several insurance policies. These policies cover property risks in respect of NOMOS's offices, cash depositories, IT infrastructure, ATMs and vehicles. NOMOS's management is currently looking for a cost-efficient way to insure against NOMOS's third-party liabilities.

NOMOS has not experienced any material operational failures in recent years. In order to minimise potential losses from such failures, NOMOS maintains back-up servers which are located in different locations within NOMOS's head office in Moscow. NOMOS is also developing a secure back-up centre located away from NOMOS's head office.

Anti-Money Laundering and Terrorist Financing Procedures

As a member state of the Financial Action Task Force on Money Laundering (the "FATF"), Russia adopted a federal law in 2001 aimed at preventing money-laundering of crime proceeds and Federal Law No. 115-FZ "On Combating the Legalisation (Laundering) of Income Obtained by Criminal Means" dated 7 August 2001, as amended (the "Anti-Money Laundering Law"). Subsequent to the adoption of the Anti-Money Laundering Law, the CBR promulgated a number of anti-money laundering regulations specifically for the banking sector.

NOMOS has adopted internal regulations on anti-money laundering that are based on, and are in full compliance with, the requirements of the Russian anti-money laundering regulations and related instructions of the CBR. The regulation of the Russian anti-money laundering regime is shared by the CBR and the Federal Service for Financial Monitoring (the "Financial Monitoring Authority"). See "Appendix A — The Banking Sector and Banking Regulations in the Russian Federation — Legislative Framework for the Russian Banking Sector — The Anti-Money Laundering Law".

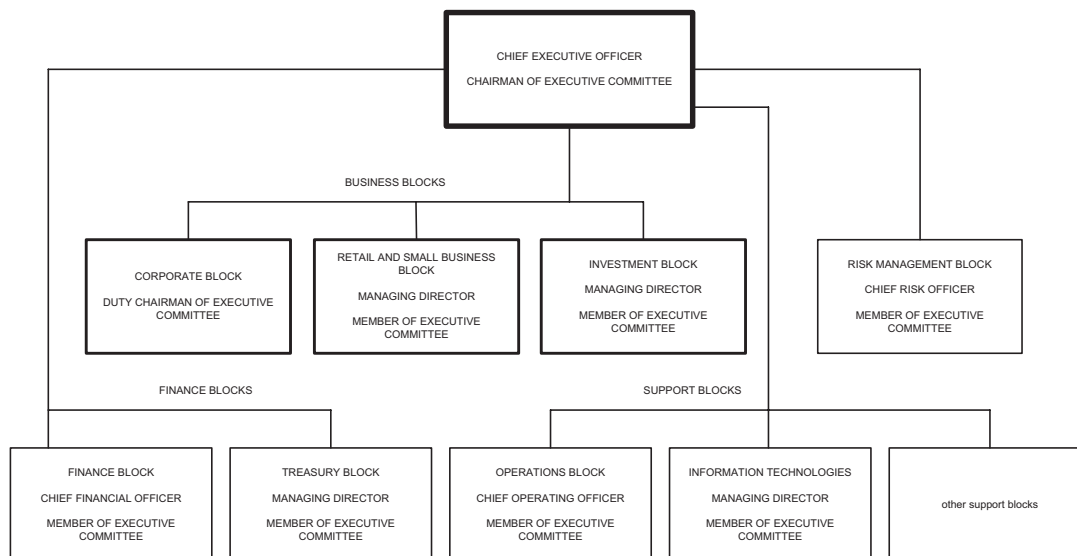
NOMOS has created a specialised unit that coordinates activities aimed at preventing money laundering and terrorism financing. This unit conducts daily analysis of banking operations, verifies information received from the head office, branches and other outlets on operations that are subject to monitoring and sends required information to the relevant state authorities. Each branch and additional office of NOMOS has an employee responsible for the implementation of measures aimed at preventing money laundering and terrorism financing in such branch or additional office. Employees of NOMOS have to take mandatory training on NOMOS's policies and procedures for preventing money laundering and terrorism financing both as part of the initial training after being hired and as part of the subsequent training activities.

Mandatory internal control checks are conducted by NOMOS's Internal Control Service. External control is provided by the currency control and financial monitoring departments of the CBR. Anti-money laundering authorities annually conduct an audit of NOMOS with respect to the implementation of the client identification system and the methods of reporting to the CBR.

NOMOS cooperates with the Federal Service for Financial Monitoring by addressing their requests regarding certain entities or operations.

MANAGEMENT AND CORPORATE GOVERNANCE

The following chart sets out NOMOS's management structure and internal business divisions as at the date of this Prospectus:



Each governing body of NOMOS is formed and operates on the basis of applicable Russian regulation, NOMOS Bank's charter and further internal documents. NOMOS is principally governed by its shareholders through their General Shareholders' Meetings, the Supervisory Board, the Management Board and a president (the "**President**") who is also chairman of the Management Board. The current charter was approved by the General Shareholders' Meeting in January 2007 and has been subsequently amended, with the latest set of amendments approved by the General Shareholders' Meeting on 29 April 2010.

In January 2007, the General Shareholders' Meeting approved NOMOS's corporate governance code which sets out the general principles of corporate governance and organisational structure of NOMOS's main governing bodies, information disclosure and financial control. Measures and procedures envisaged by the corporate governance code are aimed at the more efficient management of NOMOS and prevention and efficient resolution of any potential corporate conflicts. See "*Risk Factors — Risks relating to NOMOS's Business — Difference between the public reporting requirements to which NOMOS is subject and that of comparable listed companies in other jurisdictions*".

A brief description of the General Shareholders' Meeting, the Supervisory Board, the Management Board and the President is set out below.

General Shareholders' Meeting

The General Shareholders' Meeting is the supreme governing body of NOMOS. An annual General Shareholders' Meeting must be held every year (but not earlier than two months and not later than six months after the end of the fiscal year) and extraordinary General Shareholders' Meetings can be called by the Supervisory Board, NOMOS's internal audit commission and its external auditor or shareholders holding not less than 10 per cent. of the voting shares.

The authority of the General Shareholders' Meeting includes among other matters:

- the alteration of NOMOS Bank's charter or approval of a new charter;
- the reorganisation or liquidation of NOMOS Bank, appointment of a liquidation committee and approval of preliminary and final liquidation balances;
- the election and early dismissal of the members of the Supervisory Board;
- the determination of the amount, nominal value and class/type of authorised shares and rights granted by such shares;

- the increase or decrease of NOMOS Bank's share capital in accordance with Joint Stock Companies Law and NOMOS Bank's charter;
- the appointment and removal of the members of the internal audit commission;
- the appointment of NOMOS's auditor;
- the approval of NOMOS's annual reports and financial statements;
- the distribution of NOMOS's profits (including payment of dividends);
- splitting or consolidating NOMOS Bank's shares;
- the approval of certain interested party transactions and major transactions;
- the approval of certain internal documents and corporate records; and
- certain other matters provided for by the Joint Stock Companies Law and NOMOS Bank's charter.

The powers listed above lie within the exclusive scope of authority of the General Shareholders' Meeting and may not be delegated to the other governing bodies of NOMOS.

Supervisory Board

The Supervisory Board is responsible for overseeing NOMOS's general management and establishing NOMOS's strategy, excluding matters that are the exclusive responsibility of the General Shareholders' Meeting. For the description of the powers of the Supervisory Board, see "*Description of Share Capital and Applicable Russian Legislation — Supervisory Board*". The Joint Stock Companies Law as well as NOMOS Bank's charter require the Supervisory Board to comprise at least five members. The actual number of directors is determined by the General Shareholders' Meeting. According to NOMOS Bank's charter, members of the Supervisory Board are elected by the General Shareholders' Meeting and their terms will expire on the date of the next annual General Shareholders' Meeting. Members of the Supervisory Board may be re-elected an unlimited number of times. Meetings of the Supervisory Board are called by its chairman or at the request of another member of the Supervisory Board, NOMOS's internal audit commission, external auditors or the executive body. The current members of the Supervisory Board of NOMOS, as elected by the General Shareholders' Meeting on 23 February 2011, are as follows:

<u>Name</u>	<u>Year of Appointment</u>	<u>Position</u>
Nikolai Dobrinov	2006	Chairman of the Supervisory Board, Non-executive director
Mel Carvill	2011	Non-executive director
Jean-Pascal Duvieusart	2010	Non-executive director
Dmitry Mizgulin		Non-executive director, Chairman of the Supervisory Board and CEO of BKM Bank
	2001	
Rupert Robson	2011	Independent non-executive director
Dmitry Sokolov	2006	CEO, Executive director
Herbert Walter	2011	Independent non-executive director
Konstantin Yanakov	2011	Non-executive director
Ilya Yuzhanov	2006	Independent non-executive director
Aleksander Zakharov	2010	Independent non-executive director
Alexander Zelenov	2009	Independent non-executive director, VEB representative

The business address of the members of the Supervisory Board is the registered office of NOMOS: 3, Building 1, Verkhnyaya Radischevskaya Street, Moscow, 109240, Russia.

Mr. Nikolai Dobrinov (born 1957) has been the chairman of the Supervisory Board since 2006. Mr. Dobrinov has also been general director of LLC "Ferrosplav Invest" since 2005 and general director of CJSC "Petrotechinvest" from 1998 to 2005. From 2003 to 2006, Mr. Dobrinov was a member of the Supervisory Board. From 2002 to 2003, he was general director of LLC "New Industrial Technologies". From 1998 to 2001, Mr. Dobrinov was deputy chairman of the supervisory board at the Fund for the Development of St. Petersburg and the North-West Region. From 1995 to 1997, Mr. Dobrinov was president and general director of CJSC "Incotek". Mr. Dobrinov graduated from the All-Russia Foreign Trade Academy (Department of Economics) in 2000 and from the Moscow Management Institute named after S. Ordzhonikidze in 1980.

Mr. Mel Carvill (born 1962) has been a member of the Supervisory Board since February 2011. Mr. Carvill is President of PPF Partners, a joint venture between PPF Group and Assicurazioni Generali. Mr. Carvill worked at the Generali Group from 1985 until 2009, latterly as head of Western Europe, the Americas and Middle East. Mr. Carvill was a member of the Comitato di Direzione, International Management Board, Group Risk, Investment and Innovation Committees. During his time at Generali Mr. Carvill held the position of Chief Risk Officer, Head of International Regulatory Affairs, Head of M&A and Head of Strategic Planning. Mr. Carvill is also a director of Resolution Ltd, a FTSE 100 company. Mr. Carvill is a Fellow of the Institute of Chartered Accountants in England and Wales, holds the Advanced Diploma in Corporate Finance, is an Associate of the Chartered Insurance Institute, a Chartered Insurer and a Fellow of the Securities Institute.

Mr. Jean-Pascal Duvieusart (born 1966) has been a member of the Supervisory Board since 2010. Mr. Duvieusart is Director of PPF Russia and has been a member of the Supervisory Board of PPF N.V. since 2010. He joined McKinsey in 1992 and was Managing Partner for Central Europe and the CIS from 2005 to the end of 2009. Mr. Duvieusart graduated from the Catholic University of Louvain, Belgium with a masters degree. Also in 1992 Mr. Duvieusart graduated from the University of Chicago with an MBA degree.

Mr. Dmitry Mizgulin (born 1961) has been a member of the Supervisory Board since February 2011. He also acts as the Chairman of the Management Board and CEO of BKM Bank. Mr. Mizgulin has 20 years of banking experience including the period in Bank of Khanty-Mansiysk, where he has been since October 2001. Mr. Mizgulin obtained a diploma in Finance and Credit from Leningradsky Finance and Economic Institute named after N. Voznesenskiy and a Ph.D in Economics. He is the author of numerous articles on banking subjects and three monographs. Mr. Mizgulin was awarded the title of “Honored Economist of the Russian Federation” by the Russian President’s Decree.

Mr. Rupert Robson (born 1961) has been a member of the Supervisory Board since February 2011. He is also Chairman of the Audit Committee. He is Chairman of Charles Taylor Consulting plc and Silkroute financial Group Ltd and a Non-executive director of Tullett Prebon plc. He has held a number of senior roles in City institutions, most recently Non-executive Director of London Metal Exchange Holdings Ltd. Between 2003 and 2006, he was Global Head, Financial Institutions Group, Corporate investment Banking and Markets at HSBC and, prior to that, Head of European Insurance, Investment Banking at Citigroup Global Markets. He has had extensive experience of mergers and acquisitions work, capital and fund raising and private equity, most of it in the financial institutions sector. He is also a member of the Wilton Park Advisory Board.

Mr. Dmitry Sokolov (born 1962) has been a member of the Supervisory Board since 2006. He is also the President of NOMOS. Mr. Sokolov’s biography is given below in the “- *Management Board*” section below.

Mr. Herbert Walter (born 1953) has been a member of the Supervisory Board since February 2011 and Head of Walter Consult since 2009. From 2003 and 2009, Mr. Walter was Chairman of the Board at Dresdner Bank. Prior to that he has held various positions at Deutsche Bank, having been Member of the Group Executive Committee and Global Head of Private & Business Clients, as well as Spokesman of the Board of Management at Deutsche Bank 24 AG.

Mr. Konstantin Yanakov (born 1977) has been a Member of the Supervisory Board since February 2011. He is also Vice-President of the ICT group of companies and member of the Board of Directors at Polymetall. Mr. Yanakov graduated in economics from the financial Academy of the Russian Government and holds an MBA from the London Business School.

Mr. Ilya Yuzhanov (born 1960) has been a member of the Supervisory Board since 2006. From 2004 to 2006, Mr. Yuzhanov was the chairman of the Supervisory Board of NOMOS Bank. Mr. Yuzhanov was also a member of the board of directors of RAO UES from 2004 to 2008. Between 1998 and 2004, Mr. Yuzhanov held various positions in Russian public service: from 1999 to 2004, Mr. Yuzhanov served as the Minister, for the Antimonopoly Policy and, from 1998 to 1999, he was the Minister of Land Policy, Construction and Housing/Utility Infrastructure. Mr. Yuzhanov graduated from the Leningrad University (Ph.D) in 1982 and holds a degree in economics.

Mr. Aleksandr Zakharov (born 1960) has been a member of the Supervisory Board since 2010. From 2006 to March 2010 Mr. Zakharov was Deputy Governor of Khanty-Mansiysk autonomous district. Mr. Zakharov graduated from the Leningrad University of Technology in 1983 with a degree in chemical engineering.

Mr. Alexander Zelenov (born 1955) has been a member of the Supervisory Board since November 2009. Mr. Zelenov was elected as a member of the Supervisory Board in accordance with the terms of the subordinated loan made by VEB to NOMOS. Mr. Zelenov has been holding various positions at VEB (including its predecessor, the Vnesheconombank of USSR) since 1977. Since 2002, Mr. Zelenov has been serving as the director of the financial institutions department at VEB. Earlier positions held by Mr. Zelenov at VEB include head of the interbank cooperation division (2000 to 2002), head of the department for international settlements (1997 to 2000) and head of the department for international settlements and correspondent accounts (1995 to 1997). In 1977, Mr. Zelenov graduated from the Moscow Finance Institute majoring in international economic relations.

Management Board

The day-to-day management of NOMOS is carried out by the President and the Management Board. The President is the chairman of the Management Board *ex officio* and, as NOMOS's chief executive officer, acts on behalf of NOMOS in its relations with third parties. The Management Board decides on a number of issues, including implementation of the decisions of the General Shareholders' Meeting and the Supervisory Board; considering questions of client attraction and increase of money resources, updating the banking operations organisation, development and implementation of new banking services; reviewing of the compliance by NOMOS Bank and its branches and representative offices with the legislation. The Management Board is accountable to both the General Shareholders' Meeting and the Supervisory Board to which it reports on a regular basis. The meetings of the Management Board are held at least once every two weeks. The Management Board's meetings are called by the President or at the request of a member of the Management Board.

In February 2009, the Supervisory Board approved a new composition of the Management Board including appointment of new members and duties allocations. The members of the Management Board are responsible for six areas of NOMOS's business: strategy development, corporate banking, risk-management, retail banking, finance management, information technology and project finance. The current composition of the Management Board is set out below.

<u>Name</u>	<u>Year of Appointment</u>	<u>Position</u>
Dmitry Sokolov	2005	President, Chairman of the Management Board
Dmitry Amsharinskiy	2008	Senior Vice President, Member of the Management Board, Head of IT
Irina Gordeeva	2009	First Vice President, Deputy Chairman of the Management, Head of Corporate Banking
Alexander Royko	2008	Senior Vice President, Head of Project Finance and Leasing
Vladimir Rykunov	2010	Senior Vice President, Member of the Management Board, CFO
Victor Tyutin	2009	Senior Vice President, Member of the Management Board
Vadim Yuriev	2010	Senior Vice President, Member of the Management Board, Head of Retail Banking

The business address of the members of the Management Board is the registered office of NOMOS Bank: 3, Building 1, Verkhnyaya Radischevskaya Street, Moscow, 109240, Russia.

Mr. Dmitry Sokolov (born 1962) is the President of NOMOS. He is also the chairman of the Management Board *ex officio* and the chairman of the Financial Committee of NOMOS. Mr. Sokolov has held these positions since 2005. Prior to this, from 1994 to 2005, Mr. Sokolov was first vice president and deputy chairman of the Management Board. From 1993 to 1994, he was head of the foreign banking department at JSICB "TIPKO Venture Bank" (NOMOS's name at the respective time). From 1992 to 1993, Mr. Sokolov was an economist at JSCB "Zarya". From 1991 to 1992, Mr. Sokolov was commercial director at "Links" company. From 1987 to 1991, he was economist at the Association "Sovincenter" of the Chamber of Commerce and Industry of the USSR. Mr. Sokolov graduated from the Moscow State Institute of International Relations (MGIMO University) in 1987.

Mr. Dmitry Amsharinskiy (born 1963) has been senior vice president of NOMOS and a member of the Management Board since 2008. Prior to joining NOMOS in 2008, he held various positions in a number of large Russian private financial institutions including Promsvyazbank, Expobank and Bank "Russian Credit". Mr. Amsharinskiy graduated from Moscow Financial Institute in 1993 and from the Riga Civil Aviation Engineering Flight School in 1984.

Ms. Irina Gordeeva (born 1957) is deputy president of NOMOS. Ms. Gordeeva is also vice chairman of the Management Board and the chairperson of NOMOS's Credit Committee. Ms. Gordeeva was senior vice president of NOMOS from 1996 to 2005 and first vice president of NOMOS Bank from 2005 to 2009. Ms. Gordeeva is also a member of the sub-commission of the Interbank Cooperation of the Russian-Chinese Commission. Prior to joining NOMOS, Ms. Gordeeva was deputy chairperson of the management board and head of the foreign banking department at Innovation Bank for Economic Cooperation from 1991 to 1996. Ms. Gordeeva graduated from the Moscow State Institute of International Relations (MGIMO University) in 1979.

Mr. Alexander Royko (born 1968) is senior vice president of NOMOS and a member of the Management Board. Prior to joining NOMOS in 2002, Mr. Royko was responsible for finance management of Rospechat' (printed media distribution agency). Mr. Royko graduated from the Moscow Technical University for Communications and Computer Science, majoring in Economics and Communication Administration in 1992.

Mr. Vladimir Rykunov (born 1968) is the Financial Director of NOMOS and member of the Management Board. Mr. Rykunov has held these positions since February 2010. In 2008, Mr. Rykunov joined NOMOS as Counsel to the consulting and analytical group of the President and Management Board of NOMOS where he assisted the members of the Management Board with respect to the development and implementation of NOMOS's strategy in relation to the certain areas of business in particular by way of preparing analytical and informative materials and performing of certain orders of the members of the Management Board. Since 2009, he holds the position of first deputy chairman of the management board and executive director of OJSC "Bank Petrovsky" (former VEFK Bank). From 2006 to 2008, Mr. Rykunov was chairman of the management board of Sobinbank. From 1996 to 2006, Mr. Rykunov held the position of head of client services department, head of settlements department and then deputy chairman of the management board of MDM Bank. From 1992 to 1996, he held the position of a member of the management board of Gloria Bank. Mr. Rykunov graduated from the Moscow State Lomonosov University in 1991 majoring in economics and holds a PhD in economics.

Mr. Victor Tyutin (born 1967) is senior vice president of NOMOS and a member of the Management Board. Mr. Tyutin has held these positions since 2004. Prior to that, from 1995 to 2005, he was the chief accountant of NOMOS and member of the Management Board. From 1994 to 1995, Mr. Tyutin was head of the credit department at JSICB "TIPKO Venture Bank" (NOMOS's legal name at the respective time). From 1993 to 1994, Mr. Tyutin was head of the financial department at JSC "Moscow Materials Construction Technology". From 1992 to 1993, Mr. Tyutin was the chief accountant at the International Art Exchange. From 1989 to 1992, he worked as engineer at the Electromechanics Research Institute. Mr. Tyutin graduated from the Moscow Institute of Physics and Technology in 1989.

Mr. Vadim Yuriev (born 1974) is senior vice president of NOMOS and a member of the Management Board. Prior to joining NOMOS in 2010, Mr. Yuriev was deputy CEO in CJSC "Russian Standard Bank" from 2009 to 2010. In 2009, Mr. Yuriev was head of Moscow Branch of OJSC "Rosbank". From 2007 to 2009 he was CEO of CJSC "IpoTek Bank". From 2005 to 2007, Mr. Yuriev was head of Retail Department of OJSC "Rosbank". From 2001 to 2005, Mr. Yuriev held the position of senior vice-president — director of retail department of OJSC "Alfa-Bank". From 2001 to 2005, Mr. Yuriev was deputy head of economic department. From 1997 to 2001, Mr. Yuriev was deputy head of economic department of the Administration of Murmansk Region. Mr. Yuriev graduated from the St. Petersburg State University of Economics and Finance in 1996.

President

The President of NOMOS is responsible for its day-to-day management. Currently this position is held by Mr. Dmitry Sokolov who was appointed on 7 November 2005 by the decision of the Supervisory Board. The particular responsibilities of the President include inter alia implementation of the decisions of the General Shareholders' Meeting and Supervisory Board in credit, financial, investment, staff and other spheres of activity; organisation and performance of the financial operations of NOMOS; disposal of the property and financial means of NOMOS; deciding on the structure and number of staff of NOMOS and its branches and representative offices; deciding on the compensation of the staff.

Other Directorships

In addition to their directorships of NOMOS and certain subsidiaries, the members of the Supervisory Board and Management Board have held or hold the following directorships, have been or are members of the following administrative, management or supervisory bodies or have been or are members of the following partnerships, within the past five years.

Name	Current Positions	Previous Positions
Nikolai Dobrinov	LLC “Ferrosplav Invest”	None
Mel Carvill	Bailiwick Investments Limited Catholic National Mutual Ltd Generali International Ltd Generali USA Life Reassurance Company Ltd Genesis Asset Managers, LLP (formerly Genesis Funds Managers, LLP) – Guernsey Operating Committee Genirland Ltd PPF Partners AS PPF Partners Ltd PPF Partners 1 GP Limited Resolution Limited Resolution Holdings (Guernsey) Limited Tenax Capital Ltd MND Ltd	Albula Verwaltungs-und Beteiligungs AG Bailiwick Investments Limited BSI Generali Bank (CI) Ltd BSI Generali UK Limited BSI Generali UK No 2 Limited Generali France Assurances Generali Investment Limited Generali Investments SpA Generali PPF Holding BV Generali (Schweiz) Holding AG Generali Verzekeringsgroep NV The Assicurazioni Generali SpA Guernsey Resident Pension Fund GLL Real Estate Partners GmbH Tapestry Investment Company PCC Ltd
Jean-Pascal Duvieusart	PPF N.V. Far Eastern Shipping Company plc	McKinsey
Dmitry Mizgulin	BKM Bank	BKM Bank OJSC “Gyprotyumenneftegar” OJSC “Insurance Company Inhassfrakh”
Rubert Robson	Depositline Sherborne School for Girls Tullett Prebon plc Charles Taylor Consulting plc Silkroutefinancial (UK) Ltd Silkroutefinancial Group Ltd	LME Holdings plc Tenet Group plc
Dmitry Sokolov	OJSC “NOMOS-Regiobank” LLC “Inbank” OJSC “NOMOS-BANK-Siberia”	OJSC “NOMOS-BANK-Siberia”
Herbert Walter	None	Dresdner Bank AG Allianz SE
Konstantin Yanakov	CJSC “Baltiysky Lising” CJSC “ICT” OJSC “Polymetal” LLC “Mezhregiongaz”	LLC “East-Capital”
Ilya Yuzhanov	OJSC “Uralkaliy” OJSC “Polymetal” JSC “Alrosa” OJSC “Konditerskaya fabrika named after N.Krupskaya” LLC “Computersher”	OJSC “Novatek” OJSC “Kirovsky zavod” OJSC “Holding MRSK” LLC “Deutsche Bank”
Aleksander Zakharov	LLC “Zolotye zapasy”	None
Alexander Zelenov	VEB OJSC “Belvnesheconombank” CJSC “Prominvestbank” CJSC “commercial bank Globex” CJSC “Bank Russkiy Standart” OJSC “Bank of Moscow”	None

<u>Name</u>	<u>Current Positions</u>	<u>Previous Positions</u>
Dmitry Amsharinskiy	None	LLC “Expo bank” CJSC “Promsviazbank”
Irina Gordeeva	None	None
Alexander Royko	None	None
Vladimir Rykunov	None	MDM Bank OJSC “Sobinbank” OJSC “Bank Petrovsky”
Victor Tyutin	None	None
Vadim Yuriev	None	CJSC “IpoTek Bank” OJSC “Rosbank” CJSC “Bank Russkiy Standart”

Conflicts of Interest

There are no potential conflicts of interest between any duties owed by members of NOMOS’s Supervisory Board or Management Board to NOMOS and their private interests and/or other duties.

None of the members of the NOMOS’s Supervisory Board or Management Board are related to one another for the purposes of the Prospectus Rules.

Litigation Statement about Members of the Supervisory Board and the Management Board

At the date of this Prospectus, none of the members of the Supervisory Board or the Management Board has in the previous five years:

- had any convictions in relation to fraudulent offences;
- has been a member of the administrative, management or supervisory bodies of any company, or been a partner in any partnership, at the time of or preceding any bankruptcy, receivership or liquidation; or
- been subject to official public incrimination or sanction by a statutory or regulatory authority (including a professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of a company.

Corporate Governance

At the date of this Prospectus, NOMOS Bank is in full compliance with the corporate governance requirements applicable to it, as a Russian public company listed on a Russian stock exchange. As a result of its listing on RTS, NOMOS Bank must comply with a number of corporate governance requirements from the date of listing, including (i) the obligation to have at least one independent director on the Supervisory Board, (ii) the existence of an audit committee, (iii) the adoption of insider trading rules, and (iv) the implementation of internal regulations. In addition, NOMOS Bank observes the code of corporate conduct, as recommended by the FSFM.

NOMOS operates within a comprehensive governance framework, which aims to add value to shareholders through the adoption of international best practice.

Certain responsibilities of the Supervisory Board are delegated to Board Committees to assist the Supervisory Board in carrying out its functions and to ensure independent oversight of internal control and risk management. The three principal Board Committees (the Board Audit Committee, the Board Nominations and Remuneration Committee, and the Board Risk Committee) play an essential role in supporting the Supervisory Board in fulfilling its responsibilities and ensuring that the highest standards of corporate governance are maintained throughout NOMOS. Each Board Committee reports to the Supervisory Board following each of its meetings and the minutes of each Board Committee meeting are circulated to the Supervisory Board.

Audit Committee

The Audit Committee assists the board in its oversight of the integrity of the financial statements of NOMOS, of NOMOS’s systems of internal control, including financial, operational, and compliance systems,

the NOMOS's compliance with legal and regulatory requirements, of the independence and qualifications of the independent auditor, and of the performance of NOMOS's internal audit function and independent auditors. The Audit Committee is chaired by an independent director, Rupert Robson; and also consists of Mel Carvill, Herbert Walter, Ilya Yuzhanov and Konstantin Yanakov. The majority of Audit Committee members are independent directors

Risk Committee

The Risk Committee assists the Supervisory Board on: (i) defining the Supervisory Board's risk appetite, tolerance and strategy; (ii) systems of risk management, (iii) the alignment of strategy with the Supervisory Board's risk appetite; (iv) the alignment of reward structures, in relation to the management of risk, with the Supervisory Board's risk appetite; and (v) the maintenance and development of a supportive culture, in relation to the management of risk, appropriately embedded through procedures, training and leadership actions. The Risk Committee is chaired by an independent director, Herbert Walter; and consists of Mel Carvill, Rupert Robson, Alexander Zelenov and Konstantin Yanakov. The Chairman of the Audit Committee is a member of the Risk Committee and two of the five members are independent directors.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee reviews the composition of Supervisory Board and recommends the appointment of new Directors. The Committee considers succession plans for the Group Chairman and Group Chief Executive positions, and oversees the annual Supervisory Board performance review. The Committee also recommends to the Supervisory Board the framework and policy, for the remuneration of the chief executive, and other senior NOMOS officers and members of NOMOS's executive management. The Nomination and Remuneration Committee is chaired by Nikolai Dobrinov; and also consists of Aleksander Zakharov and Ilya Yuzhanov.

Remuneration

The aggregate amount of remuneration paid or accrued by NOMOS to members of the Supervisory Board and Management Board as a group for services in all capacities provided to NOMOS during the year ended 31 December 2010 was 212.8 million roubles in salary, bonuses, pensions, health insurance and benefits in kind.

No amount was set aside or accrued by NOMOS to provide pension, retirement or similar benefits.

Employment Contracts with the Members of the Management Board

Each member of NOMOS's Management Board, being employed by NOMOS, is entitled to the statutory termination benefits in accordance with Russian labour law, which generally amounts to approximately two months' salary upon termination. NOMOS may terminate the contracts with its senior management in accordance with the general provisions envisaged by the Russian Labour Code if, *inter alia*, the member of the Management Board commits serious breach of duties, is guilty of any gross misconduct in connection with the handling of money or valuables (if it acts as a ground for the loss of confidence), takes an erroneous decision that leads to improper use of or causes damage to the property of NOMOS. In addition, Labour Code and the employment contract of the President of NOMOS envisage certain additional provisions whereby NOMOS may terminate the employment contract if:

- he is dismissed from his office in accordance with Russian bankruptcy legislation; and
- the Supervisory Board of NOMOS adopts a decision on termination.

Members of the Supervisory Board of NOMOS Bank do not have employment contracts with NOMOS Bank within the meaning of Russian labour law.

Interests of Supervisory Board and Management Board Members

The table below sets out the interests of the Supervisory Board and Management Board Members in NOMOS Bank's share capital as at the date of this Prospectus, unless stated otherwise, and after the completion of the Offering and the Closed Subscription assuming that all New Shares subscribed for by existing shareholders in the exercise of their statutory pre-emptive rights are purchased and paid for.

Names of Supervisory and Management Board Members	Number of shares before the Offering		Number of shares after the Offering and Closed Subscription	
	Number of Ordinary Shares	Shareholding of the Ordinary Shares (%)	Number of Ordinary Shares	Shareholding of the Ordinary Shares (%)
Nikolai Dobrinov ⁽¹⁾	10,445,441	12.03	6,389,880	6.9
Jean-Pascal Duvieusart ⁽²⁾	61,309	0.1	61,309	0.1
Dmitry Sokolov ⁽³⁾	3,600,059	4.15	3,600,059	3.9
Irina Gordeeva	—	—	57,143	0.1
Vladimir Rykunov	—	—	30,286	<0.1
Victor Tyutin	—	—	22,200	<0.1
Vadim Yuriev	—	—	20,000	<0.1
Total	14,106,809	16.28	10,180,877	11.0

- (1) Held through his holding in Viewrock Limited and Crisandra Holdings Limited. See “*Principal and Selling Shareholders*”.
- (2) Held through his 0.25 per cent. holding in PPF Group N.V. which wholly owns Russia Finance Corporation B.V. which in turn, following the Offering and the Closed Subscription, will have a 26.53 per cent. stake in NOMOS Bank's Ordinary Shares. See “*Principal and Selling Shareholders*”.
- (3) Held through his holding in Arrowzone Limited. See “*Principal and Selling Shareholders*”.

Save as disclosed above, none of the NOMOS Supervisory Board or Management Board hold any interest in NOMOS Bank's share capital.

None of the members of the NOMOS Supervisory Board and Management Board hold options in respect of NOMOS Bank's shares.

PRINCIPAL AND SELLING SHAREHOLDERS

As at the date of this Prospectus, NOMOS Bank's share capital was RUB4,947,298,650, comprised of 86,845,973 ordinary shares with a par value of RUB50, and 12,100,000 preference shares with a par value of RUB50. The preference shares are non-voting and represent 12.22 per cent. of the total share capital of NOMOS Bank. These shares are held by LLC "Promgazkomplekt", NOMOS Bank's 100 per cent. subsidiary.

The table below sets out certain information regarding the legal shareholding structure of NOMOS Bank as at the date of this Prospectus and a table and discussion on beneficial ownership is shown below. The information on the Ordinary Shares is also set out, unless stated otherwise, as at the date after the completion of the Offering and the Closed Subscription assuming that the New Shares are subscribed and paid for by the existing shareholders under the Closed Subscription, but excluding the Ordinary Shares to be sold pursuant to the Over-Allotment Option.

	Number of shares before the Offering		Sold in the Offering	Number of shares after the Offering		Subscribed for in the Closed Subscription	Number of shares after the Offering and the Closed Subscription	
	Number of shares	% ⁽¹⁾	Number of shares	Number of shares	% ⁽¹⁾	Number of shares	Number of shares	% ⁽¹⁾
<i>Ordinary shares</i>								
PPF Group								
Russia Finance Corporation B.V. . .	24,523,480	28.24	1,520,835	23,002,645	26.49	1,520,835	24,523,480	26.53
ICT group								
Vitalpeak Limited	16,206,220	18.66	—	16,206,220	18.66	—	16,206,220	17.53
Lordline Limited	8,719,405	10.04	—	8,719,405	10.04	4,055,562	12,774,967	13.82
Viewrock Limited	8,719,746	10.04	4,055,562	4,664,184	5.37	—	4,664,184	5.05
Arrowzone Limited . .	7,347,060	8.46	—	7,347,060	8.46	—	7,347,060	7.95
Crisandra Holdings Limited	4,861,112	5.60	1,051,003	3,810,109	4.39	—	3,810,109	4.12
Other								
Lobston Enterprises Limited	16,390,550	18.87	13,818,200	2,572,350	2.96	—	2,572,350	2.78
North Moon Ventures Limited	78,400	0.09	—	—	—	—	—	—
Other holders	—	—	—	20,524,000	23.63	—	20,524,000	22.21
Total for Ordinary Shares								
	86,845,973	100		86,845,973	100		92,422,370	100.00
Ordinary Shares as Percentage of Total Issued Shares								
		87.78						

(1) Percentage shareholding of Ordinary Shares.

	Number of shares before the Offering		Sold in the Offering	Number of shares after the Offering		Subscribed for in the Closed Subscription	Number of shares after the Offering and the Closed Subscription	
	Number of shares	% ⁽¹⁾	Number of shares	Number of shares	% ⁽¹⁾	Number of shares	Number of shares	% ⁽¹⁾
<i>Preferred shares</i>								
LLC								
“Promgazkomplekt”	12,100,000	100	—	12,100,000	100	—	12,100,000	100
Total for Preferred								
Shares	12,100,000	100	—	12,100,000	100	—	12,100,000	100
Preferred Shares as Percentage of								
Total Issued Shares		12.22						
Total Issued								
Shares	98,945,973	100.00	—	98,945,973	100.00	—	104,522,370	100.00

(1) Percentage shareholding of Preferred Shares.

The following table and the discussion below sets out the beneficial owners of NOMOS Bank's Ordinary Shares, as at the date of this Prospectus, unless otherwise stated, and after the completion of the Offering and the Closed Subscription, assuming that the New Shares are subscribed and paid for by existing shareholders under the Closed Subscription, but excluding Ordinary Shares to be sold pursuant to the Over-Allotment Option.

	Number of shares before the Offering		Number of shares after the Offering		Number of shares after the Offering and the Closed Subscription	
	Number of shares	Shareholding of the Ordinary Shares (%)	Number of shares	Shareholding of the Ordinary Shares (%)	Number of shares	Shareholding of the Ordinary Shares (%)
PPF Group						
Mr. Petr Kellner	24,523,480	28.24	23,002,645	26.49	24,523,480	26.53
ICT group						
Mr. Alexander Nesis . .	16,206,220	18.66	16,206,220	18.66	16,206,220	17.53
Mr. Nikolai Dobrinov	10,445,441	12.03	6,389,880	7.36	6,389,880	6.91
Mr. Alexei Gudaytis . . .	10,445,100	12.03	10,445,100	12.03	14,500,662	15.69
Mr. Igor Finogenov . . .	3,600,059	4.15	3,600,059	4.15	3,600,059	3.90
Mr. Dmitry Sokolov . . .	3,600,059	4.15	3,600,059	4.15	3,600,059	3.90
Mr. Andrey Petropavlovsky	146,941	0.17	146,941	0.17	146,941	0.16
Other						
Mr. Roman Korbacka	16,390,550	18.87	2,572,350	2.96	2,572,350	2.78
Mr. Zbynek Sterba	1,488,123	1.71	358,719	0.41	358,719	0.39
Total	86,845,973	100.00	86,845,973	100.00	92,422,370	100.00

PPF Group Shareholders

PPF Group is the largest privately owned financial services group in Central and Eastern Europe with assets of EUR11.8 billion as at 30 June 2010.

Mr. Petr Kellner is the founder and major shareholder who directly and indirectly owns 94.25 per cent. in PPF Group N.V., a parent company of PPF Group. PPF Group, owns 24.78 per cent. of share capital of NOMOS Bank (28.24 per cent. of Ordinary Shares) through Russia Finance Corporation B.V., a 100 per cent. subsidiary of PPF Group N.V.

Shareholders of the ICT group of companies

The ICT group of companies is one of the largest privately-owned investment and industrial groups in Russia.

Mr. Alexander Nesis is the President and majority shareholder in the ICT group of companies. Mr. Nesis is the sole ultimate owner of Vitalpeak Limited. After the Offering and the Closed Subscription Vitalpeak Ltd. holds 17.53 per cent. of the Ordinary Shares of NOMOS Bank.

Mr. Nikolai Dobrinov is the Chairman of the Supervisory Board of NOMOS Bank. Mr. Dobrinov is also a Deputy General Director at the ICT group of companies. Mr. Dobrinov is the sole ultimate owner of Viewrock Limited. After the Offering and the Closed Subscription, Mr. Dobrinov beneficially controls 6.91 per cent. of the Ordinary Shares of NOMOS Bank through Viewrock Limited and a 45.3 per cent. stake in Crisandra Holdings Limited.

Mr. Alexei Gudaytis is a Deputy General Director at the ICT group of companies. Mr. Gudaytis is the sole ultimate owner of Lordline Limited. After the Offering and the Closed Subscription, Mr. Gudaytis beneficially controls 15.69 per cent. of the Ordinary Shares of NOMOS Bank through Lordline Limited and a 45.3 per cent. stake in Crisandra Holdings Limited. Mr. Gudaytis was formerly a member of the Supervisory Board of NOMOS Bank, resigned in February 2011.

Mr. Igor Finogenov is the former President of NOMOS Bank. Currently, Mr. Finogenov is the Chairman of the Management Board of the Eurasian Development Bank, an international financial institution founded to foster economic growth and integration processes in the Eurasian region. After the Offering and the Closed Subscription, Mr. Finogenov beneficially controls 3.90 per cent. of the Ordinary Shares of NOMOS Bank through a 49 per cent. stake in Arrowzone Limited. Mr. Finogenov is also a member of the ICT group of companies.

Mr. Dmitry Sokolov is the President and Chairman of the Management Board of NOMOS Bank and a member of the Supervisory Board of NOMOS Bank. After the Offering and the Closed Subscription, Mr. Sokolov beneficially controls 3.90 per cent. of the Ordinary Shares of NOMOS Bank through a 49 per cent. stake in Arrowzone Limited. Mr. Sokolov is a member of the ICT group of companies.

Mr. Andrey Petropavlovsky is the Finance Director of ICT group of companies. After the Offering and the Closed Subscription, Mr. Petropavlovsky beneficially controls 0.16 per cent. of the Ordinary Shares of NOMOS Bank through a 2 per cent. stake in Arrowzone Limited.

Other Owners

Mr. Roman Korbacka is the sole ultimate owner of Lobston Enterprises Limited. After the Offering and the Closed Subscription, Lobston Enterprises Ltd. holds 2.78 per cent. of the Ordinary Shares of NOMOS Bank. Should the Over-Allotment Option be exercised in full, Roman Korbacka's holding of Ordinary Shares shall be reduced to zero.

Mr. Zbynek Sterba is the sole ultimate owner of North Moon Ventures Limited. After the Offering and the Closed Subscription, Mr. Sterba beneficially controls 0.39 per cent. of the Ordinary Shares of NOMOS Bank through North Moon Ventures Limited and a 9.4 per cent. stake in Crisanda Holdings Limited.

NOMOS is not aware of any shareholder, other than Russia Finance Corporation B.V. and the ICT group of companies, which directly or indirectly, will own a significant proportion of their Ordinary Shares or could exercise control over NOMOS Bank. After completion of the Offering and the Closed Subscription, Russia Finance Corporation B.V. (beneficially owned by Petr Kellner) will own 26.53 per cent. of the Ordinary Shares of NOMOS Bank and the ICT group of companies will own 48.5 per cent. of the Ordinary Shares of NOMOS Bank (17.53 per cent. of which will be beneficially held by Mr. Alexander Nesis and 15.69 per cent. of which will be beneficially held by Mr. Alexei Gudaytis), assuming that all New Shares subscribed for by the Subscribing Shareholders in the Closed Subscription are purchased and paid for. NOMOS is not aware of any arrangements the operation of which may at a subsequent date result in a change of control.

The interests of Russia Finance Corporation B.V. and the ICT group of companies could conflict with those of other holders of their shares or GDRs and, other than the protections offered to minority shareholders outlined below, no additional measures have been put in place at NOMOS Bank to prevent an abuse of the rights of minority shareholders resulting from the exercise of control over NOMOS Bank by these shareholders. See *“Risk Factors — Risks Relating to NOMOS — The interests of NOMOS’s principal shareholders may conflict with those of other shareholders”*.

Russian laws such as the Joint Stock Companies Law and corporate governance requirements applicable to companies listed on Russian stock exchanges provide certain protections to minority shareholders. For instance, there are supermajority shareholder approval requirements for certain corporate actions, a shareholder is able to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of actions, companies are required to obtain the approval of disinterested shareholders for certain transactions with interested parties and the shareholders owning not less than 1 per cent. of the company's stock may bring an action for damages caused by the company's managers or directors. In addition, companies with shares listed on a Russian Stock Exchange (such as RTS and MICEX) are required to comply with a number of corporate governance standards, which provide additional protection to shareholders, including minority shareholders. However, no assurance can be given that the applicable Russian laws and the corporate governance standards with which NOMOS Bank have to comply will be able to fully protect the interests of minority shareholders if such interests are in conflict with the interests of a controlling shareholder.

None of NOMOS Bank's shareholders have voting rights different from any other holders of its shares of the same type. NOMOS is not aware of any arrangements that may result in a change of control.

In addition, shareholders in NOMOS Bank are required by Russian law to disclose direct or indirect shareholdings to NOMOS Bank and to the FSFM over 5 per cent. and then make a further disclosure each time a shareholding passes through a threshold of 5 per cent., 10 per cent., 15 per cent., 20 per cent., 25 per cent., 30 per cent. 50 per cent., 75 per cent or 95 per cent.

For a more detailed description of rights attached to Ordinary Shares and preference shares, see *“Description of Share Capital and Applicable Russian Legislation — Description of the Share Capital — Rights of Shareholders”*.

RELATED PARTY TRANSACTIONS

IAS 24 “*Related Party Transactions*” contains a definition of related parties, which are, broadly, parties under common control or one party controlling the other party or capable of exercise of 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, not merely the legal form.

NOMOS Related Party Transactions

NOMOS’s related party transactions include loans, securities, deposit taking, guarantees, trade finance, letters of credit, foreign currency, precious metals and other transactions. See Note 33 to NOMOS’s Financial Statements.

In related party transactions with credit risk, depending on the circumstances, NOMOS aims to obtain collateral and/ or guarantees to reduce credit risk. NOMOS’s related party transactions have been priced predominantly at market rates and are subject to the regulation of the CBR. See “*The Banking Sector and Banking Regulation in Russia*”. NOMOS ensures related party transactions are conducted on an arms length basis and significant related party transactions are reviewed by the Supervisory Board.

NOMOS had the following outstanding balances with related parties as at 31 December 2008, 2009 and 2010:

	31 December 2008			31 December 2009			31 December 2010		
	Related party transactions	Average effective interest %	Total category as per financial statements caption	Related party transactions	Average effective interest %	Total category as per financial statements caption	Related party transactions	Average effective interest %	Total category as per financial statements caption
Financial assets at fair value through profit or loss:	4,941,974		34,949,910	3,407,390		57,666,284	2,902,399		55,522,040
Debt securities									
— companies controlled by shareholders	4,939,587	11.90%		3,042,935	15.61%		2,703,217	7.23%	
Equity securities and derivative financial instruments									
— companies controlled by shareholders	2,388			364,455	—		199,182		
Loans and advances to banks and other financial institutions:	4,860,531		22,271,778	35,357		26,814,738	17,209		41,577,498
Loans to banks and other financial institutions									
— shareholders of the Group									
— companies controlled by shareholders	4,842,274	8.96%		9,073	0.12%		—		
Correspondent accounts with banks									
— companies controlled by shareholders	18,257			26,284	—		17,209		

	31 December 2008			31 December 2009			31 December 2010		
	Related party transactions	Average effective interest %	Total category as per financial statements caption	Related party transactions	Average effective interest %	Total category as per financial statements caption	Related party transactions	Average effective interest %	Total category as per financial statements caption
Loans to customers,									
gross:	8,411		199,417,623	4,338,480		179,676,692	27,244,404		354,859,606
— entities under common control . . .	—			—			9,521,572	10.30%	
— companies controlled by shareholders	8,411	13.83%		4,338,480	19.16%		17,722,833	10.06%	
Allowance for impairment of loans to customers	(491)		(11,696,307)	(11,228)		(17,026,959)	(82,715)		(15,557,694)
— companies controlled by shareholders	(491)			(11,228)			82,715		
Financial liabilities at fair value through profit or loss	193,797		2,688,050	18,822		503,877	14,705		1,005,071
— companies controlled by shareholders	193,797			18,822			14,705		
Due to banks and the Central Bank of the Russian Federation:	3,617,636		68,296,774	3,249,618		48,396,870	1,690,340		59,838,706
Time deposits from banks									
— companies controlled by shareholders	3,552,397	6.13%		3,242,851	7.72%		1,526,622	4.16%	
Correspondent accounts of other banks									
— companies controlled by shareholders	65,238			6,767			163,718		
Customer accounts:	5,392,095		116,070,590	3,038,327		134,203,884	13,016,022		313,376,341
Time deposits									
— shareholders of the Group	4,953,753	9.40%		505,078	9.39%		1,226,508	8.21%	
— entities under common control . . .				73,045	12.25%		42,779	5.79%	
— companies controlled by shareholders	10	4.07%		1,094,019	10.32%		8,022,248	7.45%	
Repayable on demand									
— shareholders of the Group	57,442			50,530			15,543		
— entities under common control . . .	335,216			10,916			53,524		

	31 December 2008			31 December 2009			31 December 2010		
	Related party transactions	Average effective interest %	Total category as per financial statements caption	Related party transactions	Average effective interest %	Total category as per financial statements caption	Related party transactions	Average effective interest %	Total category as per financial statements caption
— companies controlled by shareholders	45,692			1,304,739			3,655,410		
Other liabilities	86		1,160,655	24,145		1,368,278	34,451		2,209,305
— entities under common control	—			—			3		
— key management personnel	—			2,626			22,457		
— companies controlled by shareholders	86			21,518			11,992		
Subordinated debt	6,035,661		9,759,319	13,928,725		22,664,116	2,586,115		27,090,583
— shareholders of the Group	5,000,000	7.42%		7,863,492	7.94%		1,500,000	6.74%	
companies controlled by shareholders	1,035,661	9.52%		6,065,233	7.43%		1,086,115	6.34%	
Commitments on loans and unused credit lines	1,589		18,866,512	3,683,565		19,719,747	9,004,586		74,330,453
— shareholders of the Group							300		
— companies controlled by shareholders	1,589			3,683,565			9,004,286		
Guarantees issued and similar commitments	25,741		26,526,384	371,644		25,192,196	409,071		73,608,719
— companies controlled by shareholders	25,741			371,644			409,071		

For the years ended 31 December 2008, 2009 and 2010, the following amounts are due to transactions with related parties:

	Year ended 31 December 2008		Year ended 31 December 2009		Year ended 31 December 2010	
	Key management personnel	Total for the Group	Key management personnel	Total for the Group	Key management personnel	Total for the Group
(in thousands of roubles)						
Key management personnel compensation:						
— salary	129,018		69,524		84,638	
— bonuses	98,982		8,610		126,730	
— contribution to non-government pension fund	240		72		104	
	228,240	2,793,228	78,206	3,120,286	212,806	4,439,964

	Year ended 31 December 2008		Year ended 31 December 2009		Year ended 31 December 2010	
	Related party transactions	Total for the Group	Related party transactions	Total for the Group	Related party transactions	Total for the Group
			(in thousands of roubles)			
Interest income		26,331,824		36,424,747		29,350,357
— shareholders of the Group	2,172		—			
— entities under common control ..	103,143		—			
— companies controlled by shareholders	595,211		1,724,772		1,162,638	
Interest expense		(13,136,565)		(18,905,058)		(14,988,622)
— shareholders of the Group	(816,946)		(789,672)		(413,745)	
— entities under common control ..	(5,240)		(805)		(6,471)	
— companies controlled by shareholders	(483,723)		(901,038)		(647,027)	
Provision for impairment losses on interest bearing assets		(5,274,833)		(12,048,082)		(4,148,455)
— entities under common control ..	(665)		—		—	
— companies controlled by shareholders	265,212		(10,737)		(71,487)	
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss		(571,783)		3,736,351		1,988,041
— shareholders of the Group	(93,063)		—		—	
— entities under common control ..	333,784		—		—	
— companies controlled by shareholders	224,679		1,077,864		325,848	
Net gain on foreign exchange operations		673,422		1,283,315		624,769
— shareholders of the Group	(1,038,865)		65,019		(84,142)	
— companies controlled by shareholders	(273,963)		(423,509)		258,540	
Fees and commission income		1,887,307		2,079,592		2,484,686
— shareholders of the Group	470		1,204		281	
— entities under common control ..	280		226		344	
— companies controlled by shareholders	109,518		92,661		90,808	
Fees and commission expense		(280,940)		(326,790)		(368,383)
— entities under common control ..	—		—		(20,400)	
— companies controlled by shareholders	(12,855)		(79)		(16,242)	
Other income		269,177		435,583		821,563
— shareholders of the Group	3,711		227			
— entities under common control ..	17,261		1,721		1,721	
— companies controlled by shareholders	—		—		4,521	
Operating expenses		(5,480,029)		(6,368,900)		(8,166,786)
— shareholders of the Group	(180)		—			
— entities under common control ..	(31,898)		(1,647)		(3,163)	
— key management personnel	(228,240)		(78,206)		(212,806)	
— companies controlled by shareholders	(769)		(11)		(725)	

BKM Related Party Transactions

BKM had the following outstanding balances with related parties as at 31 December 2009 and 2010:

	December 31, 2009			December 31, 2010		
	Related party balances	Average effective interest	Total category as per the financial statement caption	Related party balances	Average effective interest	Total category as per the financial statement caption
(in thousands of roubles, except percentages)						
Loans and advances to banks and other financial institutions, gross			13,337,238			22,222,157
— parent company				5,371	—	
— other related parties	60,425	—		—	—	
Loans to customers, gross			86,421,797			107,044,856
— key management personnel	25,978	8.05%		28,310	10.40%	
— entities under joint control				9,923,454	10.30%	
— other related parties	7,833,385	13.41%		4,255,719	14.20%	
Allowance for impairment losses on loans to customers			(6,416,796)			(6,211,864)
— key management personnel	(686)	—		(390)	—	
— entities under joint control				(205,300)	—	
— other related parties	(1,610,807)	—		(1,206,651)	—	
Investments available-for-sale			19,603,966			24,460,940
— other related parties	350,000			350,000	—	
Investments in subsidiaries and associates			202,419			—
— associates	202,419	—		—	—	
Other assets, gross			682,055			3,720,240
— key management personnel	67	—		—	—	
— shareholders of the Group	4	—		—	—	
— entities under joint control	—	—		10	—	
— other related parties	6,713			375,100	—	
Allowance for impairment on other assets			(118,212)			(235,113)
— other related parties	(558)			(558)	—	
Due to banks and the Central Bank of the RF	—	—	24,727,999			14,883,504
— parent company	—	—		14,298	—	
— associates	1,465,604	5.67%		—	—	
— other related parties	204,655	0.40%		12,464	—	
Customer accounts			64,870,183			101,247,584
— key management personnel	181,484	5.10%		94,362	6.80%	
— shareholders of the Group	210,500	—		—	—	
— associates	96	—		95	—	
— other related parties	5,418,347	7.50%		8,493,071	10.10%	
Securities issued			13,065,017			17,522,015
— other related parties	135,030	12.20%		—	—	
Bonds			3,060,622			6,043,381
— parent company	—	—		1,200,000	7.43%	
— other related parties	714,707	14.00%		—	—	
Subordinated debt and Eurobonds			5,692,102			5,288,300
— shareholders of the Group	—	—		100,000	7.00%	
— other related parties	700,000	5.83%		—	—	
Other liabilities			331,971			841,176
— associates	157	—		—	—	
— key management personnel	3,862	—		1,907	—	
— other related parties	1,344	—		12,594	—	
Unused loan commitments			8,053,355			15,627,086
— key management personnel	6,160	—		12,512	—	
— other related parties	648,999	—		533,690	—	
Guarantees issued, letters of credit and similar commitments			8,933,399			19,005,567
— other related parties	2,797,290	—		387,583	—	

For the years ended 31 December 2009 and 2010, the following amounts are due to transactions with related parties:

	Year ended December 31, 2009		Year ended December 31, 2010	
	Related party balances	Total category as per the financial statement caption	Related party balances	Total category as per the financial statement caption
Key management personnel compensation:				
— salary	36,047		29,417	
— bonuses	56,766		24,291	
	<u>92,813</u>		<u>53,708</u>	
		<u>3,960,331</u>		<u>5,117,037</u>

Included in the consolidated income statement for the years ended 31 December 2009 and 2010 are the following amounts, which arose due to transactions with related parties:

	Year ended December 31, 2009		Year ended December 31, 2010	
	Related party balances	Total category as per the financial statement caption	Related party balances	Total category as per the financial statement caption
Interest income		14,193,622		14,670,739
— key management personnel	2,528		2,494	
— other related parties	80,4320		567,479	
Interest expense		(8,913,860)		(8,586,660)
— key management personnel	(7,658)		(13,157)	
— associates	(21,812)		(28,503)	
— shareholders of the Bank	—		(1,663)	
— other related parties	(485,798)		(92,269)	
Allowance for impairment losses on interest bearing assets		(3,159,585)		(274,796)
— key management personnel	51		296	
— entities under joint control	—		(205,300)	
— other related parties	(1,244,159)		404,156	
Net gain on financial assets and liabilities at fair value through profit and loss		824,035		1,057,625
— associates	—		(1)	
— other related parties	(38,830)		(47,878)	
Net gain on foreign exchange operations		1,105,315		646,077
— key management personnel	(17,698)		(7,220)	
— associates	3,234		1,220	
— other related parties	570,430		492,335	
Fee and commission income received		1,634,053		2,207,392
— key management personnel	57		38	
— associates	35		500	
— other related parties	82,017		56,855	
Fee and commission expense paid		(213,495)		(453,677)
— associates	(484)		(169)	
— entities under joint control	(12)		—	
— other related parties	—		(685)	
Net gain/(loss) on investments available-for-sale		(82,208)		705,309
— other related parties	(283,531)		42	
Loss from an associate		(2,422)		(139,901)
— associates	(2,422)		(139,901)	
Gain from revaluation of interest in an associate		—		18,829
— associates	—		18,829	
Allowance for impairment losses on other transactions		(92,168)		(426,407)
— other related parties	(558)		12,803	
Gain on loans sold		—		408,940
— other related parties	—		350,299	
Recovery/(loss) on loans issued at below market rates		(103,643)		53,545
— key management personnel	—		(156)	
— other related parties	(87,907)		50,321	
Other income		54,648		100,966
— key management personnel	4		148	
— associates	1,751		1,081	
— shareholders of the Bank	1		—	
— other related parties	1,675		1,300	
Operating expenses		(3,960,331)		(5117,037)
— key management personnel	(100,578)		(70,164)	
— shareholders of the Bank	(62)		(60)	
— associates	(24)		(36)	
— other related parties	(60,179)		(132,859)	

THE BANKING SECTOR AND BANKING REGULATION IN RUSSIA

The following information relating to the Russian banking sector and regulation in Russia is for background purposes only. Some of this information has been extracted from publicly available sources and is sourced where it has been so provided. NOMOS Bank has not independently verified the information that has been extracted from publicly available sources. Although NOMOS Bank accepts responsibility for extracting and reproducing such information accurately, NOMOS Bank does not accept responsibility for the accuracy of such information.

Introduction to the Russian Banking Sector

History and Development of the Russian Banking Sector

Prior to its reorganisation in 1987, the Soviet banking system consisted of (i) the former State Bank of the USSR, or Gosbank (the predecessor to the CBR) (“**Gosbank**”), which allocated resources from the state budget according to the prevailing economic plan, (ii) Stroibank of the USSR, which primarily serviced payments relating to capital expenditure in connection with construction and infrastructure projects, and (iii) Vneshtorgbank of the USSR, which primarily serviced payments relating to the foreign trade of Soviet entities. Gosbank operated a network of “savings branches” (*sberegatelnyie kassy*), the predecessors to Sberbank branches within the Russian Federation and to branches of other banks that subsequently sprung up in other ex-USSR states, that offered retail banking services, mainly deposit taking and processing of utility bill payments, throughout the country. In 1987, the Soviet banking system was partially liberalised. A few specialised banks developed to service specific industries, namely, Agroprombank (Farming Production Bank), Promstroibank (Industrial and Construction Bank), Zhilsotsbank (Bank for Housing Maintenance and Utilities Sector and Social Development), Vnesheconombank of the USSR (Bank for Foreign Economic Activity) and Sberbank of the USSR (Bank for Labour Savings and Lending to the Population).

During 1988 and 1989, many regional commercial banks emerged, primarily in the form of co-operatives or joint stock companies. In 1991, three of the specialised state banks were transformed into joint stock companies. Some regional branches of these specialised state banks became independent from their head offices through management buy-outs. Furthermore, after the collapse of the Soviet Union in December 1991, the CBR assumed all of Gosbank’s functions in the Russian Federation, and the Russian government liquidated Gosbank one month later. During 1991 to 1998, the Russian banking system experienced rapid growth. The number of commercial banks in the Russian Federation increased from approximately 350 in 1990 to more than 2,500 in 1998. Several large privately-held banking groups were formed, including UNEXIM Bank, Inkombank, Menatep, Russian Credit Bank and SBS-Agro. Although most private banks focused on providing banking services to newly privatised companies and governmental bodies, some private banks started to compete with state-owned banks by offering banking products to retail clients.

In 1998, Russia was hit by a serious financial crisis following the Russian government’s default on much of its short-term domestic debt. During this crisis, many banks were reorganised, went bankrupt or were placed under the administration of the Agency for the Restructuring of Credit Organisations (“**ARCO**”), a state corporation established in 1999 to restructure defaulting banks and protect their creditors. In 2002, 14 banks were under ARCO’s administration, and by 31 December 2002 the financial restructuring of 11 of them had been completed. Other defaulting banks were liquidated. As the Russian banking sector stabilised over 2000-2004, ARCO’s role decreased substantially. The last credit organisation was released from ARCO’s administration on 18 October 2003, and, pursuant to Federal Law No. 87-FZ dated 28 July 2004, ARCO itself was liquidated. Pursuant to the Retail Deposit Insurance Law, the assets of ARCO were transferred to the State Corporation Agency for Deposit Insurance (the “**Deposit Insurance Agency**”), which was established in January 2004 under the Retail Deposit Insurance Law.

The 1998 financial crisis revealed a lack of proper regulation of the Russian banking sector and reinforced concerns about the integrity of the banking system. However, during 1999 to 2003, the Russian banking system gradually recovered from the 1998 financial crisis. Higher liquidity levels and a shift from investments in Russian government securities to corporate loans characterised this recovery.

In early 2004, the Russian banking sector experienced further turmoil. As a result of various market rumours, press speculation and, in some cases, regulatory as well as liquidity problems, several privately-owned Russian banks, including Guta Bank, experienced liquidity problems and were unable to attract funds on the interbank market or from their client base. Simultaneously, these banks faced large withdrawals of deposits by both retail and corporate clients. Several of these privately-owned Russian banks collapsed, or ceased or severely limited their operations. The CBR adopted several measures in response to the 2004 turbulence, including the

reduction of the mandatory reserves that banks must deposit with the CBR from 7 per cent. to 3.5 per cent. Accordingly, banks' borrowing costs declined. In addition, the Russian government adopted legislation pursuant to which the CBR became responsible for payments to retail clients of insolvent Russian banks that did not participate in the retail deposit insurance system before their insolvency. The CBR was also given the power to impose, for a period of one year, a limit on interest rates on retail deposits. In addition, Russian banks became required to disclose certain information concerning the interest rates on retail deposits, their liabilities in respect of deposits and amounts of cash withdrawals by private depositors.

After recovering from the 2004 turbulence and experiencing rapid growth in 2005-2007, the Russian banking sector was then severely affected by the global financial crisis. In the second half of 2008, in response to the global credit crisis and its impact on the Russian banking system and the overall economy, Russia enacted a number of measures to support the liquidity of the Russian banking sector. The government agreed to, *inter alia*, provide up to RUB 950 billion in subordinated loans to state-owned and private banks under certain conditions and the CBR established a new facility to provide uncollateralised lending to a number of Russian banks. The CBR also agreed to reduce reserve requirements for banks. Until December 31, 2010, the CBR had the authority to guarantee interbank lending transactions for state-owned banks and, in order to encourage interbank lending, to partially compensate certain other banks for future losses incurred in certain interbank lending transactions. The government also increased the deposit guarantee maximum for retail clients to up to RUB 700,000 per deposit.

Selected Statistical Information

According to the CBR and under RAS, which differ from International Financial Reporting Standards, as of 1 January 2011, the total assets of the Russian banking sector were 33,804.6 billion roubles with capital of the banking sector of 4,732.3 billion roubles.

As of 1 January 2011, according to the CBR, the total amount of loans and other funding in roubles provided by Russian banks to their clients that are not credit organisations increased to 22,140.2 billion roubles (of which loans in the amount of 4,084.8 billion roubles were provided to retail clients, loans and other funding in the amount of 14,062.9 billion roubles were provided to corporate clients and loans and other funding in the amount of 262.1 billion roubles were provided to state financial agencies and non-budgetary funds) as compared to 19,847.1 billion roubles as of 1 January 2010 and 19,884.8 billion roubles as of 1 January 2009. According to the CBR, the total amount of loans and other funding provided by Russian banks in foreign currencies amounted to 6,041 billion roubles as of 1 January 2011 (of which loans in the amount of 359.6 billion roubles were provided to retail clients, loans and other funding in the amount of 3,658.2 billion roubles were provided to corporate clients and loans and other funding in the amount of 0.4 billion roubles were provided to state financial agencies and non-budgetary funds) as compared to 5,974.4 billion roubles as of 1 January 2010 and 6,009.9 billion roubles as of 1 January 2009.

One of the main sources of recent growth of the banks' financial resources was the increasing number of retail deposits. According to the CBR, the aggregate amount of retail deposits in the Russian banking sector increased from 5,907 billion roubles as of 1 January 2009 to 7,485 billion roubles as of 1 January 2010 and to 9,818 billion roubles as of 1 January 2011 (of which deposits in roubles amounted to 7,918.5 billion roubles and deposits in foreign currencies totalled 1,899.4 billion roubles). According to the CBR, the aggregate amount of corporate deposits increased from 4,945.4 billion roubles as of 1 January 2009 to 5,466.6 billion roubles as of 1 January 2010, and further to 6,035.6 billion roubles as of 1 January 2011 (of which deposits in roubles amounted to 3,541.2 billion roubles and deposits in foreign currencies totalled 2,494.4 billion roubles).

In accordance with the Federal Law No. 175-FZ "On Additional Measures Aimed at Improving the Stability of the Banking System for the Period until 31 December 2011" dated 27 October 2008 (the "**Banking System Stability Law**") and the decisions made in September and October 2008 prior to the effective date of this law, the Russian government and the CBR introduced certain measures intended to protect credit organisations from bankruptcy. According to the CBR, the number of credit organisations subject to such measures increased from seven (as of 1 November 2008) to 20 (as of 1 January 2009), but then decreased to 14 (as of 1 January 2011).

Structure of the Russian Banking Sector

The Russian banking sector consists of the CBR and credit organisations. The latter consist of banks, which provide a wide range of banking services, and non-bank credit organisations, which provide only limited banking services, such as maintaining accounts and making payments. According to the CBR, as of 1 January 2011, there

were 1,146 credit organisations operating in the Russian Federation. Poor corporate governance, inadequate risk management, lack of transparency, absence of developed regional networks and weak management remain strong characteristics of some Russian banks, particularly smaller ones.

State-Owned or State-Controlled Banks

State-owned banks continue to play a leading role in the Russian banking sector. Several state-owned banks focus on the implementation of Russian government programmes, such as Russian Agricultural Bank in the agricultural sector and Roseximbank in respect of import-export operations. Others have provided loans in politically-related contexts, including Sberbank (the largest bank in Russia), VEB and VTB.

Privately-Owned Russian banks

Privately-owned banks are an essential part of the developing Russian banking market. They focus on a wide variety of businesses including corporate and retail lending and investment banking. Among the key participants are Alfa-Bank and Promsvyazbank, which are wholly privately owned, and MDM-Bank, Bank Saint Petersburg and Bank Vozrozhdenie, in which a minority of shares are traded on stock exchanges.

Foreign Owned Banks

The presence of foreign owned banks in the Russian market was limited until 2002 in order to protect the newly formed Russian banks. However, given that foreign banks may not directly conduct business in the Russian Federation, many major foreign banks have established subsidiaries in the country.

Currently, foreign owned banks may need to comply with certain additional requirements that may be established by the CBR. The maximum aggregate participation limit of foreign shareholders in the Russian banking system may be determined by a federal law proposed by the Russian government in conjunction with the CBR, however no such law has been enacted.

According to the CBR, as of 1 January 2011, 111 credit organisations controlled by foreign groups holding more than 50 per cent. of their shares were operating in the Russian Federation. Of these 111 credit organisations, 80 were wholly-owned subsidiaries of foreign groups as of 1 January 2011.

Although certain foreign owned banks focus primarily on cash and settlement services to non-residents and interbank operations, many foreign owned banks, such as UniCredit Bank (formerly International Moscow Bank), Raiffeisenbank and Rosbank (a majority stake in which is owned by Société Générale) offer a full range of services to their Russian clients, including retail deposits and loans.

Legislative Framework for the Russian Banking Sector

The Banking Law

Federal Law No. 395-1 “On Banks and Banking Activity” dated 2 December 1990, as amended (the “**Banking Law**”) is the main law regulating the Russian banking sector. Among other things, it defines credit organisations, sets forth the list of banking operations and other transactions that credit organisations may perform, and establishes the framework for the registration and licensing of credit organisations and the regulation of banking activity by the CBR.

The Association of Russian Banks, a non profit self regulatory organisation established pursuant to the Banking Law, offers technical support to its members and lobbies for the interests of commercial banks with various governmental bodies, including the Russian parliament, the Russian government and the CBR. According to its website, as of 23 March 2011, the Association of Russian Banks consisted of 708 members, including 535 credit organisations.

The Banking Law defines the following services as “banking operations” that require an appropriate licence from the CBR:

- taking deposits from individuals and legal entities (both demand and fixed-term deposits);
- investing deposited funds on its behalf and for its own account;
- opening and maintaining bank accounts for individuals and legal entities;

- performing settlements in accordance with instructions from individuals and legal entities, including correspondent banks, from and to their bank accounts;
- services involving handling of cash, promissory notes, payment and settlement documents and cash services to individuals and legal entities;
- purchase and sale of foreign currency (both cash and non-cash);
- taking deposits in precious metals and placing them;
- issuing bank guarantees; and
- making money transfers in accordance with instructions from individuals who do not have bank accounts (excluding payments by post).

The Banking Law provides that a credit organisation may be authorised to take deposits from individuals only after it has been registered for two years unless it meets certain criteria allowing it to take deposits from individuals earlier.

In addition to banking operations, credit organisations may:

- guarantee monetary obligations of third parties;
- purchase rights to demand the discharge of monetary obligations from third parties;
- engage in trust management (which differs from the concept of trusts under English law) of monetary funds and other property for individuals and legal entities;
- engage in operations with precious metals and stones (in accordance with Federal Law No. 41-FZ “On Precious Metals and Precious Stones” dated 26 March 1998, as amended, and other legislation);
- rent out special premises and safe deposit boxes to individuals and legal entities;
- engage in leasing operations;
- provide consultancy and informational services; and
- enter into other transactions in accordance with Russian law.

Under the Banking Law, a credit organisation cannot engage in manufacturing, commodities trading (excluding precious metals) or insurance activities.

The Securities Market Law

A banking licence does not authorise a credit organisation to act as a securities broker or dealer or to provide custody services (other than acting as a paying agent). In order to perform these functions, according to the Federal Law No. 39-FZ On Securities Market dated 22 April 1996 (“**Securities Market Law**”), as amended, a credit organisation must obtain a licence from the FSFM. The operations of Russian banks in the securities market are subject to Russian securities laws and regulations adopted by the FSFM or its predecessor that govern the activities of brokers, managers and securities custodians, and the relations between professional market participants and investors. The FSFM also oversees the compliance of all professional market participants, including banks, with the Russian securities laws and regulations.

The Retail Deposit Insurance Law

The Retail Deposit Insurance Law introduced a mandatory retail deposit insurance system for Russian banks that offer retail deposit services pursuant to a CBR licence. The Retail Deposit Insurance Law provides for the establishment of a new regulator, the Deposit Insurance Agency, which, among other things, collects fund contributions, manages the fund, determines the order for calculation of insurance premiums and monitors insurance payments. The Deposit Insurance Agency maintains a register of all banks that take part in the mandatory retail deposit insurance system. According to the Deposit Insurance Agency, as of 1 January 2011, the CBR had admitted 909 banks to the deposit insurance system. A bank that does not participate in the deposit insurance system is not permitted to accept retail deposits or open accounts for individuals.

The Retail Deposit Insurance Law guarantees each client's deposit for up to 700,000 roubles per bank. Insurance proceeds are payable from the retail deposit insurance fund into which participating banks must make quarterly contributions. An insurance payment from the deposit insurance fund becomes payable to depositors if the CBR revokes the bank's licence or imposes a moratorium on payments by the bank. The amount of each bank's contribution to the deposit insurance system is assessed on the basis of the quarterly average of daily balances of its retail deposits (excluding deposits with bearer certificates and certain other deposits). Standard contribution premiums may not exceed 0.15 per cent. of the contribution basis but in certain circumstances set out in the Retail Deposit Insurance Law, the premium can be increased up to 0.3 per cent., but not for more than two quarters in any 18-month period. When the size of the insurance fund reaches 5 per cent. of all Russian banks' combined deposits, all subsequent contribution premiums in the next quarter cannot exceed 0.05 per cent. and when the insurance fund exceeds 10 per cent. of all Russian banks' combined deposits, no contributions will need to be made in the following quarters, but contributions must be resumed from the following quarter if the size of the insurance fund falls below 10 per cent.

The Rescue Measures Law

In response to the global financial crisis, Federal Law No. 173-FZ "On Supplementary Measures to Support the Financial System of the Russian Federation" dated 13 October 2008 (the "**Rescue Measures Law**") was adopted.

On 3 August 2009, the Supervisory Board of VEB approved a procedure for provision of additional liquidity to Russian banks through VEB. Under Articles 4 and 6.1 of the Rescue Measures Law, VEB received deposits in the amount of up to 410 billion roubles in the aggregate from the National Wealth Fund, which was used to provide unsecured subordinated loans to Russian banks. The availability period for such loans expired on 31 December 2010.

If a bank received Vnesheconombank loans, VEB had the right to appoint its representatives to the management bodies of the borrower. VEB exercised the abovementioned right to appoint its representative and appointed Mr. Zelenov to the Supervisory Board of NOMOS Bank. See "*Management and Corporate Governance — Supervisory Board*".

The Banking System Stability Law

Banking System Stability Law came into effect on 28 October 2008 and expanded the list of bankruptcy prevention measures performed by the Deposit Insurance Agency available for Russian credit organisations under the Federal Law No. 40-FZ On Insolvency (Bankruptcy) of Credit Organisations dated 25 February 1999 ("**Bank Insolvency Law**") by introducing the following additional procedures:

- the provision of financial assistance to investors that have agreed to acquire a controlling stake in a distressed credit organisation;
- financial assistance to other credit organisations that have agreed to acquire certain assets and obligations of a distressed credit organisation;
- the acquisition of a controlling stake of a distressed credit organisation directly by the Deposit Insurance Agency;
- the provision of financial assistance to a distressed credit organisation subject to the acquisition of a controlling stake in such credit organisation by either an investor or the Deposit Insurance Agency;
- making arrangements for public sale of the assets securing obligations of a credit organisation to its creditors, including the CBR; and
- the appointment of the Deposit Insurance Agency by the CBR to act as temporary administrator in relation to a credit organisation.

The Banking System Stability Law envisages that the Deposit Insurance Agency will assist distressed banks through: (i) attracting investors for credit organisations which are experiencing financial difficulties, and (ii) liaising with the CBR regarding the provision of financial assistance to such credit organisations. The decision as to whether bankruptcy prevention measures should be launched in respect of a particular credit organisation rests with the CBR.

The analysis of the financial position of a credit organisation for the purpose of provision of state support are jointly performed by the CBR and the Deposit Insurance Agency. On the basis of the results of such analysis, the Deposit Insurance Agency will develop a rehabilitation plan for the credit organisation, which will then be required to be approved by the CBR.

According to the Deposit Insurance Agency, as of 1 March 2011, the CBR and the Deposit Insurance Agency have launched rehabilitation measures in respect of 14 credit organisations.

The Anti-Money Laundering Law

The Anti-Money Laundering Law, was adopted to comply with the requirements of the FATF. Credit organisations must comply with the provisions of the Anti-Money Laundering Law relating to, among other things, the development of appropriate internal standards and procedures, client identification, control over client operations and reporting of suspicious activities.

Under the Anti-Money Laundering Law, one of the bank's main obligations is the "control function", which involves identification of the bank's clients, gathering information with respect to client operations and reporting of certain operations to the Financial Monitoring Authority, a Russian Anti-Money laundering authority. The Anti-Money Laundering Law requires that banks carry out certain verification procedures in the event of any operations in the amount of 600,000 roubles or more (or its equivalent in foreign currencies) when such operations involve among other elements:

- cash transactions;
- certain transactions where one of the counterparties is resident or has a bank account in a country that does not participate in international efforts to combat money-laundering;
- certain operations in relation to bank accounts or deposits where the beneficiary is not identified;
- deposits to or debiting the money from the account of legal entities with less than three months existence and performing such operations in relation to the account for the first time since its opening; and
- certain other transactions with moveable property involving, among other things, precious stones and precious metals.

In addition, banks must carry out these procedures in the event of any operation involving an individual or organisation that is known to participate in extremist or terrorist activities, as well as any legal entity that such organisations control or the agents of such organisations.

If bank officers suspect that an operation is conducted in order to legalise any funds received from illegal activities or to finance terrorist activities, their banks must report such operations to the Financial Monitoring Authority, whether or not they qualify as controlled operations. Russian banks must not inform clients that transactions are being reported to the Financial Monitoring Authority.

The Bank Insolvency Law

Credit organisations are subject to special insolvency procedures set forth in the Bank Insolvency Law. It provides, among other things, that if a credit organisation becomes bankrupt, it must pay its retail depositors after the claims of individuals for personal injury, deaths or moral damages, if any, are satisfied. For a more detailed description of claims and priority of payments see — *"The Insolvency Regime for Credit Organisations"*.

Measures to Support the Liquidity and Solvency of Russian Banks and Companies since October 2008

Since October 2008, the Russian government and the CBR have announced and, in many cases, fully implemented measures intended to support the liquidity and solvency of Russian banks and to increase the availability of financing to Russian companies. These measures have been critical for restoring investor confidence and supporting the medium-term economic growth of the Russian economy. These measures are set out below:

- the Russian government through the CBR and VEB agreed to provide up to 910 billion roubles in subordinated loans to state- and private-owned banks under certain conditions. This state contribution to banking sector capital in the form of long-term subordinated loans with a term of at least five years was one of the key economic initiatives implemented by the Russian government to restore confidence in the Russian banking sector. Sberbank, VTB and Russian Agricultural Bank received 500 billion roubles, 200 billion roubles and 25 billion roubles, respectively, as part of this initiative. Part of the remaining 185 billion roubles was distributed among privately-owned Russian banks subject to certain conditions. On 1 December 2008 the Supervisory board of VEB took the decision to provide NOMOS Bank with RUB4.9 billion in the context of these measures;

- for the period between 14 October 2008 and 31 December 2010, the CBR was granted the authority to guarantee interbank lending transactions for state-owned banks, and, in an effort to encourage interbank lending in the short term, to reimburse some of the losses and expenses of certain banks incurred during interbank lending operations with Russian banks whose licenses had been revoked;
- in October 2008, the CBR temporarily lowered the reserve requirements for banks to 0.5 per cent. for all types of financial liability (prior to the decrease, the reserve requirements for banks were 4.5 per cent. for financial liabilities to non-resident banks, 1.5 per cent. for financial liabilities to individuals and 2.0 per cent. for all other financial obligations). However, the CBR increased the requirements starting from 1 March 2011 to 4.5 per cent. for the bank's obligations to non-residents in roubles or foreign currency and 3.5 per cent. for the bank's other obligations in roubles or foreign currency, including those to individuals, and, starting from 1 April 2011, to 5.5 per cent. and 4.0 per cent., respectively;
- the Russian government increased the insurance coverage for retail deposits to 700,000 roubles per deposit from the previous 400,000 roubles with 90 per cent. coverage and 100,000 roubles with 100 per cent. coverage;
- VEB made available foreign currency denominated loans in the aggregate amount of up to U.S.\$50 billion to Russian corporates, including credit organisations, to allow them to refinance loans obtained prior to 25 September 2008 from non-Russian sources. This refinancing option was available until 31 December 2009;
- the number of instruments eligible for the CBR's collateralised facility and for refinancing transactions with the CBR was increased and the CBR began to accept, among other instruments, the pledge of certain bonds and suretyships granted by certain Russian banks as collateral under its facilities to credit organisations; and
- the Russian government increased the range of financial instruments in which funds from the National Welfare Fund may be invested. The National Welfare Fund was established in 2008 using oil revenues with a view to partially fund pensions of Russian citizens and to cover shortfalls in other contributions from the federal budget to federal pension funds.

Role of the CBR

The CBR was established on 13 July 1990 as a successor to Gosbank. After the collapse of the USSR in 1991, the CBR took over Gosbank's operational facilities and resources in the Russian Federation, including Gosbank's subsidiaries and branches. The CBR operates under the Federal Law No. 86-FZ "On the Central Bank of the Russian Federation" dated 10 July 2002 ("**CBR Law**"). The CBR is a legal entity and is operationally independent from the Russian government. According to the CBR Law, the Russian Federation is not liable for the CBR's liabilities, and the CBR is not liable for the liabilities of the Russian Federation, unless the liability of the Russian government for the CBR's liabilities or the liability of the CBR for the obligations of the Russian government has been assumed by the Russian government or the CBR, respectively, or the Russian government is liable for the CBR's liabilities or the CBR is liable for the liabilities of the Russian government under Russian law. The assets of the CBR are owned by the Russian federal government. The CBR has a head office in Moscow and regional branches in the constituent subjects of the Russian Federation, as well as local branches. Where constituent subjects of the Russian Federation are republics, the CBR's branch in a republic is called a National Bank.

Management of the CBR

The management of the CBR consists of the Chairman of the CBR, the Board of Directors and the National Banking Council.

The President nominates the Chairman of the CBR, whom the State Duma, the power chamber of the Russian Parliament, then approves for a four-year term in office. The Chairman of the CBR may be replaced by the President and the State Duma pursuant to the same procedure. The Chairman of the CBR has the right to participate in meetings of the Russian government and, in certain circumstances, the State Duma.

The Board of Directors of the CBR performs general management functions, such as allocating the CBR's annual budget, determining the CBR's organisational structure and formulating internal policies and procedures. It also performs certain external regulatory functions, such as, for example:

- establishing rules governing the conduct of banking operations, except for the CBR;

- establishing accounting rules for Russian banks, except for the CBR;
- determining mandatory economic ratios and provisioning policies for Russian banks; and
- determining pricing policies for the CBR's open market operations.

The Board of Directors of the CBR consists of the Chairman of the CBR and twelve members. The Chairman of the CBR nominates, with the approval of the President, each director, whom the State Duma then approves for a four-year term in office.

The National Banking Council performs certain policy-making functions, such as determining the CBR's maximum capital expenditures, appointing the CBR's auditors, approving the CBR's accounting procedures, and allocating CBR's expenses. Of the twelve members of the National Banking Council, the Federation Council (the upper chamber of the Russian Parliament), appoints two of its members, the State Duma appoints three from among its members, and the President and the Russian government each appoints three members. The Chairman of the CBR is an ex officio member of the National Banking Council.

Functions of the CBR

Pursuant to the CBR Law, the Banking Law and the Currency Law, the CBR has the authority to issue and implement binding regulations governing banking and currency operations. Under current legislation, the CBR performs the following main functions:

Monetary policy

In cooperation with the Russian government the CBR determines and implements united monetary policy in the Russian Federation. The CBR also establishes reserve requirements, capital adequacy requirements and mandatory economic ratios. Further, the CBR conducts currency interventions, issues its own bonds, which it can offer only to credit organisations, and trades in Russian government securities.

Banking regulation

The CBR has the authority to issue, suspend or revoke banking licences and register new securities issuances by Russian banks. The CBR also oversees banks' compliance with economic ratios and reserve requirements, imposes sanctions for violations thereof, establishes reporting requirements and accounting rules and procedures for banks, oversees banks' operations and transactions, appoints temporary administrations of banks that are facing insolvency, regulates the acquisition or fiduciary management of significant interests in banks (for interests between 1 per cent. and 20 per cent., the CBR requires notification; in respect of stakes that exceed 20 per cent., the CBR must give its prior approval of the transaction) and assesses the financial standing of banks' founders.

Transactions with banks

The CBR has the authority among other things to:

- extend loans to banks at a discount (refinancing) rate;
- maintain rouble-denominated correspondent accounts of other banks;
- provide cash and settlement services and issue guarantees to banks;
- purchase and sell Russian state securities, its own bonds, certificates of deposit, precious metals;
- purchase and sell foreign currency and foreign currency-denominated payment instruments issued by Russian and foreign banks; and
- register securities issued by banks.

Except under the limited circumstances set forth in the CBR Law, the CBR may not participate in the charter capital of credit organisations and other commercial entities as at 16 April 2010, CBR owned 57.6 per cent. of the charter capital of Sberbank Russia's largest bank.

Issue of currency and regulation of its circulation

The CBR has the exclusive authority to issue currency in the Russian Federation and to regulate its circulation. The CBR arranges for the printing of banknotes and the engraving of coins, establishes rules for their transportation and storage, and determines the order of performing cash operations.

Foreign currency operations

The CBR has substantial power to regulate foreign currency operations in the Russian Federation and foreign currency operations conducted by Russian residents abroad. It also administers the Russian Federation's international reserves, and establishes rules governing rouble- and foreign currency-denominated bank accounts in the Russian Federation of both residents and non-residents.

Domestic government debt service and federal budget administration

The CBR acts as placement agent for, and services domestic sovereign debt issued by, the Ministry of Finance of the Russian Federation. The CBR also administers federal budget accounts. However, under the CBR Law, the CBR cannot, unless the federal budget expressly authorises it to do so, extend loans to the Russian government to finance Russian government budget deficits.

Role of the Federal Antimonopoly Service (the “FAS”)

Anti-monopoly activity in the Russian Federation is governed by the Federal Law No. 135-FZ “On the Protection of Competition” dated 26 July 2006 as amended (the “**Competition Law**”). It is aimed at preventing and restraining monopoly activities and unfair competition.

The Competition Law established certain cases where the prior approval or post-completion notification of the FAS is required. For more details please refer to “*Description of Share Capital and Applicable Russian Legislation — Anti-Monopoly Regulation*”.

Licensing

A credit organisation must hold a CBR licence to conduct “banking activities”, as defined in the Banking Law. Licence applicants must submit to the CBR, among other things, a feasibility study regarding future business activity, detailed information on their senior management and their compliance with the eligibility requirements and documents certifying the source of funds contributed to their charter capital.

The credit organisation must be established in the Russian Federation. Under the Banking Law, credit organisations may be established as joint stock companies, limited liability companies or companies with additional liability. The last form, however, is uncommon, since it envisages subsidiary liability of the company's owners for the credit organisation's obligations.

The CBR may refuse to register a credit organisation and to issue a banking licence if, among other things:

- application materials do not comply with Russian law;
- the financial standing of the credit organisation's founders is unsatisfactory;
- candidates for the position of chief executive officer or chief accountant of the credit organisation and its deputies fail to meet eligibility requirements; or
- a candidate for a position of a member of the credit organisation's board of directors has a business reputation which does not meet eligibility requirements.

Capital Requirements

The key measure underlying Russian capital requirements is the amount of the capital base (own funds) of a credit organisation, which is defined as the sum of the “main capital” and “additional capital” of the credit organisation minus certain obligations as determined by the CBR.

According to the CBR Regulation No. 215-P dated 10 February 2003, as amended, the main capital and the additional capital of a credit organisation is defined by way of an exhaustive list of different types of debt and equity that qualify for treatment as main and additional capital, as applicable. For example, the amount of the charter capital of the credit organisation is included in the main capital of the credit organisation and constitutes a part of the credit institution's capital base while the amount of subordinated debt is included in the additional capital.

The Banking Law establishes minimum charter capital for banks. Under the Banking Law, the minimum charter capital for newly-established banks is equivalent to 180 million roubles. A bank whose capital base falls below its nominal charter capital must increase its capital base (or, if impossible, reduce its nominal charter capital) accordingly. The CBR Directive No. 1260-U dated 24 March 2003, as amended, establishes the procedures for such adjustment.

The capital base of a credit organisation must not be less than 180 million roubles save for banks whose capital base constituted less than 180 million roubles as of 1 January 2007. Each bank whose capital base was below 180 million roubles as of 1 January 2007 was required to increase its capital base to (i) a minimum of 90 million roubles by 1 January 2010; and (ii) a minimum of 180 million roubles by 1 January 2012. Failure to comply with this requirement will result in revocation of the bank's licence.

The capital base required for a newly established bank seeking to obtain a retail deposits licence is 3.6 billion roubles or more.

Reserve Requirements

Under the CBR Law, the CBR's Board of Directors may establish reserve requirements for banks. Reserve requirements must not exceed 20 per cent. of the bank's liabilities and may vary for different types of banks.

Banks are currently required to post mandatory reserves with the CBR to be held in non-interest bearing accounts. In response to the financial crisis, as a measure aimed at stabilising Russian financial market and improving the liquidity of the Russian banking sector, the CBR decreased mandatory reserves for various obligations of credit organisations in September 2009. However, the CBR increased the requirements starting from 1 March 2011 to 4.5 per cent. for the bank's obligations to non-residents in roubles or foreign currency and 3.5 per cent. for the bank's other obligations in roubles or foreign currency, including those to individuals, and, starting from 1 April 2011, to 5.5 per cent. and 4.0 per cent., respectively.

Russian banks are required to calculate the exact amount of their mandatory reserves in accordance with CBR Regulation No. 342-P dated 7 August 2009 (the **"Reserves Regulation"**). The Reserves Regulation also requires banks to report the calculation of reserves to the CBR and its regional branches promptly after the end of each calendar month, as well as to post additional reserves if necessary.

The Reserves Regulation allows the CBR to fine a bank that fails to comply with reserve requirements and debit the insufficient reserve from its correspondent account with the CBR. The CBR and its regional branches may also conduct audits to assess a bank's compliance with the reserve requirements.

Amounts deposited with the CBR pursuant to reserve requirements are not subject to seizure for the satisfaction of judgments against the bank. In the event of the revocation of the bank's licence, mandatory reserves are included in the pool of assets available for distribution to the bank's creditors according to the priority ranking established by law.

Loss Provisions

The CBR regulates the creation of provisions for bank loan losses. CBR Regulation No. 254-P “On the Procedure for Making Provisions for Possible Losses on Loans and Similar Indebtedness by Credit Organisations” dated 26 March 2004, as amended (“**Regulation No. 254-P**”), requires banks to adopt procedures for calculating and posting provisions for loan losses and to monitor the financial position of borrowers after they classify their loans into the following categories and to create provisions for such loans in the corresponding amounts:

On a standalone basis (with respect to the particular loan):

Category	Status of Loan	Provision
Category I	Standard loans, without credit risk	0 per cent.
Category II	Non standard loans, moderate credit risk	1 per cent. – 20 per cent.
Category III	Doubtful loans, considerable credit risk	21 per cent. – 50 per cent.
Category IV	Problem loans, high credit risk	51 per cent. – 100 per cent.
Category V	Bad loans	100 per cent.

On the aggregate basis (with respect to the portfolio of similar loans):

Category	Status of Loan	Provision (per cent. from the net balance value of loans in the portfolio)
Category I	Standard loans, without credit risk	0 per cent.
Category II	Non standard loans, moderate credit risk	Up to 3 per cent.
Category III	Doubtful loans, considerable credit risk	More than 3 per cent. – up to 20 per cent.
Category IV		More than 20 per cent. – up to 50 per cent.
	Problem loans, high credit risk	cent.
Category V	Bad loans	More than 50 per cent.

Loans should be classified on the basis of professional judgment by the credit organisation taking into account the borrower’s financial position and debt servicing history. The credit organisation must evaluate at its discretion the borrower’s financial position and debt servicing history as good, average or bad. Regulation No. 254-P sets forth tests to be applied towards a particular loan and borrower.

Regulation No. 254 P expands the definition of a “loan” to include rights assigned under contracts, mortgages acquired in the secondary market, claims relating to purchase of financial assets with deferred payment and others.

Provisions for loan losses are calculated at the end of each calendar month. Such provisions only cover losses relating to the principal amount of loans and exclude interest and any discount. The CBR and its regional branches may audit banks’ compliance with requirements relating to provisions for loan losses and verify the calculation of such provisions.

The CBR also regulates the creation of provisions for possible losses other than loan losses, which may include losses from investments in securities, funds held in correspondent accounts of other banks, contingent liabilities and other transactions. CBR Instruction No. 283-P dated 20 March 2006, as amended, requires banks to classify such activities into the following five risk categories and to make provisions in the corresponding amount at their discretion:

Category	Possibility of losses	Reserve amount
Category I	No real or potential possibility of losses	0 per cent.
Category II	Moderate potential possibility of losses	1-20 per cent.
Category III	Serious potential or moderate real possibility of losses	21-50 per cent.
Category IV	Simultaneous potential and moderate real possibility of losses or material real possibility of partial losses	51- up to 100 per cent.
Category V	Complete loss	100 per cent.

Banks must report to the CBR the amount of new non-loan provisions within seven days after the end of each reporting month. The CBR and its regional branches monitor banks’ compliance with these rules.

Mandatory Economic Ratios

CBR Instruction No. 110-I “On Banks’ Mandatory Economic Ratios” dated 16 January 2004, as amended, establishes mandatory economic ratios for banks.

The following table sets forth selected key mandatory economic ratios that banks must observe on a daily basis and periodically report to the CBR. Unless stated otherwise, such ratios are calculated on the basis of RAS, as formulated by the applicable Russian laws and CBR regulations.

Mandatory Economic Ratio	Description	CBR Mandatory Economic Ratio Requirements
Capital adequacy ratio (N1)	This ratio is intended to limit the risk of a bank’s insolvency. It is defined as the ratio of a bank’s capital base to its aggregate risk weighted assets. (Assets are weighted according to five broad risk categories.)	For banks whose capital base is less than 180 million roubles, minimum 11 per cent. For banks whose capital base is 180 million roubles or more, minimum 10 per cent.
Instant liquidity ratio (N2)	This ratio is intended to limit the bank’s liquidity risk within one operational day. It is defined as the ratio of a bank’s highly liquid assets to its liabilities payable on demand subject to a number of adjustments.	Minimum 15 per cent.
Current liquidity ratio (N3)	This ratio is intended to limit the bank’s liquidity risk within 30 calendar days preceding the date of the calculation of this ratio. It is defined as the minimum ratio of a bank’s liquid assets to its liabilities payable on demand and liabilities with terms of up to 30 calendar days subject to a number of adjustments.	Minimum 50 per cent.
Long-term liquidity ratio (N4)	This ratio is intended to limit the bank’s liquidity risk from placement of funds into long-term assets. It is defined as the maximum ratio of the bank’s credit claims maturing in more than one year to the sum of its capital base and liabilities maturing in more than one year subject to a number of adjustments.	Maximum 120 per cent.
Maximum exposure to a single borrower or a group of affiliated borrowers (N6)	<p>This ratio is intended to limit the credit exposure of a bank to one borrower or a group of affiliated borrowers (as defined in the applicable regulations).</p> <p>It is defined as the ratio of the aggregate amount of the bank’s various credit claims against a borrower (or a group of affiliated borrowers) to its capital base.</p>	Maximum 25 per cent.

Mandatory Economic Ratio	Description	CBR Mandatory Economic Ratio Requirements
Maximum amount of major credit risks (N7)	This ratio is intended to limit the aggregate amount of a bank's major credit risks (defined as the sum of loans to, and guarantees or sureties in respect of, the single client with exposure exceeding 5 per cent. of the bank's capital base). It is defined as the ratio of the aggregate amount of major credit risks to a bank's capital base.	Maximum 800 per cent.
Maximum amount of loans, bank guarantees and sureties extended by the bank to its participants (shareholders) (N9.1)	This ratio is intended to limit a bank's credit exposure to the bank's shareholders or participants. It is defined as the ratio of amount of loans, bank guarantees and sureties extended by the bank to its participants or shareholders to its capital base.	Maximum 50 per cent.
Aggregate amount of exposure to the bank's insiders (N10.1)	This ratio is intended to limit the aggregate credit exposure of a bank to its insiders (defined as individuals capable of influencing bank's credit decisions). It is defined as the ratio of the aggregate amount of the bank's credit claims against its insiders to its capital base.	Maximum 3 per cent.
Ratio for the use of the bank's capital base to acquire shares (participation interests) in other legal entities (N12)	This ratio is intended to limit the aggregate risk of a bank's investments in shares (participation interests) of other legal entities. It is defined as the ratio of the bank's investments in shares (participation interests) of other legal entities to its capital base.	Maximum 25 per cent.

In addition, CBR Regulation No. 112-I describes the methods of calculating additional ratios that, pursuant to Federal Law No. 152-FZ "On Mortgage Backed Securities" dated 11 November 2003, as amended (the "**Mortgage Backed Securities Law**"), apply to banks that issue mortgage-backed securities. Among these additional ratios are the following:

Mandatory Economic Ratio	CBR Mandatory Economic Ratio Requirements
The ratio of loans secured by mortgages to a bank's capital base (N17)	at least 10 per cent.
The ratio of claims relating to principal and interest on loans secured by mortgages to the principal and interest of mortgage-backed securities (N18)	at least 100 per cent.
The ratio of a bank's aggregate obligations to creditors with priority to satisfy their claims before the holders of mortgage-backed securities to a bank's capital base (N19)	must not exceed 50 per cent.

A bank must comply with these special ratios from the time it decides to issue mortgage-backed securities until the complete redemption of mortgage-backed securities.

Regulation of currency exposure

CBR Instruction No. 124-I dated 15 July 2005, as amended, governs banks' exposure to foreign currency and precious metals (together, "**currency exposure**"). Banks calculate their currency exposure in respect of net balance sheet positions, spot market positions, forward positions, option positions, guarantees, suretyships and letters of credit. An "open currency position" is the sum of these net amounts. Banks calculate their exposure for each currency and each precious metal and then convert it into roubles in accordance with CBR's official exchange rates and prices for precious metals. At the end of each operational day, the aggregate amount of all long or short currency positions must not exceed 20 per cent. of the bank's capital base. Concurrently, at the end of each operational day, the long or short position in respect of any single currency or precious metal must not exceed 10 per cent. of the bank's capital base.

Reporting Requirements

Under CBR Regulation No. 2332-U dated 12 November 2009, routine reporting is performed by credit organisations on a daily, five day, ten day, monthly, quarterly, half yearly and yearly basis, and certain reporting is effected on a non regular basis. Specific reporting requirements apply to credit organisations in liquidation pursuant to CBR Regulation No. 1594-U dated 14 July 2005, as amended.

Financial statements prepared under the RAS must be disclosed to the public by the bank on a quarterly and yearly basis. Annual financial statements must be published only after their certification by an independent auditor. Quarterly financial statements may be published without their certification by an independent auditor.

Under the Banking Law, banking groups (i.e., alliances of credit organisations in which the head bank directly or indirectly controls decisions of the management bodies of other credit organisations within the alliance) and banking holdings (i.e., alliances of legal entities in which a legal entity that is not a credit organisation, directly or indirectly, controls decisions of the management bodies of a credit organisation within such alliances) must regularly submit their consolidated accounts to the CBR.

According to the CBR Law, the CBR may at any time conduct full or selective audits of any bank's filings and may inspect all of its books and records. The CBR, however, is prohibited from conducting a secondary audit of matters covered by the previous audit within a single reporting period, except for limited circumstances provided in the CBR Law.

Under the Deposit Insurance Law and certain CBR regulations banks that participate in the mandatory deposit insurance system shall disclose information about persons who exercise (directly or indirectly) influence on the decisions taken by the management bodies of the bank by way of publication of the list of the relevant persons and the chart showing the interrelation between the bank and such persons on the CBR official website. The bank shall notify the CBR about the relevant amendments to the provided information within 10 days since the occurrence of the underlying events.

Accounting Practices

The CBR establishes a standard format for presentation of financial and statistical data and recording banking transactions. The CBR also establishes accounting rules and procedures for banks. Accounting practices are regulated by CBR Regulation No. 302-P dated 26 March 2007, as amended, pursuant to which financial statements of credit organisations must be prepared in accordance with RAS. Pursuant to Regulation No. 1363-U dated 25 December 2003, as amended, credit organisations must prepare financial statements in accordance with IFRS on the basis of financial statements prepared in accordance with RAS and submit them to the CBR prior to 1 July of the year following the reporting year. The CBR issued recommendations as to how to prepare IFRS financial statements in the CBR Letter No. 183-T dated 30 December 2010 that contains *pro forma* IFRS financial statements and examples of typical adjustments to RAS financial statements.

Credit Reporting

Federal Law No. 218-FZ "On Credit Histories" dated 30 December 2004, as amended (the "**Credit Histories Law**"), provides for the establishment, for the first time in the Russian Federation's recent history, of "credit bureaus" that maintain a database of borrowers' credit histories. The Credit Histories Law requires all credit organisations, starting from 1 September 2005, to provide at least one credit bureau with credit histories of

all borrowers that have consented to the distribution of such credit histories. The borrower's credit history will consist both of public and confidential parts and must include, among other elements, information on the borrower's outstanding debt and interest thereon, the terms of repayment and legal proceedings involving the borrower in respect of loans and credits. FSFM will oversee the credit bureaus and maintain a general catalogue of credit histories. As of 22 March 2011, the FSFM had registered 33 credit bureaus.

Regulation of Mortgage Backed Securities

In addition to the Credit Histories Law and as part of the development of consumer lending legislation, the Mortgage Backed Securities Law and certain amendments to the Civil Code, Russian Tax Code and Federal Law No. 102-FZ "On Mortgages" dated 16 July 1998 (the "**Law on Mortgages**"), as amended, were enacted in an effort by Russian legislators to make mortgage lending attractive to banks and affordable to individuals by simplifying the applicable procedures and making them more transparent and less costly. The legislators also aimed to introduce improved regulation of mortgage-backed securities in order to make them more attractive for investors. Several issues of mortgage-backed securities were placed in accordance with the Mortgage Backed Securities Law between 2006 and 2008.

In addition, separate amendments to the Law on Mortgages were introduced to the process of recording mortgage certificates in order to facilitate transactions with such certificates, which is expected to facilitate the issuance of mortgage backed securities. An owner of mortgage certificates may submit them to a depositary for recording rights to such mortgage certificates and, as such, facilitating transactions with them. If mortgage certificates are recorded with a depositary, their transfer and pledge is effected by making entries in the relevant depositary account instead of endorsing the original mortgage certificates.

It is now possible to publish pro-forma conditions of mortgage certificates on an Internet website or in a publication and incorporate such conditions into the mortgage certificates by reference.

Developments in Regulation of Pledge and Pledge Enforcement

In December 2008, a number of changes were made to legislation relating to pledges (the "**Amendments**"). In particular, significant changes were made to the enforcement procedures for pledged property. Under Russian law, the enforcement of a pledge occurs in two stages: first, the levying of execution against the pledged property; and second, its subsequent realisation (or sale). The Amendments, subject to certain statutory requirements and specific limitations, (i) confirm the availability of an out-of-court enforcement procedure for pledges of movable property, (ii) extend the right to use an out-of-court procedure in respect of mortgages, and (iii) provide a mechanism for securing compliance with the out-of-court enforcement procedure. The Amendments remove the requirement that the pledged property be sold at a public auction in all cases of out-of-court enforcement. Instead, the Civil Code now explicitly states that claims of a creditor secured by a pledge over property can be satisfied by the transfer of ownership in the pledged movable property to the secured creditor or a direct sale of the pledged property to a third party purchaser. This is a fundamental development in the concept of pledge under Russian law and creates a creditor friendly enforcement mechanism. Parties to a pledge agreement now have several options as to how to sell or dispose of the pledged property in order to discharge secured claims.

Internal Control

Under the CBR Law, the CBR has the authority to impose compulsory rules of organisation of the internal control. Under the regulation No. 242-P on "Organisation of the Internal Control in Credit Organisations and Banking Groups" dated 16 December 2003, as amended, the internal control shall be performed in accordance with the authority granted in constitutive and internal documents by

- the General Shareholders' Meeting and board of directors;
- CEO and collective executive body;
- audit commission (auditor);
- chief accountant (or its deputies) of the credit organisation;
- CEO (its deputies) and chief accountant (its deputies) of the branch office;

- divisions and officers performing internal control according to the internal documents of the credit organisation including among others:
 - internal control service;
 - responsible officer (structural division) on combating the legalisation (laundering) of income obtained by illegal means and financing of terrorism.

Internal control service performs, among other things, the following functions:

- checks and evaluates the efficiency of the internal control system;
- checks the compliance of the internal documents with the legislation;
- assesses the economic efficiency of the performed operations;
- checks the completeness of application and efficiency of the methodology of assessment of the banking risks and banking risk management.

Generally, credit organisations shall provide the CBR with the information in relation to its internal controls as of 1 January of the year following the reporting year by not later than 25 January of the year following the reporting year. However where a major credit organisation is involved, given the wide net of branches, it has to provide such information until 1 March. The credit organisation shall notify the CBR within 3 business days of any material changes in its internal control system.

The Insolvency Regime for Credit Organisations

Overview

Credit organisations, including banks, are subject to special insolvency rules set forth in the Bank Insolvency Law. In addition, Federal Law No. 127-FZ “On Insolvency (Bankruptcy)” dated 26 October 2002, as amended (the “**Insolvency Law**”), regulates issues not expressly addressed in the Bank Insolvency Law.

Workout Proceedings

Before commencement of insolvency proceedings, a credit organisation may be subject to the following “workout” proceedings:

- financial rehabilitation, which includes restructuring of assets and liabilities, organisational restructuring and capital injections from third parties, including shareholders or creditors;
- the appointment of a temporary administration; or
- reorganisation.

The credit organisation’s creditors or its shareholders may initiate financial rehabilitation or reorganisation at their discretion or after a request by the CBR. However, only the CBR can appoint a temporary administrator for a credit organisation.

Insolvency Proceedings

Revocation of the Banking Licence and Filing the Insolvency Petition with Arbitration Court

A pre-requisite to initiation of bankruptcy proceedings in respect of a credit organisation is the revocation of its licence by the CBR. Under the Bank Insolvency Law, if a credit organisation cannot satisfy creditors’ claims within 14 days of when they come due, the following persons may petition the CBR (the “**Licence Revocation Petition**”) for revocation of the credit organisation’s licence:

- the credit organisation itself;
- its creditors; or
- an authorised governmental agency.

Under the Banking Law, the CBR must revoke a licence of a credit organisation if, among other things:

- the credit organisation’s capital adequacy ratio falls below 2 per cent.;
- the credit organisation’s capital base is less than the minimum nominal charter capital requirement established by the CBR at the date of the registration of the credit organisation. However this ground does not apply to credit organisations within 2 years from the date of the issuance of the licence for performing banking operations;

- the credit organisation fails to adjust its capital base and nominal charter capital within the established time period; or
- the credit organisation fails to satisfy the monetary claims of its creditors, including taxes and other mandatory payments, in the aggregate amount of at least 100,000 roubles within 14 days of when they come due.

In addition, under certain circumstances, the CBR has the right but is not required to revoke the licence of a credit organisation.

If the CBR revokes the credit organisation's licence, the following persons can petition an arbitration court to declare the credit organisation insolvent (the "**Insolvency Petition**"):

- the credit organisation itself;
- its creditors;
- an authorised governmental agency; or
- the CBR.

If the CBR fails to respond to the Licence Revocation Petition within two months after its submission, the applicant may file an Insolvency Petition with the arbitration court.

Upon revocation of the credit organisation's licence, the CBR must appoint a temporary administration for the credit organisation if the temporary administration is not already in place. Upon revocation of the credit organisation's licence, the credit organisation may not enter into certain new transactions or perform certain transactions pursuant to existing obligations.

The CBR must make a public announcement of the revocation of a credit organisation's licence within one week from the revocation date.

Insolvency Proceedings

After a court hearing on the Insolvency Petition, the arbitration court may declare the credit organisation insolvent if certain tests established in the Bank Insolvency Law are satisfied.

Upon initiation of bankruptcy proceedings, a moratorium on payments to existing creditors is introduced, and the credit organisation may perform transactions and make payments only in order to satisfy creditors' claims, the ranking of which is set forth in the Bank Insolvency Law and the Insolvency Law.

Appointment of a Receiver

Along with the initiation of bankruptcy proceedings, the arbitration court must appoint a receiver for the credit organisation. If the credit organisation did not have a licence to accept deposits from individuals, the court will choose one of the receivers accredited by the CBR. If the credit organisation had such a licence, a representative of the Deposit Insurance Agency will be appointed.

The receiver assumes management over the credit organisation's operations. In particular among other things he analyses the credit organisation's financial position; identifies creditors and notifies them of the credit organisation's insolvency; identifies debtors and requests performance of their obligations to the insolvent credit organisation and etc.

The receiver reports to a committee of creditors and to the CBR, subject to supervision by the arbitration court.

Priority of Claims

Under the Bank Insolvency Law and the Insolvency Law, the creditors' claims against a credit organisation rank in the following order of priority:

- *Claims in respect of insolvency proceedings (current payment claims).* Claims related to the administration of insolvency proceedings, including salaries of personnel involved in insolvency proceedings, utilities bills, legal expenses and other payments arising after the revocation of the credit organisation's licence.

- *Claims of first priority.* The following claims:
 - for reimbursement of damages caused to an individuals' life or health, as well as moral damages;
 - deposits and current accounts, retail claims of individuals holding current accounts with the credit organisation (except for individual entrepreneurs and claims relating to lost profits and penalties);
 - claims of the Deposit Insurance Agency in respect of deposits and current accounts transferred to it pursuant to the Retail Deposit Insurance Law; and
 - claims of the CBR relating to the CBR payments to retail depositors of insolvent credit organisations that do not participate in the deposit insurance system.
- *Claims of second priority.* Claims under employment contracts and other social benefits and copyright claims.
- *Claims secured by a pledge of the credit organisation's assets.* Any residual claims of secured creditors that remain unsatisfied after the sale of such collateral rank *pari passu* with claims of unsecured creditors.
- *Claims of third priority.* Claims of all other creditors except for claims of subordinated creditors (including, among others, claims of retail depositors for lost profits and penalties). Generally, under the Insolvency Law, taxes and similar payment obligations rank *pari passu* with the claims of unsecured creditors. These provisions, however, contradict the Civil Code of the Russian Federation, which ranks taxes and similar payment obligations above the claims of unsecured creditors.
- *Claims of last priority.* Claims of subordinated creditors.

Claims of each category of creditors must be satisfied in full before claims of the next category are considered.

Reform of the Banking Sector

The 1998 financial crisis revealed a lack of proper risk management in the Russian banking sector and heightened public anxiety about the integrity of the banking system, with misleading advertisements, money laundering, corruption and criminal penetration of the banking sector all being major concerns. From 1999 to 2001, the Russian banking sector gradually recovered from the 1998 financial crisis. Higher liquidity levels, as well as a shift in emphasis from investing in government securities to the making of loans, characterised this recovery.

Strategic Plans for Banking Sector Reform

At the end of 2001, the Russian government and the CBR issued a joint declaration entitled "The Strategy of the Development of the Banking Sector of Russia", setting forth the strategy for banking reform in the Russian Federation and calling for certain legislative steps and structural changes during the subsequent five years. In August 2003, the Russian government adopted a programme for the social and economic development of the Russian Federation for the years 2003 to 2005, which also set forth goals for Russian banking reform. The programme contemplated, among other things, the simplification of procedures for banks' reorganisation and the introduction of regulation of syndicated lending, financing of affiliates, credit bureaus and pledges of money held in a bank account.

On 5 April 2005, the Russian government and the CBR published a new strategy for the development of the Russian banking sector during the period from 2005 to approximately 2008, which replaces the 2001 joint declaration and remains in effect. Its main objective is to increase the stability and effectiveness of the banking system. Among other things, the 2005 Russian Banking Sector Strategy analyses current conditions in the Russian banking sector, outlines goals for the sectors reform and forecasts the results of such reform. Among the new strategy's main goals are:

- improving legislative oversight of banking activities and increasing the efficiency of bank regulation;
- developing banking infrastructure, including increasing the effectiveness of deposit taking and lending activities of banks, and facilitating banks' roles as financial intermediaries;
- strengthening investors', depositors' and creditors' trust in the Russian banking sector and protecting the interests of banks depositors and creditors;

- strengthening market discipline in the banking sector and ensuring fair competitive conditions for all credit organisations;
- increasing the competitiveness of Russian credit organisations; and
- ensuring the transparency of banking activities and preventing the use of credit organisations for unlawful purposes, such as money laundering.

As part of improving legislative oversight of banking activities, the new strategy outlines, among other things, the following steps:

- improving the protection of creditors' rights (in particular, those secured by collateral);
- improving procedures for liquidation of credit organisations whose banking licences have been revoked;
- simplifying procedures for mergers between, and acquisitions of, credit organisations;
- facilitating an efficient system for collecting and using credit history data; and
- improving the regime for taxation of credit organisations.

The strategy envisions the following as among priority reforms:

- increasing the minimum amount of a bank's charter capital to EUR 5 million, starting in 2007;
- increasing the minimum amount of a bank's capital adequacy ratio (mandatory economic ratio N1) to 10 per cent., regardless of the type of credit organisation and its existing capital adequacy ratio, starting in 2007;
- simplifying procedures for the participation of non residents in the capital of Russian banks, without, however, lifting existing restrictions on foreign banks' ability to open branches in the Russian Federation; and
- introducing a simplified procedure for the assignment of bank loans.

The first two goals have already been achieved by introducing amendments to the Banking Law.

The implementation of the 2005 Russian Banking Sector Strategy took into account certain recommendations of the International Monetary Fund and the World Bank, as set forth in their 2002 2003 Russian Financial Sector Assessment Programme. The priority for the subsequent period from 2009 to 2015 will be the effective positioning of the Russian banking sector on the international financial market. However, these plans may be impeded by the current global financial and economic crisis.

Currently a strategy for the development of the banking sector of the Russian Federation for the period 2011 to 2015 is being developed in the course of the implementation of the Plan for Implementation of the Main Directions of the Anticrisis Activities and Modernisation Policy of the Russian government for 2010 approved by the Russian Prime Minister Vladimir Putin on 2 March 2010. It is being prepared by the Ministry of Finance and Ministry of Economic Development with the assistance of the CBR. As of the date of this Prospectus the final version of the strategy has not been approved yet, however a draft strategy was published by the Ministry for Finance of the RF in March 2011 (the **"Draft Strategy"**).

According to the Draft Strategy the main purpose of the new period of the development of the Russian banking sector will include the improvement of the quality of the banking business by expanding the range of banking products and services, improving of their quality, using modern technologies and, improving of the long-term effectiveness and stability of the banking business.

The Draft Strategy sets out the switch of the banking sector from the extensive to the intensive model of development as one of the key targets. It will, in particular, include the following features:

- a high level of competition in the banking and financial sector;
- the provision of a wide range of modern banking services to clients;
- level of banking sector capitalisation that will support the development of the banking sector, increasing a competition and efficiency;
- developed systems of corporate governance and risk management;

- a high level of transparency and market discipline of credit organizations and other market participants;
- liability of senior management, members of the board of directors and owners of banks for the business's operation and the accuracy of disclosed information and information provided to the regulators.

The above mentioned targets are expected to be achieved by the Russian government and the CBR through the improvement of regulations, establishment of relevant infrastructure, improvement of corporate governance and risk management quality in credit organizations, as well as the maintenance of financial stability. As practical steps, the Draft Strategy envisages in particular a decrease in the participation of the Russian state in the charter capital of Russian banks (in particular Sberbank, VTB and Russian Agricultural Bank), the adoption of certain laws establishing minimum charter capital requirement for newly established banks from 1 January 2012, and a minimum own capital requirement for existing banks of RUB300 million, starting from 1 January 2015. The Draft Strategy also envisages certain measures to further develop banking supervision.

DESCRIPTION OF SHARE CAPITAL AND APPLICABLE RUSSIAN LEGISLATION

Described below are the Ordinary Shares, preferred shares, the material provisions of NOMOS Bank's charter in effect on the date of this Prospectus and certain requirements of Russian law that NOMOS considers material to investors in making their investment decision. This description, however, is not a complete extract of NOMOS Bank's charter nor applicable Russian law.

GDR holders will be able to exercise their rights with respect to Shares underlying the GDRs only in accordance with the provisions of the Deposit Agreement and the relevant requirements of the Russian law. See "Terms and Conditions of the Global Depositary Receipts".

NOMOS Bank's purpose

Russian law and Chapter 2 of NOMOS Bank's charter provide that NOMOS Bank's purpose is to earn profit by conducting banking activities.

Description of the share capital

Since its incorporation NOMOS Bank has effected 21 issuances of shares which includes 2 issuances of preferred shares and ordinary shares and one of preferred shares alone. The following table sets out the changes in NOMOS Bank's share capital that have occurred from the date of NOMOS Bank's incorporation up to the date of this Prospectus.

<u>No. of the issuance</u>	<u>Registration date of the placement report</u>	<u>Ordinary Shares</u>	<u>Preferred shares</u>	<u>Total number of ordinary shares after the issue</u>	<u>Total number of preferred shares after the issue</u>
1	26 July 1993	150		150	
2	31 August 1993	4,000		4,150	
3	14 April 1994	6,040		10,190	
4	3 November 1994	59,810		70,000	
5	17 April 1995	70,000		140,000	
6	2 July 1996	860,000		1,000,000	
7	29 August 1997	600,000		1,600,000	
8	28 December 1998	2,400,000		4,000,000	
9	15 April 1999	6,000,000		10,000,000	
10	16 September 1999	5,000,000		15,000,000	
11	29 May 2000	500,000		15,500,000	
12	17 November 2000	8,000,000		23,500,000	
13	24 May 2001	5,000,000		28,500,000	
14	9 November 2001	9,000,000	200,000	37,500,000	200,000
15	28 May 2003	10,300,000		47,800,000	200,000
16	22 December 2004		9,500,000	47,800,000	9,700,000
17	23 June 2005	10,000,000		57,800,000	9,700,000
18	22 December 2005	10,900,000	2,400,000	68,700,000	12,100,000
19	29 December 2007	6,757,083		75,457,083	12,100,000
20	25 June 2008	6,527,778		81,984,891	12,100,000
21	8 November 2010	4,861,112		86,845,973	12,100,000
Total				86,845,973	12,100,000

General

Pursuant to the Joint Stock Companies law and its charter, NOMOS Bank has the right to issue registered ordinary, preferred shares and other securities provided for by the legislation of the Russian Federation. As at the date of this Prospectus, NOMOS Bank's share capital consists of 86,845,973 ordinary registered shares with an equal nominal value of RUB50 each and 12,100,000 preferred registered shares with an undefined dividend rate and with an equal nominal value of RUB50 each. NOMOS Bank is authorised under its charter to issue an additional 172,954,027 ordinary registered shares and 48,100,000 preferred shares, in each case with a nominal value of RUB50 ("Authorised Shares"). Immediately following the completion of the Offering, assuming all of the shares are placed in the Closed Subscription, NOMOS Bank's share capital will consist of 92,422,370 issued, fully paid and outstanding ordinary shares, and the number of Authorised Shares will be reduced by the number of shares placed in the Closed Subscription.

The Joint Stock Companies Law requires NOMOS Bank to dispose of any of its shares that NOMOS Bank acquires within one year of their acquisition or, failing that, reduce its share capital. NOMOS Bank refers to such shares as treasury shares for the purposes of this Prospectus. Russian law does not allow for the voting of treasury shares.

Rights of shareholders

Holders of the Ordinary Shares have the right to vote at all General Shareholders' Meetings. As required by the Joint Stock Companies Law, all the Ordinary Shares have the same nominal value and grant identical rights to their holders. Each fully paid Ordinary Share, except for treasury shares, gives its holder the right to:

- participate in the General Shareholders' Meeting as provided for by the Joint Stock Companies Law and NOMOS Bank's charter;
- receive profit in the form of dividends proportionally to their shareholdings in the form, amount and on the terms prescribed by the General Shareholders' Meeting;
- upon NOMOS Bank's liquidation, receive a proportionate amount of NOMOS Bank's property after its obligations are fulfilled;
- have access to certain of NOMOS Bank's documents, receive copies for a reasonable fee and, if holding alone or with other shareholders 25 per cent. or more of the voting shares, have free access to accounting documents and minutes of meetings of the collective executive body;
- freely transfer the shares without the consent of other shareholders;
- acquire NOMOS Bank's newly issued shares by exercising pre-emptive rights on a *pro rata* basis in relation to such shareholder's existing holdings of NOMOS Bank's shares, as provided for by the Joint Stock Companies Law and NOMOS Bank's charter;
- delegate voting rights to a representative on the basis of a power of attorney;
- if holding, alone or with other shareholders, two per cent. or more of the voting shares, make proposals for the inclusion of items to the agenda of an annual General Shareholders' Meeting and nominate candidates to the revision commission within 30 days after the end of NOMOS Bank's fiscal year, and nominate candidates to the Supervisory Board at least 30 days before commencement of the Extraordinary General Shareholder's Meeting;
- if holding, alone or with other shareholders, 10 per cent. or more of the voting shares, demand that the Supervisory Board convene an extraordinary General Shareholders' Meeting or an unscheduled audit by the revision commission;
- demand the repurchase by NOMOS Bank of all or some of the shares owned by it, as long as such shareholder voted against or did not participate in the voting on the decision approving the following:
 - any reorganisation;
 - conclusion of a major transaction, as defined in the Joint Stock Companies Law; and
 - an amendment to NOMOS Bank's charter or approval of a new addition to NOMOS Bank's charter that limits the shareholder's rights;
- if holding, alone or with other shareholders, one per cent. or more of the voting shares:
 - access the list of persons entitled to participate in the General Shareholders' Meeting (subject to the inclusion of the applicant in the relevant list);
 - sue in court members of the Supervisory Board, members of the Management Board or the President for damages incurred by NOMOS Bank as a result of their faulty actions or omissions to act;
- obtain information on NOMOS Bank's shareholders' register from the registrar; and
- exercise other rights of a shareholder provided by Russian law and decisions of General Shareholders' Meetings approved in accordance with its competence.

Each fully paid preferred share, except for treasury shares, gives its holder the right to:

- participate in the General Shareholders' Meeting with the voting rights in respect of:
 - deciding on the reorganisation and liquidation of NOMOS Bank; and

- deciding on amendments and additions to NOMOS Bank's charter, in cases where such amendments or additions limit rights of holders of preferred shares.
- receive profit in the form of dividends equally with holders of Ordinary Shares; and
- exercise other rights of a shareholder provided by Russian law including the right to have access to the company's records, as well as the right to receive documents certifying any shareholding.

In addition, holders of preferred shares acquire the right to vote rights in the General Shareholders' Meetings on all issues starting from the General Shareholders' Meeting following the General Shareholders' Meeting where was decided on partial payment or non payment of dividends on preferred shares. However, this right terminates since the first payment of dividends in full.

Pre-emptive rights

The Joint Stock Companies Law and NOMOS Bank's charter provide existing shareholders with a pre-emptive right to purchase shares or securities convertible into shares during an open subscription in an amount proportionate to their existing shareholdings. In addition, the Joint Stock Companies Law provides shareholders with a pre-emptive right to purchase shares or securities convertible into shares during a closed subscription if the shareholders voted against or did not participate in the voting on the decision approving such closed subscription. The pre-emptive right does not arise in the case of a closed subscription for shares, which is conducted only between existing shareholders, **provided that** such shareholders are able each to acquire a whole number of shares or securities convertible into shares being placed, in proportion to their existing shareholdings. NOMOS Bank must provide shareholders with written notice at least 45 days prior to the offering, during which time shareholders may exercise their pre-emptive rights. If the price of the offered shares or securities convertible into shares is determined after expiration of the pre-emptive right, NOMOS Bank must provide shareholders with written notice at least 20 days prior to the offering, during which time shareholders may exercise their pre-emptive rights.

Dividends

The Joint Stock Companies Law and NOMOS Bank's charter set forth the procedure for determining the dividends that NOMOS Bank distributes to its shareholders. According to NOMOS Bank's charter, NOMOS Bank may declare dividends based on its first quarter, six month, nine month and/or annual results. Dividends are recommended to the General Shareholders' Meeting by a majority vote of the Supervisory Board, and approved by the majority vote of the General Shareholders' Meeting. A decision on first quarter, six month and nine month dividends must be made at the General Shareholders' Meeting within three months after the end of the respective period, and a decision on annual dividends must be taken at the annual General Shareholders' Meeting. The dividends approved at the General Shareholders' Meeting may not be more than the amount recommended by the Supervisory Board. Fixed dividends payable on preferred shares or the method of its calculation must be determined upon the issuance of the respective preferred shares in the charter of the company. In case the amount of the dividend with respect to the preferred shares is not specified, the holders of the preferred shares have a right to receive dividends on the same basis as holders of ordinary shares. Dividends payable on shares are distributed to NOMOS Bank's shareholders as at the record date for the General Shareholders' Meeting approving the dividends. According to the Joint Stock Companies Law, the form of payment of the dividends should be determined by the General Shareholders' Meeting. See "*General Shareholders' Meeting — Notice and Participation*". Dividends are not paid on treasury shares. For more details please refer to "*Dividend Policy*".

The paid dividends are subject to tax. See "*Taxation — Russian Taxation — Taxation of Dividends*".

The Joint Stock Companies Law allows dividends to be declared as long as the following conditions have been met:

- the share capital of the company has been paid in full;
- the company has repurchased all shares from shareholders that have the right to demand repurchase;
- the company is not, and would not become, insolvent as a result of the proposed dividend payment;
- the value of the company's net assets, calculated under RAS, is not less (and would not become less as a result of the proposed dividend payment) than the sum of the company's share capital, the company's reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred shares of the company; and
- other requirements of Russian law.

In addition, a Russian company is prohibited from paying dividends (even if they have been declared) if:

- the company is insolvent on the date of payment or would become insolvent as a result of the proposed dividend payment;
- the value of the company's net assets, calculated under RAS, on the date of payment, is less (or would become less as a result of the proposed dividend payment) than the sum of the company's share capital, the company's reserve fund and the difference between the liquidation value and the nominal value of the issued and outstanding preferred shares of the company; and
- otherwise prohibited by the Russian law.

According to NOMOS Bank's charter, dividends on Ordinary Shares may be paid out of NOMOS Bank's net profits calculated under RAS. NOMOS Bank pays dividends within the time period indicated in the shareholders' resolution approving the dividends, which may not be more than 60 days from the date of such resolution.

Distributions to shareholders on liquidation

Under Russian law, liquidation of a company results in the company ceasing to exist without rights and obligations being transferred to other persons as legal successors. The Joint Stock Companies Law and NOMOS Bank's charter allow NOMOS Bank to be liquidated:

- by a three-quarters majority vote at a General Shareholders' Meeting; or
- by a court order.

Under Russian law, the General Shareholders' Meeting may only resolve to liquidate NOMOS Bank if that is proposed by the Supervisory Board. Following such a decision, the right to manage NOMOS Bank's affairs would pass to a liquidation commission which, in the case of voluntary liquidation, is appointed by the General Shareholders' Meeting once proposed by the Supervisory Board and, in an involuntary liquidation, is appointed by the court. NOMOS Bank's creditors may file claims within a period to be determined by the liquidation commission, but such period must not be less than two months from the date of publication of notice of liquidation by the liquidation commission.

The Civil Code gives creditors the following order of priority during liquidation of a company:

- *first* — individuals owed compensation for personal injury or deaths, or moral damages;
- *second* — employees' and copyright claims;
- *third* — federal and local governmental authorities claiming taxes and similar payments to the budgets and non-budgetary funds; and
- *fourth* — other creditors, in accordance with Russian law.

The claims of each order of priority are satisfied only after the satisfaction of the claims of the previous order of priority.

Subject to certain limitations, claims of creditors in respect of obligations secured by a pledge over a company's property are satisfied from the sale proceeds of the pledged property prior to claims of any other creditors, save for the creditors of the first and second orders of priority, **provided that** claims of such creditors arose before the respective pledges have been entered into. Any residual claims of secured creditors that remain unsatisfied after the sale of the pledged property rank *pari passu* with claims of the fourth-priority creditors.

The Insolvency Law, however, provides for a different order of priority for creditors' claims in the event of bankruptcy. See "*The Banking Sector and banking Regulation in Russia Proceedings Proceedings — The Insolvency Regime for Credit Organisations — Insolvency Proceedings Proceedings — Priority of Claims*".

Liability of shareholders

The Civil Code and the Joint Stock Companies Law generally provide that shareholders of a Russian joint stock company are not liable for the obligations of the company and bear only the risk of losing their investments. This may not be the case, however, when one person or entity is capable of determining decisions made by another entity. The person or entity capable of determining such decisions is called an "effective

parent”. The entity whose decisions are capable of being so determined is called an “effective subsidiary”. The effective parent bears joint and several liability for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between such persons or entities; and
- the effective parent gives binding instructions to the effective subsidiary.

Therefore, shareholders will not be personally liable for NOMOS Bank’s debts or those of NOMOS Bank’s effective subsidiaries unless the shareholders control NOMOS Bank’s business. See also *“Risk Factors — Shareholder liability under Russian law could cause NOMOS Bank to be liable for the obligations of its subsidiaries”*.

In addition, the effective parent is secondarily liable for the effective subsidiary’s debts if the effective subsidiary becomes insolvent or bankrupt resulting from the fault of the effective parent only when the effective parent has used the right to give binding instructions, knowing that the consequence of carrying out this action would be insolvency or bankruptcy of this effective subsidiary. This is the case no matter how the effective parent’s capability to determine decisions of the effective subsidiary arises, such as through ownership of voting securities or by contract. If the effective subsidiary is a joint stock company, the effective parent has secondary liability only if the effective parent has caused the effective subsidiary to take any action or fail to take any action, knowing that such action or failure to take action would result in insolvency of the effective subsidiary. If the effective subsidiary is a limited liability company, the effective parent may be held secondarily liable if the effective subsidiary’s insolvency is caused by the wilful misconduct or negligence of such effective parent and if the effective subsidiary’s assets are insufficient to cover its obligations. To be relieved from the liability, the effective parent would need to prove before the court that it acted in good faith and in the interests of the effective subsidiary.

Shareholders of an effective subsidiary that is a joint stock company may also claim compensation for the effective subsidiary’s losses from the effective parent if: (i) the effective parent caused the effective subsidiary to take any action or fail to take any action that resulted in a loss and (ii) the effective parent knew that such action or failure to take such action would result in an effective subsidiary’s loss. Participants of an effective subsidiary that is a limited liability company may claim compensation for the effective subsidiary’s losses from the effective parent if the effective parent through its wilful misconduct or negligence caused the effective subsidiary to take any action that resulted in a loss.

Alteration of share capital; share capital increase

NOMOS Bank may increase its share capital by:

- issuing new shares; or
- increasing the nominal value of previously issued shares.

A decision to increase the share capital by way of a closed subscription of shares or other securities, convertible into shares, requires a three quarters vote of the General Shareholders’ Meeting. A decision to increase the share capital by way of open subscription of ordinary shares or other securities convertible into ordinary shares that constitute in aggregate more than 25 per cent. of previously issued shares requires a three quarters vote of the General Shareholders’ Meeting. The increase of the share capital by way of open subscription of ordinary shares or securities convertible into ordinary shares that constitute 25 per cent. or less of previously issued ordinary shares requires unanimous decision of the Supervisory Board.

The Joint Stock Companies Law requires that newly issued shares be sold at the price determined by the Supervisory Board based on their market value. The Supervisory Board may provide for a discount for existing shareholders exercising their pre-emptive right to purchase shares for a price that shall not be less than 90 per cent. of the price set for third parties. Fees of an intermediary participating in the offering of shares cannot exceed 10 per cent. of the share price. The price may not be set at less than the nominal value of the shares. The Supervisory Board shall evaluate any in-kind contributions made in consideration for new shares based on the appraisal report of an independent appraiser.

The Securities Market Law and the CBR regulations set out detailed procedures for the registration and issuance of shares of a bank incorporated in the form of a joint stock company, including:

- adoption of a decision on an increase of share capital by an offering of additional shares;

- adoption of a decision on a share issuance;
- registration of a share issuance with the CBR;
- offering of the shares;
- registration of the offering report with the CBR; and
- public disclosures at the required stages of the issuance.

Share capital decrease; share buy-backs

The Joint Stock Companies Law does not allow a company to reduce its share capital below the minimum share capital required by law, which currently is RUB100,000 for a Russian open joint stock company. The Joint Stock Companies Law requires that any decision to reduce NOMOS Bank's share capital through the repurchase and cancellation of its shares should be made by a majority vote of a General Shareholders' Meeting. The Joint Stock Companies Law provides that a decision to reduce a share capital through a reduction in the nominal value of the respective shares should be made by a three-quarters majority at a General Shareholder's Meeting only upon the proposal of the Supervisory Board. A decision to reduce the share capital by way of reducing the nominal value of the shares may provide for compensation payments to all the shareholders or transfer to the shareholders of securities of other companies owned by NOMOS Bank.

The Joint Stock Companies Law allows NOMOS Bank to reduce its share capital only if, at the time of such reduction:

- NOMOS Bank's share capital is paid up in full;
- NOMOS Bank has repurchased all shares from shareholders that have the right to demand to be repurchased under law protecting the rights of minority shareholders, as described below;
- NOMOS Bank is not and would not become, as a result of the payment or the alienation of securities to the shareholders as described above, insolvent;
- the value of NOMOS Bank's net assets is not less (and would not become less, as a result of the payment or the alienation of securities to the shareholders) than the sum of NOMOS Bank's share capital, the reserve fund and the difference between the liquidation value and the par value of NOMOS Bank's issued and outstanding preferred shares;
- NOMOS Bank has fully paid all declared dividends; and
- NOMOS Bank complies with other requirements of Russian law.

Additionally, within 3 business days of a decision to reduce NOMOS Bank's share capital, NOMOS Bank must notify the tax authorities of the same following which NOMOS Bank must publish two notices (with the second notice published 30 days after the publication of the first notice) of the decision to reduce NOMOS Bank's share capital having been taken. The notices must be published on the webpage of the Federal Tax Service of the Russian Federation and in the periodical publication designated by applicable Russian regulations. NOMOS Bank's creditors would then have the right to demand, within 30 days since the latest publication, repayment of all amounts due to them, or, if repayment is not feasible, termination of the relevant obligation, as well as compensation for damages.

The Joint Stock Companies Law and NOMOS Bank's charter allow the Supervisory Board to authorise the repurchase of up to 10 per cent. of NOMOS Bank's Ordinary Shares in exchange for monetary consideration. The Ordinary Shares repurchased pursuant to a decision of the Supervisory Board must be resold at the market price within one year of their repurchase or, failing that, the General Shareholders' Meeting must decide to cancel such shares and decrease NOMOS Bank's share capital.

The Joint Stock Companies Law allows NOMOS Bank to repurchase its shares only if, at the time of repurchase:

- NOMOS Bank's share capital is paid up in full;
- NOMOS Bank is not and would not become, as a result of the repurchase, insolvent;
- the value of NOMOS Bank's net assets is not less (and would not become less, as a result of the proposed repurchase) than the sum of NOMOS Bank's share capital, the reserve fund and the difference between the liquidation value and the par value of NOMOS Bank's issued and outstanding preferred shares; and
- NOMOS Bank has repurchased all shares from shareholders having the right to demand repurchase of their shares under laws protecting the rights of minority shareholders, as described immediately below.

Under Russian law, NOMOS Bank's shareholders may demand repurchase of all or some of their shares so long as the shareholders demanding repurchase voted against or did not participate in the voting on the decision approving any of the following actions:

- any reorganisation;
- conclusion of a major transaction, which requires approval by the General Shareholders' Meeting, subject to the provisions of the Joint Stock Companies Law; or
- amendment of NOMOS Bank's charter in a manner which results in restrictions of such shareholders' rights.

NOMOS Bank shall repurchase the shares at the price stated by the Supervisory Board, which shall not be less than the market value determined by an independent appraiser. NOMOS Bank may spend up to 10 per cent. of its net assets calculated under RAS for a share redemption demanded by the shareholders. If the value of shares in respect of which shareholders have exercised their right to demand repurchase exceeds 10 per cent. of NOMOS Bank's net assets, NOMOS Bank will repurchase shares from each such shareholder on a pro-rata basis.

Registration and transfer of shares

NOMOS Bank's shares are ordinary and preferred shares in registered form. Russian law requires that a joint stock company must procure the maintenance of a register of its shareholders. A register of shareholders may be maintained by the company itself or by a specialised third-party registrar. The Joint Stock Companies Law requires that a register of shareholders of a joint stock company with more than 50 shareholders be maintained by a registrar. Ownership of NOMOS Bank registered Ordinary Shares is evidenced solely by entries made on such register. Any of NOMOS Bank's shareholders may obtain an extract from the register certifying the number of shares that such shareholder holds. Under Russian law, an extract from a shareholders' register may not be traded as a security. Since 2009, NOMOS Bank's shareholder register has been maintained by CJSC "St. Petersburg Central Registration Company". The purchase, sale or other transfer of shares is accomplished through registration of the transfer on the register of shareholders, or in a depositary account if shares are held by a depositary. In the latter case, the depositary must act as a nominal holder of shares in NOMOS Bank's register of shareholders. The registrar or depositary may not require any documents in addition to those required by Russian law in order to transfer shares in the register. Refusal to register the shares in the name of the transferee or, upon request of the shareholder, in the name of a nominee holder, is not allowed and may be challenged in court.

Reserve fund

Russian law requires that each joint stock company establishes a reserve fund to be used only to cover the company's losses, redeem the company's bonds and repurchase the company's shares in cases when other funds are not available. The reserve fund must be utilised only for the abovementioned purposes. NOMOS Bank's charter provides that NOMOS Bank's reserve fund should amount to at least 15 per cent. of the share capital of NOMOS Bank. As of 31 December 2010, it amounted to RUB 8,968 million.

Disclosure of information

Russian securities regulations require NOMOS Bank to make the following public disclosures and filings on a periodical basis:

- filing quarterly reports with the FSFM containing information about NOMOS Bank, its shareholders, management bodies, members of its Supervisory Board, branches and representative offices, the Ordinary Shares, working capital, bank accounts and auditors, important developments during the reporting quarter and other information about NOMOS Bank's financial and business activity and disclosing the same information on NOMOS Bank's website on the same time basis as required by applicable securities regulations;
- publishing in a newswire (Interfax) and on NOMOS Bank's website, as well as in certain cases, publishing in a periodical publication any information concerning material facts and changes in NOMOS Bank's financial and business activity, including among other things NOMOS Bank's reorganisation, certain changes in the amount of NOMOS Bank's assets; certain changes in ownership and shareholding as well as certain resolutions of the General Shareholders' Meeting and the Supervisory Board;
- disclosing NOMOS Bank's charter and internal regulations;

- disclosing information on any of the following documents NOMOS Bank has received:
 - (a) a voluntary offer (including any competing offer);
 - (b) a mandatory offer (including any competing offer);
- a notice of the right of shareholders to sell their shares to the person that has acquired more than 95 per cent. of NOMOS Bank's Ordinary Shares;
- a request that minority shareholders sell their shares to the person that has acquired more than 95 per cent. of NOMOS Bank's Ordinary Shares;
- disclosing on NOMOS Bank's website, filing with the FSFM and on the newswires and, in some cases, publishing in the periodical print publication certain information on each stage of the share issuance, registration and placement;
- publishing NOMOS Bank's annual report and annual financial statements prepared in accordance with RAS together with an audit opinion as well as NOMOS Bank's annual and interim IFRS financial statements together with an audit opinion in cases required by applicable securities regulations;
- disclosing on a quarterly basis a list of NOMOS Bank's affiliated persons on NOMOS Bank's website and publishing in a newswire a notice about disclosure of the list of affiliated persons on NOMOS Bank's website within one day after disclosure of the list on NOMOS Bank's website; and
- disclosing information in relation to material facts (including the meetings of the Supervisory Board and its agenda, new controlling persons in relation to NOMOS Bank, issuance of Eurobonds or credit-linked notes ("CLNs") and other facts that NOMOS Bank considers as material);
- disclosing other information, as required by applicable Russian securities law.

In April 2011, certain amendments to the Securities Market Law came into force imposing additional disclosure requirements on NOMOS Bank. Generally, these amendments introduce a requirement to publish consolidated financial statements and expand the list of material facts that require disclosure. Following these amendments, NOMOS Bank has to publish, *inter alia*, the following information:

- on convening and conducting the General Shareholders' Meeting, as well as decisions taken on such meeting;
- on meeting of the Supervisory Board, its agenda and certain adopted decisions;
- on failure to adopt by the Supervisory Board of certain decisions required under the applicable legislation;
- regarding NOMOS Bank's bankruptcy, reorganisation or liquidation proceedings;
- on new material subsidiaries, cease of control in relation to such subsidiaries or information regarding bankruptcy, certain reorganisation or liquidation proceedings in relation to subsidiaries;
- on new controlling person, cease of such a control or information regarding bankruptcy, reorganisation or liquidation proceedings in relation to such a person;
- on claims to NOMOS Bank, its controlling person or material subsidiaries with a value of 10 or more per cent. of the balance sheet value of its assets or any other claim that potentially may have a material adverse effect on the financial condition of the respective person;
- on various stages of the share issuance, declaration of the share issuance as not having taken place or void;
- on cancellation, listing or de-listing of, stabilisation activities in relation to NOMOS Bank's securities (or issuance securities of the foreign issuer certifying rights in relation to NOMOS Bank's securities such as the GDRs);
- on defaults in relation to NOMOS Bank's securities;
- on acquisition of control of voting rights attached to NOMOS Bank's shares in excess of 5, 10, 15, 20, 25, 30, 50, 75 and 95 per cent. thresholds from the total amount of voting shares;
- on discovery of mistakes in the previously disclosed financial statements;
- on its transactions with the value of 10 or more per cent. of the balance sheet value of NOMOS Bank's assets, major and certain interested party transactions;
- on major transactions of its controlling persons or its material subsidiaries;

- on obtaining, suspension or termination of the licence for performance of the activity that is material to its business and financial condition;
- on litigation in relation to the creation, management of or participation in NOMOS Bank;
- on placement of Eurobonds; and
- on other facts that in the opinion of NOMOS Bank may have material effect on the value of its securities.

The above mentioned amendments also impose certain disclosure requirements on NOMOS Bank's shareholders. In particular, NOMOS Bank's shareholders shall disclose information on mandatory conducting of the General Shareholders' Meeting by virtue of the court order and on certain changes in the shareholding (See also "*Description of Share Capital and applicable Russian Legislation—Change of control—Notification of acquisition of significant interest*").

General Shareholders' Meeting

Procedure

The powers of the General Shareholders' Meeting are set forth in the Joint Stock Companies Law and in NOMOS Bank's charter. The scope of authority of the General Shareholders' Meeting is limited to the powers contemplated by the Joint Stock Companies Law and NOMOS Bank's charter. Among issues that the General Shareholders' Meeting has the power to decide on are:

- adoption of the amendments and additions to NOMOS Bank's charter, other than those relating to the increase of the share capital and establishment and liquidation of branches and representative offices, and approving of the new versions of NOMOS Bank's charter;
- NOMOS Bank's reorganisation;
- NOMOS Bank's liquidation, appointment of the liquidation commission and approval of preliminary and final liquidation balances;
- determining the number of members of the Supervisory Board, election and removal of members of the Supervisory Board;
- determining the number, nominal value and class/type of authorised shares and the rights granted by such shares;
- transfer of the President's authorities to a management company or a manager, and their dismissal;
- appointment and removal of the members of NOMOS Bank's revision commission;
- approval of NOMOS Bank's external auditor;
- increase of NOMOS Bank's share capital by means of:
 - increasing the nominal value of NOMOS Bank's shares;
 - issuing shares via closed subscription;
 - issuing shares constituting more than 25 per cent. of the number of issued and outstanding Ordinary Shares via open subscription; and
 - issuing securities convertible into ordinary shares via open subscription provided that the number of shares in which such securities may be converted exceeds 25 per cent. of the number of issued and outstanding Ordinary Shares;
- reduction of NOMOS Bank's share capital either by reduction of the nominal value of the shares, or by buy-back of NOMOS Bank's outstanding Ordinary Shares for the purposes of such reduction, and their further cancellation;
- splitting and consolidating NOMOS Bank's shares;
- approval of NOMOS Bank's annual reports and financial statements;
- approval of interested party transactions and major transactions subject to requirements of the Joint Stock Companies Law;
- distribution of profits, including payment of dividends;
- setting out a procedure for holding the General Shareholders' Meeting;
- approval of NOMOS Bank's participation in financial and industrial groups, associations and other unions of commercial organisations;
- approval of certain internal regulations;
- payment of remuneration and (or) compensations to the members of the Supervisory Board;
- payment of remuneration and (or) compensations to the members of NOMOS Bank's revision commission; and

- other issues, as provided for by the Joint Stock Companies Law and NOMOS Bank's charter.

Voting at a General Shareholders' Meeting is generally based on the principle of one vote per ordinary share, with the exception of the election of the Supervisory Board, which is done through cumulative voting.

Ordinarily, a majority vote of the voting shares present at a General Shareholders' Meeting is required for a decision of the General Shareholders' Meeting to be taken. However, Russian law requires a three-quarters majority vote of the voting shares present at a General Shareholders' Meeting to approve in particular the following:

- amendments and additions to NOMOS Bank's charter;
- NOMOS Bank's reorganisation or liquidation, appointment of the liquidation commission and approval of preliminary and final liquidation balances;
- determination of the number, nominal value and type of authorised shares and the rights granted by such shares;
- major transactions involving assets in excess of 50 per cent. of the balance sheet value of NOMOS Bank's assets;
- reduction of NOMOS Bank's share capital by buy-back of NOMOS Bank's outstanding shares for the purposes of such reduction as well as reduction of NOMOS Bank's share capital by decreasing the nominal value of NOMOS Bank's shares;
- increase of NOMOS Bank's share capital by issuance of shares if either placed by closed subscription or placed by open subscription with the amount of such shares in excess of 25 per cent. of number of issued and outstanding Ordinary Shares; and
- issuing bonds or other securities convertible into ordinary shares if either placed by closed subscription or placed by open subscription and the amount of ordinary shares in which such securities may be converted exceeds 25 per cent. of number of issued and outstanding Ordinary Shares.

The quorum requirement for a General Shareholders' Meeting is met if shareholders (or their representatives) accounting for more than 50 per cent. of the issued voting shares are present. If more than 50 per cent. quorum requirement is not met, another General Shareholders' Meeting with the same agenda may (and, in case of an annual General Shareholders' Meeting, must) be convened and the quorum requirement is met if shareholders (or their representatives) accounting for at least 30 per cent. of the issued voting shares are present at that meeting.

An annual General Shareholders' Meeting must be convened by the Supervisory Board between 1 March, and 30 June, of each year, and the agenda must include among other issues the following:

- election of the members of the Supervisory Board;
- approval of the annual report and the annual financial statements, including the balance sheet and profit and loss statement;
- approval of distribution of profits, including approval of annual dividends, if any;
- approval of an external auditor; and
- appointment of the members of the revision commission.

A shareholder or shareholders owning in aggregate at least 2 per cent. of the issued voting shares may introduce proposals for the agenda of an annual General Shareholders' Meeting and may nominate candidates for the Supervisory Board, executive bodies and the revision commission. Any agenda proposals or nominations must be provided to NOMOS Bank no later than 30 calendar days after the end of the preceding financial year.

Extraordinary General Shareholders' Meetings may be convened by the Supervisory Board on its own initiative, or at the request of the revision commission, the external auditor or a shareholder or shareholders owning in aggregate at least 10 per cent. of the issued voting shares as of the date of the request.

A General Shareholders' Meeting may be held in a form of a meeting or by absentee ballot. The form of a meeting contemplates the adoption of resolutions by a General Shareholders' Meeting through the attendance of the shareholders or their authorised representatives for the purpose of discussing and voting on issues of the agenda, **provided that** if the ballot is mailed to shareholders for participation at a meeting convened in such

form, the shareholders may complete and mail the ballot back to the company without personally attending the meeting. A General Shareholders' Meeting by absentee ballot envisages collecting shareholders' opinions on issues on the agenda by means of a written poll.

The following issues cannot be decided by a General Shareholders' Meeting by absentee ballot:

- election of the members of the Supervisory Board;
- election of the revision commission;
- approval of the external auditor; and
- approval of the annual report, the annual financial statements, including balance sheet, profit and loss statement, and any distribution of profits, including approval of annual dividends, if any.

If the number of shareholders exceeds 1,000 persons, the voting at the General Shareholders' Meeting held in the form of a meeting must be done using voting ballots which should be sent to the shareholders entitled to participate in the General Shareholders' Meeting at least 20 days in advance of the General Shareholders' Meeting.

Notice and participation

All shareholders entitled to participate in the General Shareholders' Meetings must be notified of the meeting, whether the meeting is to be held in direct form or by absentee ballot, at least 20, and, in case of a General Shareholders' Meeting or if the meeting agenda includes a vote on NOMOS Bank's reorganisation, at least 30 days prior to the date of the meeting. Such notification shall specify, among other matters, the agenda for the meeting. However, if it is an extraordinary General Shareholders' Meeting to, among other matters, elect the Supervisory Board, shareholders must be notified at least 70 days prior to the date of the meeting. Only those items that were set out in the agenda sent to shareholders may be voted upon at a General Shareholders' Meeting.

The list of persons entitled to participate in a General Shareholders' Meeting is to be compiled on the basis of data in NOMOS Bank's register of shareholders on the date established by the Supervisory Board, which date may neither be earlier than the date of adoption of the resolution of the Supervisory Board to hold a General Shareholders' Meeting, nor more than 50 days before the date of the meeting (or, in the case of an extraordinary General Shareholders' Meeting convened to elect the Supervisory Board, not more than 85 days before the date of such General Shareholders' Meeting).

Generally, the right to participate in a General Shareholders' Meeting may be exercised by a shareholder as follows:

- by personal attendance;
- by attendance of a duly authorised representative (by proxy);
- by absentee ballot; or
- by delegating the right of absentee ballot to a duly authorised representative.

Supervisory Board

Pursuant to the Joint Stock Companies Law and NOMOS Bank's charter, the Supervisory Board performs general management, except for adoption of decisions that fall within the exclusive competence of a General Shareholders' Meeting.

The Joint Stock Companies Law requires at least a five-member supervisory board for all joint stock companies (unless the number of shareholders is 50 or less in which case the supervisory board is optional), at least a seven-member supervisory board for joint stock companies with more than 1,000 holders of voting shares, and at least a nine-member supervisory board for joint stock companies with more than 10,000 holders of voting shares. Only individuals (as opposed to legal entities) are entitled to sit on the supervisory board. Members of the Supervisory Board are not required to be NOMOS Bank's shareholders. A charter or a decision of a General Shareholders' Meeting determines the actual number of directors. NOMOS Bank's charter provides that the Supervisory Board shall consist of at least five members.

The Joint Stock Companies Law provides for the election of NOMOS Bank's entire Supervisory Board at each annual General Shareholders' Meeting. The Supervisory Board is elected by way of cumulative voting. Cumulative voting means that each shareholder may cast an aggregate number of votes equal to the number of

shares held by such shareholder multiplied by the number of persons to be elected on the Supervisory Board, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the entire Supervisory Board may be dismissed at any time upon shareholders' discretion by a majority vote of a General Shareholders' Meeting.

The Joint Stock Companies Law generally prohibits the Supervisory Board from acting on issues that fall within the exclusive competence of a General Shareholders' Meeting. The Supervisory Board has the power to perform the general management, and to decide, among others, the following issues:

- determination of NOMOS Bank's business priorities;
- convening of annual and extraordinary General Shareholders' Meetings, except for certain cases specified in the Joint Stock Companies Law;
- approval of the agenda of a General Shareholders' Meeting;
- determination of the record date for shareholders entitled to participate in a General Shareholders' Meeting and other issues in connection with preparation for, and holding of, a General Shareholders' Meeting;
- proposal to consider alteration of the share capital for the General Shareholders' Meeting by way of increase of the nominal value of shares or by way of additional issue in the course of closed subscription or, in certain cases, open subscription, share splits or consolidations, major transactions and related party transactions approvals, share buy-outs, NOMOS Bank's participation in holding companies, financial and industrial groups, associations and other commercial organisations alliances, approval of NOMOS Bank's internal documents;
- amendment and addition of NOMOS Bank's charter relating to the increase of the share capital and establishment and liquidation of branches and representative offices;
- adoption of a decision to increase NOMOS Bank's share capital in cases specified in the Joint Stock Companies Law and NOMOS Bank's charter;
- placement of bonds and other securities in accordance with the Joint Stock Companies Law and the NOMOS Bank's charter;
- determination of the price of NOMOS Bank's property and of NOMOS Bank's securities to be placed or repurchased, as provided for by the Joint Stock Companies Law;
- election and removal of the President and the members of the Management Board;
- recommendations on the amount of remuneration and compensation to be paid to members of the revision commission and on the fees payable for the services of an external auditor;
- recommendations on the amount of the dividend on shares and the payment procedure thereof;
- use of NOMOS Bank's reserve fund and other funds;
- establishment of branches and representative offices and their liquidation;
- approval of the regulations in relation to separate divisions of NOMOS Bank;
- approval of major and interested party transactions in cases specified by the Joint Stock Companies Law;
- election and removal of NOMOS Bank's registrar, approval of the contract with the registrar;
- determination of the coupon rates of NOMOS Bank's notes;
- approval of the report on share issue results;
- elaboration and maintenance of an effective internal control system;
- creation, election of the members of and approval of the regulations in relation to the Supervisory Board committees; and
- other issues, as provided for by the Joint Stock Companies Law and NOMOS Bank's charter.

Meetings of the Supervisory Board are called by the chairman on his or her own initiative, or at the request of:

- a member of the Supervisory Board;
- NOMOS Bank's revision commission;

- NOMOS Bank's President; or
- external auditor.

A meeting of the Supervisory Board has a quorum if not less than a half of its members elected at a General Shareholders' Meeting are present at the meeting. Generally, a majority vote of the members of the Supervisory Board present at the meeting is required to adopt a decision. Certain decisions (such as major transaction approval, premature removal of NOMOS Bank's President, increases of the share capital by way of open subscription to the shares or securities convertible into shares amounting to 25 per cent. or less of previously issued shares) require the unanimous vote of all members of the Supervisory Board. The Joint Stock Companies Law requires that, in certain cases, a decision of the Supervisory Board approving an interested party transaction to be adopted by a majority vote of the disinterested and independent directors.

President

The President is NOMOS Bank's chief executive officer. Supervisory Board elects the President and determines his/her term in the office, but can remove the President at any time.

The President exercises day-to-day control over NOMOS Bank's activities and is accountable to the Supervisory Board and the General Shareholders' Meeting. The President has the power to act on NOMOS Bank's behalf without a power of attorney and to decide, among others, the following issues:

- implementation of the decisions of the General Shareholders' Meeting and Supervisory Board in the sphere of the credit, financial, investment, employment and other activities;
- organisation and accomplishment of the financial operations of NOMOS Bank;
- approval of establishment of the internal structural divisions and approval of the internal documents in relation to them;
- disposal of property and financial assets of NOMOS Bank;
- employment and removal of NOMOS Bank's staff;
- other issues, not included in the competence of the General Shareholders' Meeting, Supervisory Board and Management Board of NOMOS Bank.

Management Board

The Management Board of NOMOS Bank is acting in accordance with NOMOS Bank's charter and Management Board Regulation approved by the General Shareholders' Meeting. The Regulation provides for the terms of the Management Board meetings, elections and decision making procedures. The Management Board is managed by the President of NOMOS Bank, who is acting also as a Chairman of the Management Board *ex officio*.

The Management Board competence includes:

- implementation of the decisions of the General Shareholders' Meeting and the Supervisory Board of NOMOS Bank;
- organising of the preparation of the annual and other plans for financial and economic activity of NOMOS Bank and its implementation;
- considering the questions of the client attraction and the increase of the money resources, updating of the banking operations organisation, development and implementation of the new banking services;
- reviewing of the reports of the CEO's of structural divisions, branches and representative offices and preparing of the suggestions on the optimisation of their activity;
- adoption of the internal documents on questions that are in the competence of the Management Board (except for those internal documents adoption of which relates to the competence of the General Shareholders' Meeting, Supervisory Board and President of NOMOS Bank);
- establishment of the procedure for assessment of the internal control of NOMOS Bank, as well as system of control for the elimination of the discovered breaches and defects of the internal control and measures undertaken for its elimination;
- control over the compliance of NOMOS Bank, its branches and representative offices with the Russian legislation and other regulations of the state authorities;

- establishment of the effective systems for transmission and exchange of the information that provide the delivery of the necessary information for the interested persons;
- certain other issues in accordance with the internal documents of NOMOS Bank.

The Supervisory Board determines the number of and elects the members of the Management Board upon recommendation of the Chairman of the Management Board. A meeting of the Management Board has a quorum if not less than a half of its members are present at the meeting. A simple majority vote of the members of the Management Board is required to adopt a decision. In case of equality of votes, the Chairman's vote is considered to be final.

Major transactions

The Joint Stock Companies Law defines a "major transaction" as a transaction, or a series of related transactions, involving the acquisition or disposal, or the possibility of disposal of property with the value of 25 per cent. or more of the balance sheet value of the assets of a company as determined under RAS, with the exception of transactions conducted in the ordinary course of business or transactions involving the issuance of ordinary shares by way of subscription, or issuance of securities convertible into ordinary shares. Major transactions involving assets with the value ranging from 25 per cent. to 50 per cent. of the balance sheet value of the company's assets, as determined according to its financial statement for the latest reporting date, require unanimous approval by all members of the Supervisory Board or, failing to receive such approval, require a majority vote of a General Shareholders' Meeting. Major transactions involving assets in excess of 50 per cent. of the balance sheet value of the assets of the company require a three-quarters majority vote of a General Shareholders' Meeting.

Any major transaction entered into in breach of the above requirements may be invalidated by a court pursuant to an action of the company or any of its shareholders.

Interested party transactions

The Joint Stock Companies Law contains requirements in respect of interested party transactions approvals. An interested party transaction is a transaction with an "interested party", which is a member of the supervisory board of a company, a person performing functions of the sole executive body of the company (including a managing company or a manager, which performs functions of the sole executive body of the company under a contract), a member of the collective executive body of the company or a shareholder, who owns, together with any of its affiliates, at least 20 per cent. of the company's voting shares, or any person able to issue mandatory instructions to the company, if any of the abovementioned persons, or any of these persons' spouse, close relatives, adoptive parents or children and / or affiliates:

- is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- owns, individually or collectively, at least 20 per cent. of the participatory interest in a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- holds office in any management body of the company (or in any management body of the managing company of such company) that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary.

According to the Joint Stock Companies Law interested parties shall inform the Supervisory Board, the Review Committee and external auditor about their shareholdings, participatory interests in other entities of 20 or more per cent. of voting shares (which they own separately or together with their affiliates), their holdings of management positions and proposed transactions or ongoing transactions where they may be regarded as interested.

The Joint Stock Companies Law requires that a transaction with an interested party be approved by a majority vote of the company's disinterested members of the supervisory board or by a decision of the majority of disinterested shareholders holding voting shares, as applicable.

In a company with more than 1,000 shareholders holding voting shares a disinterested director is entitled to vote on the approval of an interested party transaction only if he/she is an "independent director", i.e. a member of the supervisory board who is not, and within one year preceding the decision was not, (i) performing the functions of the sole executive body (including being a manager) or the collective executive body of the company, or holding offices in management bodies of the managing company, (ii) a person whose spouse, close

relatives, adoptive parents or children hold positions in any of the abovementioned management bodies, managing company of the company, or a manager of the company, or (iii) otherwise an affiliate of the company (except for the members of the supervisory board of the company).

An interested party transaction must be approved by a decision of the majority of disinterested shareholders holding voting shares if:

- the value of such a transaction, or series of transactions, is 2 per cent. or more of the balance sheet value of the company's assets as at the last reporting date;
- the transaction, or series of transactions, involves the issuance by subscription or disposal of ordinary shares or securities convertible into such shares in the amount exceeding 2 per cent. of the company's existing ordinary shares or securities convertible into such shares;
- the transaction, or series of transactions, involves the issuance by subscription of securities convertible into shares, which may be converted into ordinary shares, in the amount exceeding 2 per cent. of the company's existing ordinary shares or ordinary shares into which the abovementioned convertible securities may be converted;
- all members of the Supervisory Board of the company with more than 1,000 shareholders holding voting shares are interested parties, or if none of them is an independent director; or
- the number of the disinterested directors of the company with 1,000 or less shareholders holding voting shares is not sufficient to constitute a quorum.

The approval of interested party transactions is not required in the following instances:

- the company has only one shareholder that simultaneously performs the functions of the sole executive body of the company;
- all shareholders of the company are interested in such transactions;
- the transactions arise from the shareholders exercising their pre-emptive rights to purchase newly issued shares of the company;
- the transactions arise from the repurchase, whether mandatory or not, by the company of its issued shares;
- the company merges with another company; or
- entering into a transaction is obligatory for the company under Russian law and settlement with respect to which is effected in accordance with the fixed prices and tariffs established by authorised regulatory authorities.

An interested party transaction entered into in breach of the abovementioned rules may be invalidated by a court pursuant to an action of the company or any of its shareholders. The interested party is liable to the company for any loss incurred by such company.

If the transaction is simultaneously qualifies as a major and an interested party transaction, it should be approved in accordance with the procedures set out for approval of interested party transactions.

Shareholders' agreements

In June 2009, the Joint Stock Companies Law was amended to expressly permit shareholders' agreements in respect of Russian joint stock companies. In particular, the Joint Stock Companies Law stipulates that shareholders may enter into an agreement under which they undertake to exercise their shareholder rights in a certain manner and (or) to refrain from exercising their shareholder rights, including, *inter alia*:

- to vote in a certain manner at a General Shareholders' Meeting;
- to coordinate voting with other shareholders;
- to acquire or dispose of shares at a pre-determined price and (or) upon occurrence of certain circumstances;
- to refrain from disposing of shares until occurrence of certain circumstances; and
- to perform jointly other actions relating to the company's management, activities, reorganisation and winding up.

Provisions of the Joint Stock Companies Law in respect of shareholders' agreements are very generic and have been largely untested. It remains to be seen how this new regulation is implemented and enforced in practice.

The shareholders' agreement shall be concluded in written form by way of executing the single document signed by the parties. The Joint Stock Companies Law directly specifies that the shareholders' agreement may not contain obligations of the shareholders to vote in accordance with the instructions of the management bodies of the company if it is concluded in respect of the shares of this company.

The shareholders' agreement shall be concluded in respect of all the shares owned by the party and it shall be binding only for the parties thereto. The contract entered into by the party to the shareholders' agreement in breach of the shareholders' agreement may be declared invalid by court on the basis of the action brought by the interested party however only when it is proved that the other party to the contract knew or should have known about the limitations contemplated by the shareholders' agreement. However the breach of the shareholder agreement may not be a ground for declaring the decisions of the management bodies of the company invalid.

There are certain disclosure requirements with respect to shareholders' agreements. The law envisages that a person who pursuant to the shareholders' agreement acquired a right to determine the voting order at the General Shareholders' Meeting with respect to more than 5, 10, 15, 20, 25, 30, 50 and 75 per cent. of the issued ordinary shares provided that the issuance of the shares was accompanied by the registration of the prospectus shall notify the company about such an acquisition. Such notification shall be provided within 5 days since the occurrence of such an event and it shall contain certain details specified in the Joint Stock Companies Law. In case such notification is not provided the person who crossed the abovementioned threshold may vote only in respect of shares that he held prior to the occurrence of such an obligation.

The shareholder agreement may contain certain methods of securing obligations such as damages, penalty, compensation and etc. that are enforceable.

As far as NOMOS Bank or the Selling Shareholder is aware, NOMOS Bank shareholders have not entered into any shareholders' agreements.

Change of control

Anti-Takeover Protection

Effective 1 July 2006, Russian law has been amended to introduce new anti-takeover provisions. The key anti-takeover provisions of the revised Joint Stock Companies Law are as follows:

- A person intending to acquire more than 30 per cent. of an open joint stock company's voting shares (including, for such purposes, the shares already owned by such person and its affiliates), has the right to make a public tender offer to purchase the remaining shares from other shareholders or holders of securities convertible into company's shares (voluntary offer).
- Within 35 days after acquisition by any means of more than 30 per cent., 50 per cent. or 75 per cent. of voting shares or 35 days from the date when the acquirer learned or should have learnt that it either independently or together with its affiliates, owns such number of shares, the acquirer is required to make a public offer to purchase the remaining shares from other shareholders (mandatory offer). The provisions regarding mandatory offers are not applicable, among other things, to the establishment or reorganisation of the company, a transfer of shares between affiliates (including an acquisition of shares from affiliates), an acquisition of shares through the exercise of a shareholder's pre-emptive right to acquire additional shares placed by the company or certain other cases stipulated by the Joint Stock Companies Law.
- If, as a result of either the voluntary or the mandatory offer, the acquirer purchases more than 95 per cent. of the voting shares, including shares owned by its affiliates, it is required to (i) notify all the other shareholders (within 35 days after acquisition of shares above such threshold) of their right to sell their shares and other securities convertible into such shares, and (ii) purchase their shares upon request of each minority shareholder. Instead of giving such notice, the acquirer may deliver to a company a buy-out demand, binding on the minority shareholders, that they sell their shares if the acquirer crossed the 95 per cent. threshold by acquiring at least 10 per cent. of the voting shares in a voluntary mandatory offer.
- An offer of the kind described in either of the preceding three paragraphs must be accompanied by an irrevocable bank guarantee of payment, where relevant — a share price valuation report prepared by an independent appraiser and certain other documents. If the company is publicly traded, prior notice of

the offers must be filed with the FSFM; otherwise, such offers must be filed with the FSFM no later than the date of the offer. The FSFM may require revisions to be made to the terms of the offer (including the price) in order to bring them into compliance with the rules.

- At any time after the company receives a voluntary or a mandatory offer and until 25 days prior to the expiration of the relevant acceptance period, any person will have the right to make a competing offer (that satisfies the requirements for a voluntary or mandatory offer, respectively) to purchase shares in the quantity of and at the price that are greater than or equal to the quantity and the price offered in the initial voluntary or mandatory offer. Any shareholder may revoke its previous acceptance of the respective offer and accept the competing offer. A copy of the competing offer shall be sent to the person who made the initial voluntary or mandatory offer so that such person can amend its offer by increasing the purchase price and/or shortening the settlement period. As soon as the voluntary or mandatory offer has been made and until expiration of a 20-day period after the expiration of the period for acceptance of the voluntary or mandatory offer, only the company's shareholders' meeting will have the exclusive power to make decisions on a share capital increase through an additional share issuance, on approval of the interested party and certain other transactions and on certain other significant matters.

Foreign ownership

Federal Law No. 57-FZ "On Foreign Investments in Companies having Strategic Importance for procuring State Defence and Security", dated 29 April 2008 as amended ("**Foreign Investments in Strategic Sectors Law**") regulates foreign investments (whether direct or indirect) in Russian businesses having strategic importance for procuring State defence and security ("**Strategic Companies**") and, among other matters, requires foreign investors to receive a prior consent of the special government commission before acquiring certain percentages of voting shares or certain management rights in respect of Strategic Companies. Currently, NOMOS Bank is considered to be a Strategic Company for the purposes of the Foreign Investments in Strategic Sectors Law due to the fact that NOMOS Bank is licensed to support, distribute cryptographic and encoding means, provide services in relation to the encoding of information and therefore, foreign investments in NOMOS Bank's shares require prior approval from the Government Commission for Central of Foreign Investments in Russia in cases where, among other matters:

- a foreign investor acquires directly or indirectly more than 50 per cent. of the voting rights of the shares in the share capital of a Strategic Company;
- a foreign investor acquires directly or indirectly rights to appoint the sole executive body or more than 50 per cent. of the collective executive body of a Strategic Company and unconditional right to appoint more than 50 per cent. of members of the supervisory board or an other collective management body of the Strategic Company.

Pursuant to the Foreign Investments in Strategic Sectors Law, foreign investors and/or their groups must notify the FAS of an acquisition of 5 per cent. or more of the shares in the charter capital of a Strategic Entity.

Federal Law No. 160-FZ "On Foreign Investments in the Russian Federation" dated 9 July 1999, as amended ("**Foreign Investments Law**"), provides that any acquisition (whether direct or indirect) by a foreign State or international organisation or entities controlled by them of (i) more than 25 per cent. of voting shares of a Russian company; or (ii) any powers to block decisions of the management bodies of a Russian company, require a prior approval of the special government commission in accordance with the procedures set forth in the Strategic Investments Law.

Offering outside of Russia

Russian law requires a permit from the FSFM to be obtained prior to an offering of a Russian issuer's shares outside Russia. The existing FSFM regulations provide that no more than 5 per cent. of any class of a Russian issuer's shares listed on the "V" list of a Russian stock exchange may be placed or circulated abroad. In circumstances where the FSFM entered into a treaty with the relevant foreign securities market regulator this threshold may be increased up to 25 per cent. On 22 March 2010, Nomos Bank received the permission from the FSFM on circulation outside of Russia of up to 25 per cent. of its ordinary shares.

Notification of foreign ownership

Foreign persons registered as individual entrepreneurs in Russia and foreign companies, regardless of whether they are registered with the Russian tax authorities, who acquire shares in a Russian joint stock company, may need to notify the Russian tax authorities within one month following such acquisition. The

procedure for notifying the Russian tax authorities by foreign companies that are not registered with the Russian tax authorities at the time of their share acquisitions is unclear. Other than this notification requirement and the restriction on foreign sovereign ownership described in “*Foreign ownership*” above, there are no requirements or restrictions with respect to foreign ownership of NOMOS Bank’s shares.

Notification of acquisition of significant interest

Pursuant to Russian securities laws, each holder of ordinary shares of a joint stock company which has issued securities in respect of which a prospectus has been registered by the Russian securities market regulator and in certain other cases envisaged by the Russian legislation, must notify the company and the FSFM of any direct or indirect acquisition or termination of control over voting rights attached to shares either above or below a 5 per cent., 10 per cent., 15 per cent., 20 per cent., 25 per cent., 30 per cent., 50 per cent., 75 per cent. or 95 per cent. threshold. In addition to the general reporting requirements in relation to the acquisition of ordinary shares of joint stock companies discussed in “— *Change of control — Approval of the CBR*” below, NOMOS Bank, as a regulated entity, is also subject to certain specific banking reporting requirements in relation to the acquisition of its shares.

Anti-monopoly regulation

The Competition Law a person (or a group of affiliated persons) may be considered as having a dominant position in a particular market. A dominant position is acknowledged with respect to the company performing banking and other financial operations if it may exercise the decisive influence on the general conditions of the circulation of a service on the relevant market and (or) remove other companies from the market and (or) hinder their entry to the market provided the following conditions are met:

- (a) the market share of the company exceeds 10 per cent. on the single market in Russia or 20 per cent. on the market provided that the particular product is also represented on other markets in Russia;
- (b) the market share of the company during a long period of time (not less than 1 year or during the lifetime of the relevant market if it exists less than 1 year) has been increasing and (or) invariably exceeds 10 per cent. on the single market in Russia or 20 per cent. on the market provided that the relevant product is represented on other markets in Russia.

Under the Competition Law, a person with a dominant position in a particular market shall not engage in the activities that result or may result in the prevention, limitation or elimination of competition or the infringement of interests of other persons, including, among others, the following activities: (a) fix and/or maintain excessively high or excessively low prices; (b) withdraw goods or services from circulation resulting in price increases; (c) dictate terms unfavourable to a counterparty or irrelevant to the subject matter of the agreement; (d) reduce or terminate production of goods or provision of services for reasons that are not economic or technological in nature, where demand for the goods or services exists, so long as the goods or services can be produced/provided at a profit; (e) refuse or escape to enter into an agreement with particular buyers or clients for reasons that are not economically or technologically justified, where the goods or services can be produced or supplied; (f) fix differing prices (tariffs) for the same goods or services for reasons that are not economically or technologically justified; (g) fix unreasonably high or unreasonably low price, where a person is a financial organisation (as this term is defined in the Competition Law) (h) create discriminatory conditions; (i) create barriers to enter or exit a particular market; or (j) violate legal requirements relating to pricing.

The FAS is authorised to issue binding orders on persons to eliminate abuse of a dominant position, as well as to transfer the profits obtained as a result of the illegal conduct to federal funds. The FAS also has a power to require in a court order a spin off or split of business operations of a legal entity that holds a dominant position and repeatedly (i.e., more than two times within three years) abuses its dominant position. Where such legal entity is a credit organisation, the FAS must seek a prior approval of the CBR before filing the relevant claim to the court.

In addition to the above requirements set forth with regard to a dominant position, the Competition Law provides for a merger control regime for companies engaged in banking operations, i.e., the necessity of “approval prior to closing” by the FAS, of the following actions:

- (a) an acquisition by a person (or its group) of more than 25 per cent. of the voting shares of a joint stock company (1/3 participation interest in a limited liability company) and the subsequent increase of the

shareholding up to more than 50 per cent. and more than 75 per cent. of the voting shares of a joint stock company (1/2 and 2/3 participation interest in a limited liability company); or acquisition by a person (or its group) as a result of the transaction or a series of transactions of the assets of an entity if the balance sheet value of such assets exceeds 10 per cent. of the total balance sheet value of the assets of such entity; or obtaining by a person (or its group) as a result of the transaction or a series of transactions (including on the basis of the fiduciary management contract, joint operation agreement) rights to determine the conditions of business activity of an entity or to exercise the powers of its executive body, in each case if the aggregate asset value of a target exceeds RUB33 billion;

- (b) mergers and consolidations of companies, if their aggregate asset value exceeds RUB33 billion; and
- (c) foundation of a company, if its share capital is paid by the shares (participation interests) and/or the assets of another company performing banking or financial services and the newly founded entity acquires the shares (participation interests) and/or assets and the value of the assets of the that another company exceeds RUB 33 billion.

The Competition Law establishes a 30 day review period for pre closing approval of transactions. The review period may be extended for a further two months if the FAS believes the prospective transaction might restrict competition with respect to a particular market.

Under the Competition Law, if an acquirer has acted in violation of the merger control rules and acquired, for example, shares without obtaining the prior approval of the FAS, the transaction may be invalidated by a court resolution held upon the FAS claim, provided that such transaction has led or may lead to the restriction of competition, for example, by means of strengthening of a dominant position in the relevant market.

The Competition Law provides for a mandatory post transactional notification (within 45 days of the closing) of the FAS in connection with the merger if the aggregate asset value of the companies that cease to exist as a result of merger does not exceed RUB33 billion and in connection with the consolidation if the aggregate asset value of the organisations does not exceed RUB33 billion. Also persons acquiring shares (participatory interests), rights and (or) property of the company shall notify FAS of that actions (in particular specified in points a) and b) above) if the aggregate value of its assets exceeds RUB2.5 billion.

Under Competition Law if the company does not comply with the post transactional notification requirements than the company may be winded up or reorganised in the form of separation or split-up and if the persons in the above-mentioned situation also do not comply with the post transactional notification requirements in both cases provided that such transaction has led or may lead to the restriction of competition, for example, by means of strengthening of a dominant position in the relevant market.

More generally, Russian law provides for civil, administrative and criminal liability for the breach of an anti monopoly law.

Approval by the CBR

In addition to the general reporting requirements in relation to the acquisition of ordinary shares of joint stock companies discussed in “— *Change of control — Notification of acquisition of significant interest*” above, Nomos Bank, as a regulated entity, is also subject to certain specific banking reporting requirements in relation to the acquisition of its shares. The purchase and/or receipt on trust of over 1 per cent. of the shares of a credit institution as a result of one or more transactions by a legal entity or natural person, or a group of legal entities and/or natural persons pursuant to an agreement, or a group of legal entities acting as subsidiaries, must be reported to the CBR. The acquisition by one of the above-mentioned persons of more than 20 per cent. of the shares of a credit institution must have the prior approval of the CBR.

The CBR may block an acquisition of more than 20 per cent. of the shares of a credit institution, *inter alia*, if the financial standing of the buyer or buyers is found to be unsatisfactory.

The CBR may refuse to grant its consent to the acquisition of more than 20 per cent. of the shares of a credit institution if the court decides that the acquirer was guilty of causing a loss to any other credit institution while it was a member of its board of directors (supervisory board), or as a chief executive officer or deputy, or as a member of its collective executive body.

Negative net assets

Under Russian legislation if the net assets of the credit organisation at the end of the reporting month is lower than its charter capital, the company shall bring in compliance the amount of its charter capital and amount of its net assets.

The credit organisation shall adopt a decision on its winding up if the amount of its net assets at the end of the second or any subsequent financial year are lower than the minimum charter capital established by Russian legislation with respect to joint stock companies (RUB100,000) or limited liability companies (RUB10,000).

In case the credit organisation does not adopt a decision on its winding up within 3 months since the end of the financial year, the CBR shall file a lawsuit to the arbitrazh court for the winding up of this company.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions (subject to completion and amendment) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt Certificate.

The Global Depositary Receipts (“GDRs”) represented by this certificate are issued in respect of ordinary shares of nominal value 50 Roubles each (the “Shares”) in OPEN JOINT-STOCK COMPANY “NOMOS-BANK”, a Russian open joint stock company (the “Company”), with two (2) GDRs issued in respect of one (1) Share, pursuant to and subject to an agreement dated 21 February 2011, and made between the Company and DEUTSCHE BANK AKTIENGESELLSCHAFT, a banking corporation organized and existing under the laws of federal republic of Germany, as depositary (the “Depositary”) for the “Regulation S Facility” and the “Rule 144A Facility” (such agreement, as amended from time to time, being hereinafter referred to as the “Deposit Agreement”). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed Deutsche Bank Ltd. as Custodian (as defined below) to receive and hold on its behalf, as nominee, the Share and any certificates issued in respect of such Shares (the “Deposited Shares”) and all rights, securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the “Deposited Property”). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to the number of Shares in respect of which the GDRs held by such Holder are issued. In these terms and conditions (the “Conditions”), references to the “Depositary” are to DEUTSCHE BANK AKTIENGESELLSCHAFT, and/or any other Depositary which may from time to time be appointed under the Deposit Agreement, references to the “Custodian” are to Deutsche Bank Ltd., or any other Custodian from time to time appointed under the Deposit Agreement and references to the “Main Office” mean, in relation to the Custodian, its office at 82 Sadovnicheskaya Street, building 2, Moscow 115035, Russia, (or such other office as from time to time may be designated by the Custodian with the approval of the Depositary).

References in these Conditions to the “Holder” of any GDR shall mean the person registered as Holder on the books of the Depositary maintained for such purpose (the “Register”). These Conditions (the “Conditions”) include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificate in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Office of the Custodian. Holders are deemed to have notice of and be bound by all of the provisions of the Deposit Agreement, and shall become bound by these Conditions and the Deposit Agreement upon becoming a Holder of GDRs. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. Holders of GDRs are not party to the Deposit Agreement which specifically disallows application of the Contracts (Rights of Third Parties) Act 1999 and thus, under English Law, have no contractual rights against, or obligations to, the Company or the Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and were the “Depositary” in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate.

1. Deposit of Shares and Other Securities

- (A) After the initial deposit of Shares in connection with the Initial Offering, unless otherwise agreed by the Depositary and the Company and permitted by applicable law, only the following may be deposited under the Deposit Agreement in respect of such GDR:
- (i) Shares issued as a dividend or free distribution on Deposited Shares pursuant to Condition 5;
 - (ii) Shares subscribed for or acquired by Holders from the Company through the exercise of rights distributed by the Company to such persons in respect of Deposited Shares pursuant to Condition 7;
 - (iii) securities issued by the Company to the Holders in respect of Deposited Shares as a result of any change in the nominal value, sub-division, consolidation or other reclassification of Deposited Shares or otherwise pursuant to Condition 10. References in these Conditions to “Deposited Shares” or “Shares” shall include any such securities, where the context permits; and
 - (iv) (to the extent permitted by applicable law and regulation) any other Shares in issue from time to time.

For so long as the Shares are held in dematerialised form, “Shares” to be delivered or deposited with the Custodian shall mean the delivery or deposit of a certified extract of the share register maintained by the Russian Share Registrar.

- (B) The Depositary will issue GDRs in respect of Shares accepted for deposit under this Condition. Under the Deposit Agreement, the Company must inform the Depositary if any Shares issued by it which may be deposited under this Condition do not, by reason of the date of issue or otherwise, rank *pari passu* in all respects with the other Deposited Shares. Subject to the provisions of Conditions 5, 7 and 10, if the Depositary accepts such Shares for deposit it will arrange for the issue of temporary GDRs in respect of such Shares which will form a different class of GDRs from the other GDRs until such time as the Shares which they represent become fully fungible with the other Deposited Shares.
- (C) The Depositary will refuse to accept Shares for deposit whenever it is notified in writing by the Company that the Company has restricted the transfer of such Shares to comply with ownership restrictions under applicable Russian law or that such deposit would result in any violation of any applicable Russian laws or governmental or stock exchange regulations. The Depositary may also refuse to accept Shares for deposit in certain other circumstances as set out in the Deposit Agreement.
- (D) Notwithstanding anything else contained in the Deposit Agreement to the contrary, the Depositary shall not be required to accept for deposit or maintain on deposit with the Custodian (a) any fractional Shares or fractional Deposited Property, or (b) any number of Shares or Deposited Property which, upon application of the ratio of Regulation S GDRs to Regulation S Deposited Property, would give rise to fractional Regulation S GDRs or, upon application of the ratio of Rule 144A GDRs to Rule 144A Deposited Property, would give rise to fractional Rule 144A GDRs.
- (E) No Share shall be accepted for deposit unless accompanied by certifications and agreements and other evidence, if and to the extent required by the Depositary, that is satisfactory to the Depositary and the Custodian in their discretion that all conditions to the making and acceptance (as the case may be) of such deposit and the issuance of GDRs against such deposit have been satisfied under the laws and regulations of Russia and any necessary registration, filing, notification, permit, license and approval has been made with or granted by any state authority in Russia (which may include an opinion of counsel reasonably satisfactory to the Depositary provided at the cost of the person seeking to deposit Shares).
- (F) Without limitation of the foregoing, the Depositary shall not knowingly accept for deposit under the Deposit Agreement (a) any Shares or other Deposited Property required to be registered pursuant to the provisions of the Securities Act, unless a registration statement under the Securities Act is in effect as to such Shares or other Deposited Property, (b) any Shares or Deposited Property which, if accepted for deposit under this Deposit Agreement, shall make the total number of Shares accepted for deposit under the Deposit Agreement exceed the maximum number of Shares allowed for circulation outside the Russian Federation under the relevant notice of the Russian Federal Service for the Financial Markets (the “**Russian Federal Service**”) to the Company or other notices or permits of the Russian Federal Service regarding maximum number of Shares allowed for circulation outside the Russian Federation which from time to time may be granted to the Company by the Russian Federal Service and provided by the Company to the Depositary, or (c) any Shares or Deposited Property the deposit of which would violate any provisions of the Charter, or (d) any Shares or Deposited Property which, if accepted for deposit under this Deposit Agreement exceed such number as may be communicated to the Depositary by the Company from time to time in writing; provided that neither the Company nor the Depositary nor any of their affiliates shall have any liability to any Holder or Beneficial Owner in the event that the Depositary shall fail to comply with the requirements of these sub-clauses (a), (b), (c) and (d). For purposes of the foregoing sentence, the Depositary shall be entitled to rely upon representations and warranties made or deemed made pursuant to the Deposit Agreement and shall not be required to make any further investigation. The Depositary will comply with written instructions of the Company (received by the Depositary reasonably in advance) not to accept for deposit hereunder any Shares identified in such instructions at such times and under such circumstances as may reasonably be specified in such instructions in order to facilitate the Company’s compliance with the securities laws of the U.S. The Depositary shall have no liability for any actions taken in accordance with such instructions.
- (G) If the Company makes a deposit in connection with an Offering (a “**Primary Deposit**”), of newly issued Shares, the GDRs issued in respect of all such newly issued Shares as well as any Shares deposited by any shareholder(s) (who may but need not be affiliates) of the Company in connection with a relevant Offering, as the case may be, shall be issued on a provisional basis until the Company delivers written notice to the Depositary that a report on the results of the issue of such newly issued Shares (a “**Placement Report**”) has been registered by the CBR. Prior to receipt by the Depositary of such written notice from the Company, notwithstanding anything in the Deposit Agreement to the contrary: (i) the Depositary shall not, except as specifically described in the next succeeding paragraph, deliver any such Shares pursuant to Condition 2 hereof and shall not vote, or cause to be voted, such

Deposited Property; (ii) Holders shall not be entitled to give voting instructions, as contemplated by Condition 12 hereof with respect to such Deposited Property; and (iii) the only GDR Certificates issued hereunder in respect of such Deposited Property shall be a Master Regulation S GDR Certificate registered in the name of the nominee of Euroclear or Clearstream, Luxembourg or a Master Rule 144A GDR Certificate registered in the name of the nominee of DTC. If at any time the Depositary knowingly accepts Shares for deposit which are not fully fungible with other deposited Shares, the Depositary and the Custodian will take all steps reasonably necessary to segregate the newly-deposited Shares from the previously-deposited Shares (through the use of sub-accounts or otherwise as they see fit) and the Depositary will take all steps reasonably necessary to ensure (through the use of distinct ISIN/CUSIP numbers, the issuance of a distinct class of temporary GDRs, the use of legends or deposit and withdrawal certificates, or otherwise as it sees fit) that the GDRs issued for the newly-deposited Shares are not fungible with the GDRs issued for the previously-deposited Shares, until such time as the newly-deposited Shares become fungible with the previously-deposited Shares.

- (H) If a Placement Report required to be registered with the CBR has not been so registered on or before the date which is 45 days after the closing date for the Offering (or such later date as the Company, the selling shareholders (if any) and the underwriters participating in such offering may agree), then upon written notice by the Company, the net proceeds of such Offering shall be delivered to the Depositary and from the time of its receipt of such proceeds the GDRs issued in connection with such offering will represent the right to receive a proportional interest in the funds so received. The funds so received by the Depositary in any currency other than Dollars will be converted into Dollars (at the market rates then available) and distributed to Holders of the relevant GDRs in each case on the terms of the Deposit Agreement. Such GDRs will be cancelled by the Depositary upon distribution of the proportional interests in the funds so received, converted (if necessary), and distributed to the Holders of such GDRs. The funds so received, converted (if necessary) and distributed to Holders of such GDRs may be less than the price at which such GDRs have been sold by the Company or the selling shareholders or purchased by the Holders thereof, and such distribution may be subject to withholding taxes or delays.
- (I) Notwithstanding anything herein to the contrary, the Depositary shall be entitled to close its books to the issuance of GDRs against new deposits of Shares if: (i) in the absence of any necessary approval from the Federal Antimonopoly Service or such other state authority as shall at the relevant time carry out functions in relation to the regulation of competition and anti-monopoly policy in Russia (“FAS”) or an exemption, exemptive interpretation or waiver from FAS of a requirement to obtain such an approval, at any time the Depositary believes that the Shares deposited with it against issuance of GDRs together with any other securities of the Company which shall have been deposited with the Depositary against issuance of depositary receipts, represent (or, upon accepting any additional Shares for deposit, would represent) in the aggregate twenty-four and ninety-nine hundredths of one percent (24.99%) or more of either (a) the issued and outstanding equity securities of the Company of all classes or types or (b) the voting rights of all holders of securities of the Company, or any such other percentage as shall at the relevant time require an approval from FAS; or (ii) at any time the Depositary believes that the Shares deposited with it against issuance of GDRs together with any other securities of the Company which shall have been deposited with the Depositary against issuance of depositary receipts, represent (or, upon accepting any additional Shares for deposit, would represent) in the aggregate twenty-nine and ninety-nine hundredths of one percent (29.99%) of the Shares or any such other percentage as shall at the relevant time require a shareholder of a Russian open joint stock company to make a mandatory tender offer; and each of the conditions set out in clauses (i) and (ii) of this paragraph, may hereinafter be referred to as a “Condition”.
- (J) Holders and Beneficial Owners shall make all necessary notifications or filings and shall obtain, maintain, extend or renew all necessary approvals to, with or from state authorities in Russia, and shall take all such other actions, as may be required to remain at all times in compliance with applicable rules and regulations of Russia.
- (K) Notwithstanding anything herein to the contrary, if at any time the Depositary believes that the Shares deposited with it against issuance of GDRs, together with any other securities of the Company which shall have been deposited with the Depositary against issuance of depositary receipts, represent (or, upon accepting any additional Shares for deposit, would represent) such percentage as exceeds any threshold or limit established by any applicable law, directive, regulation or permit, or satisfies any condition for making any filing, application, notification or registration or obtaining any approval, license or permit or taking any other action required by any applicable law, directive or regulation, including without limitation any of the Conditions (as the same may be amended from time to time),

the Depositary may (i) close its books to deposits of additional Shares in order to prevent such thresholds or limits being exceeded or conditions being satisfied, or (ii) take such steps as are, in its opinion, necessary or desirable to remedy the consequences of such thresholds or limits being exceeded or conditions being satisfied and to comply with any such law, directive or regulation, including, without limitation, causing pro rata cancellation of GDRs and withdrawal of Shares or other Deposited Property to the extent necessary or desirable to so comply.

- (L) In considering whether any Condition or any other threshold has been reached or exceeded or condition has been satisfied for purposes of this Condition 1(L), the Depositary may, in addition to Shares deposited with it against the issuance of GDRs and other securities deposited with it against issuance of depositary receipts, take into consideration Shares or other securities of the Company (if any) held by itself and its affiliates (группа лиц) for its or their proprietary account(s) or as to which it or they exercise voting or investment power.
- (M) In its capacity as Depositary, the Depositary shall not lend Shares or other Deposited Property held hereunder or GDRs. The Depositary reserves the right subject to applicable law and without prejudice to its obligations under the Deposit Agreement, to execute and deliver GDRs or issue interests in a Master GDR prior to the receipt of Shares by the Custodian or the Depositary, as the case may be (a “**Pre Release**”). The Depositary may only deliver Deposited Property upon the receipt and cancellation of GDRs in accordance with the Conditions, including GDRs which were issued pursuant to a Pre Release but for which Shares may not have been received. The Depositary may accept GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release shall be (a) preceded or accompanied by a written representation and agreement from the person to whom GDRs are to be delivered (the “**Pre-Releasee**”) that at the time of such transaction, such person, or its customer (i) beneficially owns the corresponding Shares to be delivered to the Depositary, (ii) assigns all beneficial right, title and interest in and to such Shares to the Depositary in its capacity as such for the benefit of the Holders and will hold such Shares in trust for the Depositary until those Shares are delivered to the Depositary or Custodian, (iii) will reflect the Depositary as the owner of such Shares on its records, (iv) will deliver such Shares to the Depositary or Custodian upon the Depositary’s request and (v) will not take any action with respect to such Shares that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Shares), other than to deliver such Shares to the Depositary in its capacity as such, (b) at all times fully collateralised marked to market daily with cash, U.S. government securities, or other collateral held by the Depositary for the benefit of the Holders as the Depositary reasonably determines will provide substantially similar security and liquidity, (c) terminable by the Depositary on not more than five business days’ notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate, acting reasonably. The Depositary may also set limits with respect to the number of GDRs involved in Pre-Releases to be effected hereunder with any one person on a case-by-case basis as it deems appropriate. The collateral referred to in sub-Clause (b) above shall be held by the Depositary for the benefit of the Holders as security for the performance of the obligations of the Pre-Releasees in connection herewith (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).
- (N) Nothing in this Condition 1(C) shall obligate the Company to issue any new Shares in respect of any Pre-Release by the Depositary. The person to whom any Pre-Release of Rule 144A GDRs is to be made pursuant to this Condition 1(C) shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 4 Part A, or in the case of affiliates of the Company, Schedule 4 Part C. The person to whom any Pre-Release of Regulation S GDRs is to be made pursuant to this Condition 1(C) shall be requested to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 Part A or, in the case of affiliates of the Company, Schedule 3 Part B.
- (O) The Depositary may retain for its own account any compensation received by it in connection with the foregoing, including without limitation earnings on any collateral. Save as set out in the Deposit Agreement where, in particular, the Company specifically confirms its agreement that the Depositary will be entitled to make a Pre-Release pursuant to Condition 1(C), the Company will have no liability whatsoever to the Depositary or any Holder or to any person to whom the GDR or Deposited Property may be delivered by the Depositary or any other holder in due course of such GDRs or Deposited Property with respect to any representations, actions or omissions by the Depositary or any Holder pursuant to Condition 1(C).
- (P) Each person depositing Shares pursuant to the Deposit Agreement shall be deemed thereby to represent and warrant that (i) such Shares (and the certificates therefor) are duly authorized, validly issued, fully paid, non-assessable, and legally obtained by such person, (ii) all pre-emptive (and similar) rights with

respect to such Shares have been validly waived or exercised, (iii) the person making such deposit is duly authorized so to do and has fulfilled all requirements of applicable law or regulation with respect to the Shares or the deposit thereof against the issuance of GDRs, (iv) the Shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim, (v) the Shares presented for deposit have not been stripped of any rights or entitlements, (vi) with respect to Shares deposited into the Regulation S Facility, the Shares presented for deposit are not “restricted securities” (within the meaning of Rule 144) except, in the case of a deposit of Shares by affiliates of the Company contemplated by the terms of Clause 3.2(b)(ii)(b) of the Deposit Agreement, and the GDRs delivered upon issuance will not be “restricted securities” (within the meaning of Rule 144), (vii) such Shares are not subject to any unfulfilled requirements of applicable law or regulation, and (viii) except with respect to any deposit by an affiliate permitted in the Deposit Agreement, such person is not and shall not become at any time while such person holds GDRs or any beneficial interest therein, an affiliate of the Company. Such representations and warranties shall survive the deposit and withdrawal of Shares and the issuance and cancellation of GDRs in respect thereof and the transfer of such GDRs. If any such representations or warranties are false in any way, the Company and the Depositary shall be authorized, at the cost and expense of the person depositing Shares, to take any and all actions necessary to correct the consequences thereof. Each person depositing Shares, taking delivery of or transferring GDRs or any beneficial interest therein, or surrendering GDRs or any beneficial interest therein and withdrawing Shares under this Deposit Agreement shall be deemed thereby to acknowledge that the GDR Certificates, the GDRs evidenced thereby and the Shares represented thereby have not been and will not be registered under the Securities Act, and may not be offered, sold, pledged or otherwise transferred except in accordance with the restrictions on transfer set forth in the Securities Act Legend, and such person shall be deemed thereby to represent and warrant that such deposit, transfer or surrender or withdrawal complies with the foregoing restrictions. Such representations and warranties shall survive any such deposit, transfer or surrender and withdrawal of the Shares or the GDR Certificates or any beneficial interest therein.

2. **Withdrawal of Deposited Property**

- (A) Subject as set out in this Condition 2, any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence that such person is the Holder of, and entitled to, the relative GDR as the Depositary may reasonably require at the specified office of the Depositary or any Agent accompanied by:
 - (i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Office of the Custodian, or (at the request, risk and expense of the Holder and only if permitted by applicable law from time to time) at the specified office from time to time of the Depositary or any Agent to, or to the order in writing of, the person or persons designated in such order and a duly executed and completed certificate substantially in the form set out in Schedule 4, Part B, to the Deposit Agreement or an electronic certification through the applicable clearing system in lieu of such executed certification), if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs;
 - (ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement; and
 - (iii) the surrender (if appropriate) of GDR certificates in definitive registered form to which the Deposited Property being withdrawn is attributable.
- (B) Certificates for withdrawn Deposited Shares will contain such legends, and withdrawals of Deposited Shares may be subject to such transfer restrictions or certifications, as the Company or the Depositary may from time to time determine to be necessary for compliance with applicable laws.
- (C) Upon production of such documentation and the making of such payment as aforesaid in accordance with paragraph (A) of this Condition, the Depositary will direct the Custodian by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Office to, or to the order in writing of, the person or persons designated in the accompanying order:
 - (i) a certificate for, or other appropriate instrument of title to, the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and
 - (ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof as aforesaid;

provided that the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

- (iii) will direct the Custodian to deliver the certificates for, or other instruments of title to, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraph (C)(i) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its Agent and is attributable to such Deposited Shares); and/or
 - (iv) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied by such instruments of transfer in blank or to the person or persons specified in such order and such other documents, if any, as are required by law for the transfer thereto),

in each case to the specified office from time to time of the Depositary or, if any, any Agent as designated by the surrendering Holder in such accompanying order as aforesaid.
- (D) Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.
- (E) Subject as set out above, upon request by any Holder in accordance with Condition 2 for withdrawal of Deposited Property and upon compliance therewith, the Depositary shall make (and forthwith notify the Custodian and the Company of) such arrangements for delivery or collection thereof as soon as practicable to, or to the order in writing of, the person or persons specified in the order for withdrawal, provided that the Depositary shall not (except on the instruction of the Company) make arrangements for such delivery or collection (i) during any period when the transfer of Shares has been blocked on the account due to participation in any shareholders' meeting of the Company when notified by the Company in writing that such suspension is necessary, or (ii) the Depositary is notified by the Company in writing that delivery of Deposited Property will not comply generally, or in one or more localities, with any applicable law or governmental or stock exchange regulations, or (iii) the Depositary is notified by the Company in writing that delivery of Deposited Property will result in ownership of such Shares exceeding any limit under applicable Russian law or government resolution or the Charter, or for any other reason as agreed with the Depositary, as notified to the Depositary by the Company from time to time. For the avoidance of doubt, in the absence of any such notification from the Company, the Depositary is not under any obligation to ascertain or determine whether or not any such delivery should be refused (including monitoring ownership levels amongst Beneficial Owners) and the Depositary shall not be liable for any loss, damage or other consequences arising from any such delivery. Also, for the avoidance of doubt, provided that it is complying with a written notification from the Company pursuant to this Condition 2(E), the Depositary shall not be liable for any loss, damage or other consequences arising from its refusal or delivery. The Depositary shall only be obliged to deliver Shares or other Deposited Property to the extent that Shares or such other Deposited Property are then held by the Custodian or the Depositary or by their respective agents pursuant to the provisions of these Conditions.
- Neither the Depositary nor the Custodian shall deliver Shares, by physical delivery, book entry or otherwise (other than to the Company or its agent as contemplated by Condition 1), or otherwise permit Shares to be withdrawn from the Regulation S Facility or from the Rule 144A Facility, except upon the receipt and cancellation of Regulation S GDRs or Rule 144A GDRs, respectively or as set out in Condition 1(C).
- (F) The Depositary may refuse to deliver Deposited Property generally, or in one or more localities, if such refusal is deemed necessary or desirable by the Depositary, in good faith, at any time or from time to time because of any requirement of law or of any government or governmental authority, body or commission, or under any provision of these Conditions or for any other reason, and will ensure that the Deposited Property comprises at least one Share until such time as all the GDRs are cancelled.
- (G) No surrender of GDR Certificates for the purpose of withdrawal of Deposited Property shall be accepted unless accompanied by evidence satisfactory to the Depositary that all necessary filings applicable to the Holder(s) or Beneficial Owner(s) of the GDRs surrendered (if any) have been made and approvals have been obtained (or in each case, have been properly waived) under the laws of the Russian Federation.

3. Transfer and Ownership

The GDRs are in registered form, with two (2) GDRs issued in respect of one (1) Share. Title to the GDRs passes by registration in the Register and, accordingly, transfer of title to a GDR is effective only upon such registration in the records of the Depositary. The Depositary will refuse to accept for transfer any GDRs if it

reasonably believes that such transfer would result in a violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its absolute owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of, any certificate issued in respect of it) and no person will be liable for so treating the Holder.

So long as Rule 144A GDRs are “restricted securities” within the meaning of Rule 144 under the Securities Act, interests in such Rule 144A GDRs corresponding to the Master Rule 144A GDR may be transferred to a person whose interest in such Rule 144A GDRs is to be represented by the Master Regulation S GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act. Issuance of Rule 144A GDRs, including in connection with the transfer of an interest in Regulation S GDRs to a person whose interest is to be represented by the Master Rule 144A GDR, shall be subject to the terms and conditions of the Deposit Agreement, including delivery of the duly executed and completed written certificate and agreement required under the Deposit Agreement by or on behalf of each person who will be the Beneficial Owner of such Rule 144A GDRs certifying that such person is a QIB and agreeing that it will comply with the restrictions on transfer set forth therein and to payment of the fees, charges and taxes provided therein.

4. Cash Distributions

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property in a currency other than United States dollars, the Depositary, its Agent or Custodian shall as soon as practicable convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 24, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares represented by the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11, provided that:

- (i) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and
- (ii) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16(A)(iv).

5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend in, or free distribution or bonus issue of, Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, additional GDRs representing an aggregate number of Shares received pursuant to such dividend or distribution by an increase in the number of GDRs evidenced by the Master GDR or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; provided that, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall sell such Shares so received (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations) and distribute the resulting net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6. Distributions Other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; provided that, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably

practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof in such manner as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale of the securities or property so received, or any part thereof (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations), and shall (in the case of a sale) distribute the resulting net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders in accordance with Condition 24 of such offer or invitation specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specify details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

- (i) if, at its discretion, the Depositary shall be satisfied that it is lawful and reasonably practicable and, to the extent that it is so satisfied, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in United States Dollars or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and in the case of Shares so subscribed or acquired to distribute them to the Holders entitled thereto by an increase in the numbers of GDRs evidenced by the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or
- (ii) if, at its discretion, the Depositary shall be satisfied that it is lawful and reasonably practicable and to the extent that it is so satisfied, the Depositary shall distribute such securities or other assets by way of rights or the rights themselves to the Holders entitled thereto in proportion to the number of Deposited Shares represented by the GDRs held by them respectively in such manner as the Depositary may at its discretion determine; or
- (iii) if and in so far as the Depositary is not satisfied that any such arrangement and distribution to all or any Holders is lawful and reasonably practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or is so satisfied that it is unlawful, the Depositary will, provided that Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to applicable laws and regulations) and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto except to the extent prohibited by applicable law.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in (i), (ii) or (iii) above the Depositary shall permit the rights to lapse. In the absence of its own wilful default, negligence or bad faith the Depositary will not be responsible for any failure to determine that it may be lawful or practicable to make rights available to Holders or owners of GDRs in general or to any Holder or owner of GDRs in particular.

The Company has agreed in the Deposit Agreement that it will, unless prohibited by any applicable law or regulation, give its consent to, and, if requested, use its reasonable endeavours (subject to the next paragraph) to facilitate any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 5, 6, 7 or 10.

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Conditions 5, 6, 7 or 10 or the securities to which such rights relate, in order for the Depositary to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities represented by such rights, the Depositary will not offer such rights or distribute such securities or other property to Holders or sell such rights unless and until the Company procures at the Company's expense, the receipt by the Depositary of an opinion from counsel satisfactory to the Depositary that the necessary registration has been effected or that

the offer and sale of such rights, securities or property to Holders or beneficial owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and neither the Depositary nor the Company shall be liable for any losses, damages or expenses resulting from any failure to do so.

8. **Conversion of Foreign Currency**

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or financial institution, by sale or in any other manner that it may determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary, with the assistance of the Company, shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may consider desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency (without liability to any person for interest thereon) for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may in its absolute discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance on non-interest bearing accounts for the account of, the Holders entitled thereto and notify the Holders accordingly.

9. **Distribution of any Payments**

- (A) Any distribution of cash under Conditions 5, 6, 7 or 10 will be made by the Depositary to those Holders who are Holders of record on the record date established by the Depositary for that purpose (which shall be the same date as the corresponding record date set by the Company or as near as practicable to any record date set by the Company) for that purpose and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 24, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDR, according to usual practice between the Depositary and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”), Euroclear Bank S.A./N.V. (“**Euroclear**”) or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law in respect of such GDR or the relevant Deposited Property.
- (B) Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the entitled Holder on the record date established by the Depositary for that purpose (which shall be the same date as the corresponding record dates set by the Company or as near as practicable thereto), subject to any laws or regulations applicable thereto.

10. **Capital Reorganisation**

Upon any change in the nominal value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital or upon any takeover reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders in accordance with Condition 24 and, at its discretion, may treat such event as a distribution and comply with the relevant provisions of Conditions 5, 6 and 9 with respect thereto or may execute and deliver additional GDRs in respect of Shares or may call for the surrender of outstanding GDRs to be exchanged for new GDRs which reflect the effect of such change or to be stamped in the appropriate manner so as to indicate the new number of Shares and/or the new securities evidenced by such outstanding GDRs or may adopt more than one of these courses of action.

11. Taxation and Applicable Laws

- (A) Payments to Holders of dividends or other distributions or payments made to Holders on or in respect of the Deposited Shares will be subject to deduction of Russian and other withholding taxes, if any, at the applicable rates.
- (B) If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Russia in order for the Depositary to receive from the Company Shares or other rights, securities, property and cash to be deposited under the Conditions or in order for Shares, other securities or other property and cash to be distributed or otherwise dealt with under Conditions 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company, to the extent permitted by applicable law, shall apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such law. In this connection, the Company has undertaken in the Deposit Agreement, to the extent reasonably practicable and that it does not involve unreasonable expense on behalf of the Company, to take such action as may be required in obtaining or filing the same. The Depositary shall not distribute GDRs, Shares, other securities or other property or cash to be deposited under the Conditions or make any offer of any such rights or sell any securities represented by any such rights with respect to which it has been informed in writing that such authorisation, consent or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain (but shall, where assistance is reasonably requested by the Company and such assistance does not require the Depositary to take any action in conflict with market practice or in a capacity other than its capacity as Depositary, at the expense of the Company, make reasonable endeavours to assist the Company to obtain) any such authorisation, consent or permit or to file any such report except in circumstances where the same may only be obtained or filed by the Depositary (in particular, the permission of the CBR to acquire Shares), at the expense of the Company, without, in the opinion of the Depositary, having made reasonable endeavours, an unreasonable burden.

12. Voting Rights

- (A) As soon as practicable after receipt from the Company of notice of any meeting at which the holders of Shares are entitled to vote, or of solicitation of consents or proxies from holders of Shares or other Deposited Property, the Depositary shall fix the record date in respect of such meeting or solicitation of consent or proxy. The Depositary shall, if requested by the Company in writing in a timely manner (the Depositary having no obligation to take any further action if the request shall not have been timely received by the Depositary prior to the date of such vote or meeting) and at the Company's expense and provided no U.S. legal prohibitions, English legal prohibitions (including, without limitation, the listing rules and prospectus rules of the UK Financial Services Authority and the admission and disclosure standards of the London Stock Exchange) or Russian legal prohibitions (including without limitation the rules of Russian Stock Exchanges on which the Shares are listed) against such action exist, mail by regular, ordinary mail delivery (or by electronic mail or as otherwise may be agreed between the Company and the Depositary in writing from time to time) or otherwise, distribute to Holders as of the record date: (a) such notice of meeting or solicitation of consent or proxy, (b) a statement that the Holders at the close of business in New York City on the record date will be entitled, subject to any applicable law, the provisions of the Deposit Agreement, the constitutive documents and the provisions of or governing the Deposited Property (which provisions, if any, shall be summarised in pertinent part by the Company), to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the Shares or other Deposited Property represented by such Holder's GDRs, and (c) a brief statement as to the manner in which such voting instructions may be given. Voting instructions may be given only in respect of a number of GDRs representing an integral number of Shares or other Deposited Property. Upon the timely receipt from a Holder of GDRs as of the record date of voting instructions in the manner specified by the Depositary, the Depositary shall use its reasonable endeavours, insofar as practicable and permitted under applicable law, the provisions of these Conditions, the Charter and the provisions of the Deposited Property, to vote or cause the Custodian to vote the Shares and/or other Deposited Property (in person or by proxy) represented by such Holder's GDRs in accordance with such instructions.
- (B) Neither the Depositary nor the Custodian shall, under any circumstances, exercise any discretion as to voting, vote any number of Shares other than an integral number thereof or vote Shares in a manner that would be inconsistent with any applicable law, and neither the Depositary nor the Custodian shall vote or attempt to exercise the right to vote or in any way make use of for purposes of establishing a quorum or otherwise the Shares or other Deposited Property represented by GDRs except pursuant to and in accordance with instructions from Holders. Moreover, neither the Depositary nor the Custodian

shall, on the behalf of, or at the initiative of, a Holder of a GDR, introduce proposals for the agenda of the Company's shareholders meeting or nominate candidates for the Company's board of directors without first receiving express written consent from the Company to do so. Notwithstanding the timely receipt from a Holder of GDRs as of the GDR record date of voting instructions, if such voting instructions fail to specify the manner in which the Depositary is to vote the Deposited Property represented by such Holder's GDRs, the Depositary will deem such Holder to have instructed the Depositary not to vote the Deposited Property with respect to the items for which the Holder has failed to specify the manner in which the Depositary is to vote. Deposited Property represented by GDRs for which no specific voting instructions are received by the Depositary from the Holder shall not be voted.

The Company agrees to provide timely notice to the Depositary which will enable the timely notification of Holders as to any change in its Charter resulting in limitations on the ability of the Depositary to vote a particular GDR according to the voting instructions received in regard to such GDR.

- (C) Notwithstanding anything else contained in the Deposit Agreement, the Depositary shall not have any obligation to take any action with respect to any meeting, or solicitation of consents or proxies, of holders of Deposited Property if the taking of such action would violate U.S. legal prohibitions, English legal prohibitions (including, without limitation, the listing rules and prospectus rules of the UK Financial Services Authority and the admission and disclosure standards of the London Stock Exchange). The Company agrees that it shall not, except to the extent necessary (upon the advice of Russian Legal counsel of reputable standing) to comply with applicable law in Russia, establish internal procedures that would prevent the Depositary from complying with, or that are inconsistent with, the terms and conditions of Clause 7 of the Deposit Agreement.

13. Documents to be Furnished, Recovery of Taxes, Duties and Other Charges

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. In default thereof, the Depositary may, for the account of the Holder, discharge the same out of the proceeds of sale on any stock exchange on which the shares may from time to time be listed and subject to Russian law and regulations, of an appropriate number of Deposited Shares (being an integral multiple of the number of Shares in respect of which a single GDR is issued) or other Deposited Property and subsequently pay any surplus to the Holder. Any such request shall be made by giving notice pursuant to Condition 24.

14. Liability

- (A) In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any other relationship of trust for or with the Holders or the owners of GDRs except that any funds received by the Depositary for the payment of any amount due, in accordance with these Conditions, on the GDRs shall be held by it in trust for the relevant Holder until duly paid thereto.
- (B) None of the Depositary, the Custodian, the Company, nor any of their agents, officers, directors or employees nor any Agent shall incur any liability to any other of them or to any Holder or owner of a GDR if, by reason of any provision of any present or future law or regulation of Russia or any other country or of any relevant governmental authority or by reason of the interpretation or application of any such present or future law or regulation or any change therein or by reason of any other circumstances beyond their control or, in the case of the Depositary, the Custodian, any of their agents, officers, directors or employees or any Agent, by reason of any provision, present or future, of the Charter of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor (save in the case of its own wilful default, gross negligence or bad faith) shall any of them incur any liability to any Holder, owner of a GDR or person with an interest in any GDR by reason of any non-performance or delay in performance of any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed, or by reason of any exercise of, or failure to exercise, caused as aforesaid, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

- (C) None of the Depositary, the Custodian nor any Agent shall be liable (except by reason of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of a GDR, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs purporting to be such and subsequently found to be forged or not authentic.
- (D) The Depositary and each of its Agents and their respective affiliates, may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates or in relation to the Deposited Property (including, without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commission and other charges for business transacted and acts done by it as a bank or in any other capacity, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or Beneficial Owners of GDRs, or any other person for any profit arising therefrom.
- (E) The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 22 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures, but shall have no liability (in the absence of its own wilful default, gross negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be possible. In the absence of its own wilful default, negligence or bad faith the Depositary will not be responsible for any failure to determine that it may be lawful or practicable to make rights available to Holders in general or to any Holder in particular pursuant to Condition 7.
- (F) The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.
- (G) The Depositary shall, subject to all applicable laws, have no responsibility whatsoever to the Company, any Holder or owner of GDRs as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.
- (H) In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 23, be obliged to have regard to the consequence thereof for the Holders or Beneficial Owners of GDRs or any other person.
- (I) Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its reasonable opinion, necessary to comply with any such law, directive or regulation.
- (J) The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfer thereof.
- (K) The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by any member of the Board of Directors of the Company or by a person reasonably believed to have been duly authorised by the Board of Directors of the Company or such other certificate from persons specified in Condition 14(J) which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence of or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.
- (L) Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement, except to the extent that such loss or damage arises from its own wilful default, gross negligence or bad faith or that of its agents, officers, directors or employees.

- (M) No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured.
- (N) The Depositary may, in the performance of its obligations hereunder instead of acting personally, employ and pay an agent, whether a lawyer or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money. The Depositary shall not be liable to anyone for any misconduct or omission by any such agent so employed by it or be bound to supervise the proceedings or acts of any such agent.
- (O) The Depositary shall not be liable to any person if incorrect, false or misleading information derives from an inspection of the Register.
- (P) The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of these Conditions or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by these Conditions such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interest of the Holders think fit provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable, and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate, arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Clause, which includes the power to sub-delegate, shall provide that the delegate or sub-delegate, as the case may be, shall be required to provide the services delegated or sub-delegated in substantially the same manner as such services are required to be provided under the Deposit Agreement and the delegate or the sub-delegate, as the case may be, shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice to the Company and the Depositary.
- (Q) The Depositary shall be at liberty to hold or to deposit these Conditions and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute and the Depositary shall not (in the case of deposit with itself, in the absence of gross negligence, bad faith or wilful default) be responsible for any losses, liabilities or expenses incurred in connection with any such deposit.
- (R) The Depositary shall not be liable to any person if incorrect, false or misleading information derives from an inspection of the Register. For the avoidance of doubt, the Depositary has no obligation to inspect the Register.
- (S) The Depositary shall under no circumstances have any liability arising from the Deposit Agreement or the Conditions or from any obligations which relate to the Deposit Agreement or the Conditions, whether as a matter of contract, tort, negligence or otherwise, for any indirect, special, punitive or consequential loss or damage, loss of profit, reputation or goodwill, or trading loss incurred by any person or entity, whether or not foreseeable and regardless of the type of action in which such a claim may be brought.
- (T) Nothing in the Conditions shall exclude any liability for loss or damage caused by fraud on the part of the Depositary, or for death or personal injury arising from any failure on the part of the Depositary to take reasonable care or exercise reasonable skill.
- (U) For the purposes of Condition 14(S), "special loss or damage" means loss or damage of a kind or extent which arises from circumstances special to the person suffering the loss and not from the ordinary course of things, whether or not those circumstances were known to the Depositary either at the time these Conditions were entered into or later.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or in replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the holder) at the specified office of any Agent.

16. Depositary's Fees, Costs and Expenses

(A) The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:

- (i) for the issue of GDRs or for the cancellation of GDRs upon the withdrawal of Deposited Property U.S.\$0.05 or less per GDR issued or cancelled;
- (ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;
- (iii) for issuing GDR certificates in definitive registered form (other than pursuant to clause 16(A)(ii) above): a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs (including, but not limited to, printing costs) and expenses involved;
- (iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of U.S.\$0.02 or less per GDR for each such dividend or distribution;
- (v) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution (except where converted to cash): U.S.\$0.05 or less per outstanding GDR for each such issue of rights, dividend or distribution;
- (vi) for the operation and maintenance costs associated with the administration of the GDRs: an annual fee of U.S.\$0.02 per GDR (such fee to be assessed against Holders of record as at the date or dates set by the Depositary as it sees fit and collected at the sole discretion of the Depositary by billing such Holders for such fee or by deducting such fee from one or more cash dividends or other cash distributions); provided, however, that if the Depositary imposes a fee under this clause 16(A)(vi), then the total fees assessed under this clause 16(A)(vi) combined with the total fees assessed under clause 16(A)(iv) shall not exceed in the aggregate U.S.\$0.02 per GDR in any calendar year;
- (vii) for the time and expenses incurred by the Depositary, the Custodian or their respective agents in connection with inspections of the relevant share register maintained by the local registrar and/or performing due diligence on the central securities depository for the Russian Federation: an annual fee of U.S.\$0.01 per GDR (such fee to be assessed against Holders of record as at the date or dates set by the Depositary as it sees fit and collected at the sole discretion of the Depositary by billing such Holders for such fee or by deducting such fee from one or more cash dividends or other cash distributions);
- (viii) for the issue of GDRs pursuant to a change for any reason in the number of Shares represented by each GDR, regardless of whether or not there has been a deposit of Shares to the Custodian or the Depositary for such issuance: a fee of U.S.\$0.05 or less per GDR (or portion thereof); and
- (ix) for transferring interests from and between the Regulation S Master GDR and the Rule 144A Master GDR: a fee of U.S.\$0.05 or less per GDR.

(B) In addition, Holders shall be responsible for

- (i) taxes (including applicable interest and penalties) and other governmental charges;
- (ii) such registration fees as may from time to time be in effect for the registration of Shares or other Deposited Property on the Share Register and applicable to transfers of Shares or other Deposited Property to or from the name of the Depositary or any nominees upon the making of deposits and withdrawals, respectively;
- (iii) such cable, telex and facsimile transmission and delivery expenses as are expressly provided in this Deposit Agreement to be at the expense of the person depositing or withdrawing Shares or Holders;

- (iv) the expenses and charges incurred by the Depositary in the conversion of foreign currency;
 - (v) such fees and expenses as are incurred by the Depositary in connection with compliance with exchange control regulations applicable to Shares, Deposited Property, GDRs and GDR Certificates; and
 - (vi) the fees and expenses incurred by the Depositary or any nominee in connection with the delivery or servicing of Deposited Property.
- (C) The Depositary is entitled to receive from the Company such other fees, taxes, duties, charges, costs, expenses and other payments as agreed between them in the Deposit Agreement or as specified in a separate agreement between the Company and the Depositary concerning such fees, taxes, duties, charges, costs, expenses and other payments.

17. **Agents**

The Depositary shall be entitled to appoint one or more agents (the “**Agents**”) for the purpose, inter alia, of making distributions to the Holders.

18. **Listing**

The Company has undertaken in the Deposit Agreement to use all reasonable endeavours to obtain and thereafter maintain, so long as any GDR is outstanding, a listing for the GDRs on the Official List of the UK Listing Authority and admission to trading on the regulated market for listed securities of the London Stock Exchange. In the event that a listing on the Official List of the UK Listing Authority and admission to trading on the market for listed securities of the London Stock Exchange are not maintained or it becomes unreasonably burdensome or impracticable for it to do so, and such listing is suspended, the Company has undertaken in the Deposit Agreement to use all reasonable endeavours to obtain and maintain a listing of the GDRs on such other EEA Regulated Market as it may decide.

19. **The Custodian**

The Depositary has, pursuant to the Deposit Agreement, agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property other than cash for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement, which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian. The Custodian shall be responsible solely to the Depositary; provided that, if at any time the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving 30 calendar days’ notice in writing upon the removal of, or upon receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor custodian, which shall, upon acceptance of such appointment and the expiry of any applicable notice period, become the Custodian under the Deposit Agreement. Whenever the Depositary in its discretion determines that it is in the best interest of the Holders to do so, it may, if practicable, terminate the appointment of the Custodian and, in the event of the termination of the appointment of the Custodian, the Depositary shall promptly appoint a successor Custodian, which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change as soon as is practically possible following such change taking effect in accordance with Condition 24. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as herein specified; provided that, in the case of such temporary deposit in another place, the Company shall have consented to such deposit and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if, and to the extent that, the obtaining of such insurance is reasonably practicable and the premiums payable are, in the opinion of the Depositary, of a reasonable amount.

20. **Share Register**

- (A) The Company agrees to take any and all action, including the filing of any and all such documents and instruments, as may be necessary to continue the appointment of ZAO Petersburg Central Registration Company, or another registrar, in compliance with applicable Russian law, as its Russian Share Registrar, in full force and effect for so long as any GDRs remain outstanding hereunder or the Deposit Agreement remains in force.
- (B) The Company agrees that it shall, at any time and from time to time: (i) take any and all action reasonably necessary to ensure the accuracy and completeness of all information set forth in the Share

Register maintained by the Russian Share Registrar in respect of the Shares or Deposited Property; (ii) provide or use its reasonable efforts to cause the Russian Share Registrar, subject to mandatory provisions of Russian law and the Russian Share Registrar's internal regulations, to provide to the Depositary, the Custodian or their respective agents unrestricted access to the Share Register during ordinary business hours in Moscow, Russia, in such manner and upon such terms and conditions as the Depositary, in its reasonable discretion, may deem appropriate, to permit the Depositary, the Custodian or their respective agents to regularly (and in any event not less than monthly) reconcile the number of Deposited Property registered in the name of the Depositary, the Custodian or their respective nominees, as applicable, pursuant to the terms of the Deposit Agreement and, in connection therewith, to provide the Depositary, the Custodian or their respective agents, upon request, with a duplicate extract from the Share Register duly certified by the Russian Share Registrar (or some other evidence of verification which the Depositary, in its reasonable discretion, deems sufficient); (iii) use its reasonable efforts to cause the Russian Share Registrar promptly (and, in any event, within three (3) business days in Moscow, Russia, of the Russian Share Registrar's receipt of such documentation as may be required by applicable law and regulation and the reasonable and customary internal regulations of the Russian Share Registrar, or as soon as practicable thereafter) to effect the re-registration of ownership of Deposited Property in the Share Register in connection with any deposit or withdrawal of Shares or other Deposited Property under the Deposit Agreement; (iv) permit and use its reasonable efforts to cause the Russian Share Registrar to permit the Depositary or the Custodian to register any Shares or other Regulation S Deposited Property held hereunder in the name of the Depositary, the Custodian or their respective nominees (which may, but need not be, a non-resident of Russia); and (v) use its reasonable efforts to cause the Russian Share Registrar promptly to notify the Depositary in writing at any time that the Russian Share Registrar (A) eliminates the name of a shareholder of the Company from the Share Register or otherwise alters a shareholder's interest in the Shares and such shareholder alleges to the Company or the Russian Share Registrar or publicly that such elimination or alternation is unlawful; (B) no longer will be able materially to comply with, or has engaged in conduct that indicates it will not materially comply with, the provisions of this Certificate and the Deposit Agreement relating to it (including, without limitation, this Condition 20); (C) refuses to re-register shares in the name of a particular purchaser and such purchaser (or its respective seller) alleges that such material is unlawful; (D) holds Shares of the Company for its own account; or (E) has materially breached the provisions of this Certificate and the Deposit Agreement relating to it (including, without limitation, this Condition 20) and has failed to cure such breach within a reasonable time.

- (C) In connection with the Deposit Agreement, the Company agrees that it shall be solely liable for any act or failure to act on the part of the Russian Share Registrar (other than such act or failure to act on the part of the Russian Share Registrar arising in connection with any act or failure to act of the Depositary or the Custodian, or their respective directors, employees, agents or affiliates) and that the Company shall be solely liable for the unavailability of Deposited Property or for the failure of the Depositary to make any distribution of cash or other distributions with respect thereto as a result of any one or more of the following: (i) any act or failure to act of the Company or its agents, the Russian Share Registrar (other than such act or failure to act on the part of the Russian Share Registrar arising in connection with any act or failure to act of the Depositary or the Custodian, or their respective directors, employees, agents or affiliates), or their respective directors, employees, agents or affiliates, (ii) any provision of any present or future Charter or any other instrument of the Company governing the Deposited Property, or (iii) any provision of any securities issued or distributed by the Company or any offering or distribution thereof.
- (D) The Depositary agrees for the benefit of Holders and Beneficial Owners that the Depositary or the Custodian shall reconcile regularly (and in any event not less than monthly) the number of Deposited Property registered in the name of the Depositary, the Custodian or their respective nominees, as applicable, pursuant to the terms of the Deposit Agreement. The Company and the Depositary agree that, for the purposes of the rights and obligations under the Deposit Agreement of the parties hereto, the records of the Depositary and the Custodian shall be controlling for all purposes with respect to the number of Shares or other Deposited Property which should be registered in the name of the Depositary, the Custodian or their respective nominees, as applicable, pursuant to the terms of the Deposit Agreement; provided, however, that the Depositary agrees that it shall, and shall cause the Custodian to, at any time and from time to time take any and all action necessary to ensure the accuracy and completeness of all information set forth in the records of the Depositary, the Custodian or their respective nominees, as applicable, pursuant to the Deposit Agreement with respect to Shares or other Deposited Property registered in the name of any of them. The Depositary agrees that it will instruct the Custodian to maintain custody of all duplicate share extracts (or other evidence of

verification) provided to the Depositary, the Custodian or their respective agents. In the event of any material discrepancy between the records of the Depositary or the Custodian and the Share Register, then, if the Depositary has knowledge of such discrepancy, the Depositary shall notify the Company promptly. In event of discrepancy between the records of the Depositary or the Custodian and the Share Register, the Company agrees that (whether or not it has received any notification from the Depositary) it will (i) use its reasonable efforts to cause the Russian Share Registrar to reconcile its records to the records of the Depositary or the Custodian and to make such corrections or revisions in the Share Register as may be necessary in connection therewith, and (ii) to the extent the Company is unable to so reconcile such records, and the number of Shares reflected in the records of the Russian Share Registrar differs by more than one-half of one percent from the number of Shares reflected in the records of the Depositary or the Custodian, promptly instruct the Depositary to notify the Holders of the existence of such discrepancy. Upon receipt of the Company's instruction to notify the Holders of such discrepancy, the Depositary shall give such notification promptly to the Holders (it being understood that the Depositary at any time may give such notification to the Holders, whether or not it has received instructions from the Company) and shall promptly cease issuing GDRs until such time as, in the opinion of the Depositary, such records have been appropriately reconciled.

21. Resignation and Termination of Appointment of the Depositary

- (A) Unless otherwise agreed to in writing between the Company and Depositary from time to time, the Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 120 calendar days' notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving 120 calendar days' notice in writing to the Company and the Custodian. In addition, the Depositary and the Company agree to consult and attempt to resolve in good faith any matters in relation to the services to be provided by the Depositary to the Company under the Deposit Agreement. Within 30 calendar days after the giving of such either notice, notice thereof shall be duly given by the Depositary to the Holders and to the UK Listing Authority and the London Stock Exchange. The Depositary may resign as Depositary and appoint one of its affiliates as its successor Depositary hereunder by giving written notice to the Company and notice to the Holders in accordance with Condition 24.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in the relevant notice provided that no such termination of appointment or resignation shall take effect (a) other than in the case of an appointment by the Depositary of one of its affiliates as its successor depositary, until the appointment by the Company of a successor depositary, (b) the grant of such approvals as may be necessary to comply with applicable laws and with the constitutive documents for the transfer of the Deposited Property to such successor depositary, and (c) the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions by the successor depositary and the payment to the Depositary of all fees, taxes, duties, charges, costs, expenses and other payments as agreed by the Depositary and the Company in any agreement concerning such fees, taxes, duties, charges, costs, expenses and other payments. The Company has undertaken in the Deposit Agreement to use its reasonable endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the successor depositary to the Holders in accordance with Condition 24 and to the UK Listing Authority and the London Stock Exchange.

- (B) Upon the termination of appointment or resignation of the Depositary, the Depositary shall, against payment of all fees, expenses and charges owing to it by the Company under the Deposit Agreement, deliver to its successor depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all Deposited Property held by it under the Deposit Agreement. Upon the date when such termination of appointment or resignation takes effect, the Deposit Agreement provides that the Custodian shall be deemed to be the Custodian thereunder for such successor depositary and shall hold the Deposited Property for such successor depositary and the resigning Depositary shall thereafter have no obligation thereunder. For the avoidance of doubt, this Condition will be without prejudice to any liabilities of the Depositary which have accrued prior to the date of the termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations which accrued prior to such date.

22. Termination of Deposit Agreement

- (A) Subject as set out below, either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 calendar days of the date on

which the Depositary has given notice pursuant to Condition 21 that it wishes to resign, may terminate the Deposit Agreement by giving 90 calendar days' notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 24.

- (B) If the Company terminates the Deposit Agreement, it will be obligated, prior to such termination, to reimburse to the Depositary all amounts owed to the Depositary as set out in the Deposit Agreement and in any agreement between the Depositary and the Company.
- (C) During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to and upon compliance with Condition 2, and further upon payment by the Holder of any sums payable by the Depositary to the Custodian in connection therewith for such delivery and surrender but otherwise in accordance with the Deposit Agreement.
- (D) If any GDRs remain outstanding after the date of termination, the Depositary shall, if possible, as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, pro rata to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligations to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.
- (E) The Company has agreed not to appoint any other depositary for the issue of depositary receipts so long as Deutsche Bank Aktiengesellschaft, Frankfurt Am Main, Federal Republic of Germany, is acting as Depositary under the Deposit Agreement.

23. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 23 and Clause 12 of the Deposit Agreement) may at any time and from time to time be amended by written agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary and any amendment (except as aforesaid) which shall increase or impose fees or charges payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders of the outstanding GDRs until the expiry of 30 days after such notice shall have been given. During such period of 30 days, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 2, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when any such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 2, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 23, an amendment shall not be regarded as being materially prejudicial to the interests of Holders or Beneficial Owners if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares provided that temporary GDRs will represent such Shares until they are so consolidated.

Notwithstanding the foregoing, if any governmental or regulatory body should adopt new laws, rules or regulations which would require an amendment or supplement of the Deposit Agreement to ensure compliance therewith, the Company and the Depositary may amend or supplement the Deposit Agreement and the GDRs at any time in accordance with such changed laws, rules or regulations. Such amendment or supplement to the Deposit Agreement and the GDRs in such circumstances may become effective before a notice of such amendment or supplement is given to Holders or within any other period of time as required for compliance with such laws, rules or regulations.

24. Notices

All notices to Holders shall be validly given if mailed to them at their respective addresses in the register of Holders maintained by the Depositary or furnished to them by electronic transmission as agreed between the

Company and the Depositary and, so long as the GDRs are listed on the Official List of the UK Listing Authority and admitted to trading on the market for listed securities of the London Stock Exchange and if and to the extent that the rules of the UK Listing Authority or the London Stock Exchange so require, all notices to be given to Holders generally will also be published in a leading daily newspaper having general circulation in the UK. Any such notice shall be deemed to have been given on the later of such publication and the seventh day after being so mailed.

All notices required to be given by the Company to the Holders pursuant to any applicable laws, regulations or other agreements shall be given by the Company to the Depositary and upon receipt of any such notices, the Depositary shall forward such notices to the Holders. The Depositary shall not be liable for any notices required to be given by the Company which the Depositary has not received from the Company, nor shall the Depositary be liable to monitor the obligations of the Company to provide such notices to the Holders.

All formal complaints to the Depositary should be made in writing to the compliance officer of the Depositary at the address set out in Clause 17 of the Deposit Agreement.

25. Reports and Information on the Company

- (A) The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to send the Depositary a copy in the English language by electronic transmission of any financial statements or accounts that it makes generally available to its shareholders, including but not limited to any financial statements or accounts that may be required by law or regulation or in order to maintain a listing for the GDRs on the Official List of the UK Listing Authority and admission to trading on the market for listed securities of the London Stock Exchange, or other stock exchange, in accordance with Condition 18, as soon as practicable following the publication or availability of such communications. If such communication is not furnished to the Depositary in English, the Depositary shall, at the Company's expense, arrange for an English translation thereof to be prepared.
- (B) The Depositary shall, upon receipt thereof, give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.
- (C) For so long as any Rule 144A GDRs or shares represented thereby are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, during any period in which it is neither a reporting company under, and in compliance with the requirements of, Section 13 or 15(d) of the Exchange Act nor exempt from the reporting requirements of the Exchange Act by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement and the Deed Poll to provide, at its expense, to any Holder, owner of Rule 144A GDRs or of the Rule 144A Master GDR or the Beneficial Owner of an interest in such GDRs, and to any prospective purchaser of Rule 144A GDRs or shares represented thereby designated by such person, upon request of such owner, Beneficial Owner, Holder or prospective purchaser, the information required by Rule 144A(d)(4)(i) and otherwise to comply with Rule 144A(d)(4). If at any time the Company is subject to but not in compliance with Section 13 or 15(d) of the Exchange Act nor exempt pursuant to Rule 12g3-2(b) under the Exchange Act, the Company shall immediately so notify the Depositary and the Depositary may so notify Holders in writing at the Company's expense. The Company has authorised the Depositary to deliver such information as furnished by the Company to the Depositary during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144A(d)(4) to any such Holder, owner of Rule 144A GDRs, Beneficial Owner of an interest in Rule 144A GDRs or shares represented thereby or prospective purchaser at the request of such person. The Company has agreed to reimburse the Depositary for its reasonable expenses in connection with such deliveries and to provide the Depositary with such information in such quantities as the Depositary may from time to time reasonably request. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144A(d)(4), to any such holder, Beneficial Owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

26. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary such number of copies of any notice to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, and any other material (which in the opinion of the Company contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company's expense, arrange for an English translation thereof

(which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. The Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to paragraph (A) of Condition 9, and shall make the same available to Holders in such manner as it may determine.

27. **Moneys Held by the Depositary**

The Depositary shall be entitled to deal with moneys received by it, in respect of or in connection with the Deposited Property in the same manner as other moneys paid to it as a banker for its customers and shall not be liable to account to the Company or any holder or any other person for any interest on any moneys paid to it by the Company for the purposes of the Deposit Agreement, except as otherwise agreed.

28. **Obligations of Holders**

(A) Notwithstanding any other provision contained in the Deposit Agreement, the Charter of the Company, these Conditions or applicable law, each Holder and Beneficial Owner agrees to comply with requests from the Company or the Depositary pursuant to Russian law, the rules and requirements of the Russian Stock Exchanges, any other stock exchange on which the Shares or GDRs are, or may be, registered, traded or listed, or the Charter, to provide information, inter alia, regarding (i) name, state registration details (including, with respect to legal entities only, country of registration, registration number, date of registration or formation and registered and/or principal business address) and (with respect to individuals only) citizenship; (ii) the capacity in which such Holder or Beneficial Owner holds or owns GDRs (and Shares, as the case may be) and (iii) the identity of any other person interested in such GDRs, the nature of such interest and various related matters, whether or not they are Holders and/or Beneficial Owners at the time of such request. Each Holder of GDRs representing in aggregate more than 1% of the Shares (the “**Threshold**”) at any one time shall be deemed to have represented that such Holder will immediately after meeting the Threshold disclose to the Company and the Depositary the following information: (i) its full registered name, (ii) its address; (iii) the number of GDRs held by it; and (iv) any other documents or information reasonably required by the Company or the Depositary for the purpose of confirming such information (the “**Required Information**”) by sending the Required Information by a reputable courier service, registered mail or fax (but not e-mail) to 3/1 Verhnyaya Radishevskaya Street, Moscow, 109240, Russian Federation, clearly marked “For the attention of: Tatyana Serebrennikova, Re: Disclosure of NOMOS-BANK Ownership”, or to the Depositary at such alternative address as the Depositary may notify Holders from time to time. The Depositary agrees to use its reasonable efforts, at the Company’s expense, to forward to the Company any such information received from such Holders and Beneficial Owners and any such responses to such requests received by the Depositary, provided that the Depositary shall not be responsible or liable for any information contained in or omitted from such responses.

The Depositary undertakes to make Holders aware of the above-mentioned obligation from time to time upon the instruction of the Company, including on each occasion that the Depositary gives notice to Holders of any meeting at which the holders of Shares or other Deposited Property are entitled to vote pursuant to the terms of the Deposit Agreement. In addition, the Depositary will request the Required Information from Holders meeting the Threshold on a quarterly basis and at any other time when requested to do so by the Company. In addition, the Depositary undertakes to engage, or coordinate with, a shareholder identification organization appointed by it on behalf of the Company, or by the Company, to collect periodically (at such times and with such frequency and in such manner as separately agreed in writing between the Company and the Depositary) the Required Information in respect of the Holders. The Depositary undertakes to pass on to the Company the Required Information received from the relevant Holders in accordance with this Condition 28 as soon as reasonably practicable, but in any event not later than 21 calendar days from the date of receiving such information.

In the event that applicable Russian legislation is amended to require additional information (in particular, in respect of the Required Information or the Depositary), the Depositary undertakes to make Holders aware of this obligation upon the instruction of the Company (in the case of the Required Information) or provide such additional information (in the case of information relating to the Depositary).

(B) Failure by a Holder or Beneficial Owner to provide in a timely fashion the information requested by the Company may, in the Company’s sole discretion, result in the withholding of certain rights in respect of such Holder or Beneficial Owner’s GDRs (including voting rights and certain rights as to dividends in respect of the Shares represented by such GDRs). The Depositary agrees to use its commercially reasonable efforts to comply with any reasonable instructions received from the Company requesting that the Depositary take the actions specified therein to obtain such information.

- (C) In the event that the Company determines that there has been a failure to comply with the applicable reporting requirements with respect to any Deposited Property and that sanctions are to be imposed against such Deposited Property pursuant to Russian law by a court of competent jurisdiction or the Company's Charter, the Company shall notify the Depositary, giving details thereof, and shall instruct the Depositary in writing as to the application of such sanctions to the Deposited Property. The Depositary shall have no liability for any actions taken in accordance with such instructions.
- (D) Notwithstanding any other provision in the Deposit Agreement, the Company may restrict transfers of the Shares and Deposited Property where such transfer might result in ownership of Shares exceeding the limits applicable to the Shares under applicable law, regulations and stock exchange rules, including those of the Russian Federal Service, the CBR, the FAS, other state authorities in the Russian Federation and the Russian Stock Exchanges, or the Charter. The Company may also restrict, subject to applicable law, regulations and stock exchange rules, in such manner as it deems appropriate, and in such manner as the Depositary deems practicable, transfers of the GDRs where such transfer may result in the total number of Shares represented by the GDRs owned by a single Holder or Beneficial Owner to exceed any such limits. The Company may, subject to applicable law, regulations and stock exchange rules and further subject to what the Depositary may deem to be practicable, instruct the Depositary to take action with respect to the ownership interest of any Holder or Beneficial Owner in excess of the limits referenced in the preceding sentence, including but not limited to, the imposition of restrictions on the transfer of GDRs, the removal or limitation of voting rights or the mandatory sale or disposition on behalf of a Holder or Beneficial Owner of the Shares represented by the GDRs held by such Holder or Beneficial Owner in excess of such limitations, if and to the extent such disposition is permitted by applicable law and the Charter. The Depositary, acting in good faith, shall have no liability for any actions taken in accordance with such instructions. Alternatively, the Company reserves the right to instruct a Holder or Beneficial Owner who has provided such notices to deliver their GDRs for cancellation and withdrawal of the Deposited Shares so as to permit the Company to deal directly with them as holders of Shares and Holders and Beneficial Owners agree to comply with such instructions. At all times the Company agrees to post on its website (www.nomos.ru) information on the number of outstanding voting Shares so as to enable Holders and Beneficial Owners to determine if they have met or exceeded any applicable thresholds.
- (E) Applicable laws, regulations and stock exchange rules, including those of the Russian Federal Service, the CBR, the FAS, other state authorities in the Russian Federation and the Russian Stock Exchanges, may require holders and beneficial owners of Shares, including the Holders and Beneficial Owners of GDRs, to satisfy reporting requirements and obtain regulatory approvals in certain circumstances. Holders and Beneficial Owners of GDRs are solely responsible for complying with such reporting requirements and obtaining such approvals. Each Holder and each Beneficial Owner hereby agrees to file such reports and obtain such approvals to the extent and in the form required by applicable laws and regulations as in effect from time to time. Neither the Depositary, the Custodian, the Company or any of their respective agents or affiliates shall be required to take any actions whatsoever on behalf of Holders or Beneficial Owners to satisfy such reporting requirements or obtain such regulatory approvals under applicable laws and regulations.
- (F) By holding GDRs or interests therein, Holders and Beneficial Owners agree to immediately notify the Company in writing at such time as they own or otherwise control such number of Regulation S GDRs, Rule 144A GDRs and Shares that, taken together, equal or exceed five percent (5%) (or subsequently increase or decrease their holding by five percent (5%) increments) of the voting shares of the Company. The Company reserves the right to instruct Holders and Beneficial Owners who provide such notices to deliver their GDRs for cancellation and withdrawal of the Deposited Property so as to permit the Company to deal directly with them as holders of Shares and the Holders and Beneficial Owners agree to comply with such instructions. At all times the Company agrees to post on its website (www.nomos.ru) information on the number of outstanding voting shares of the Company so as to enable Holders and Beneficial Owners to determine if they have met or exceeded the thresholds set forth above.
- (G) The Depositary shall have no obligations with respect to any such obligations of Holders and Beneficial Owners.

29. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

30. Disclosure of Beneficial Ownership, Other Information and Ownership Restrictions

- (A) The Depositary may from time to time request Holders or former Holders to provide information as to the capacity in which they hold or held GDRs and regarding the identity of any other persons then or previously interested in such GDRs and the nature of such interest and various other matters. Each such Holder agrees to provide any such information reasonably requested by the Depositary pursuant to the Deposit Agreement whether or not still a Holder at the time of such request.
- (B) To the extent that provisions of or governing any Deposited Property, the constitutive documents, or applicable law may require the disclosure of, or limitations in relation to, beneficial or other ownership of Deposited Property and other securities of the Company, the Holders, owners of GDRs and Beneficial Owners, as the case may be, shall comply with the Depositary's instructions to Holders, owners and Beneficial Owners, as the case may be, of GDRs in respect of such disclosure or limitation, as may be forwarded to them from time to time by the Depositary, to the extent they have knowledge of the identity of such owners or Beneficial Owners.

31. Governing Law

- (A) The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law. The rights and obligations attaching to the Deposited Shares will be governed by Russian law. The Company has submitted in respect of the Deposit Agreement and these Conditions to the jurisdiction described in (B) below.
- (B) The GDRs and the Deposit Agreement are deemed entered into in London, England and will be governed by, and construed in all respects in accordance with, English law. Any dispute, controversy or cause of action arising out of or in connection with the Deposit Agreement and/or the GDRs, including any question regarding its scope, existence, validity or termination, shall be referred to and finally resolved by arbitration in accordance with the Rules of the London Court of International Arbitration and in accordance with the Arbitration Act of England of 1996. The seat of the arbitration shall be London, England, and the language of the arbitration shall be English.
- (C) The Depositary irrevocably appoints the Managing Director for the time being of Deutsche Trustee Company Limited, currently situated at Winchester House, 1 Great Winchester Street, London EC2N 2DB, UK, as its authorised agent for service of process in England. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Company of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

32. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce these terms and conditions under the Contracts (Rights of Third Parties) Act 1999 except and to the extent (if any) that these terms and conditions expressly provide for such Act to apply.

TAXATION

The following summary of certain U.S. federal income, United Kingdom and Russian tax consequences of ownership of the Shares and GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this prospectus. Legislative, judicial or administrative practice changes or interpretations may, however, be forthcoming. Any such changes or interpretations could affect the tax consequences to holders of the Shares or GDRs, possibly retrospectively, and could alter or modify the statements and conclusions set forth herein. This summary does not purport to be a legal opinion or advice or to address all tax aspects that may be relevant to a holder of the Shares or GDRs. Each prospective holder is urged to consult its own tax advisor as to the particular tax consequences to such holder of the ownership and disposition of the Shares or GDRs, including the applicability and effect of any other tax laws or tax treaties, of pending or proposed changes in applicable tax laws as of the date of this prospectus, and of any actual changes in applicable tax laws after such date.

Certain U.S. Federal Income Tax Considerations

The discussion of U.S. tax matters set forth in this Prospectus was written in connection with the promotion or marketing of this Offering and was not intended or written to be used, and cannot be used, by any person for the purpose of avoiding tax-related penalties under U.S. federal, state or local tax law. Each taxpayer should seek advice based on its particular circumstances from an independent tax advisor.

The following is a summary of certain U.S. federal income tax considerations relevant to a U.S. Holder (as defined below) acquiring, holding and disposing of Ordinary Shares or GDRs. This summary addresses only U.S. Holders acquiring Ordinary Shares or GDRs in the offering. This summary is based upon existing U.S. federal income tax law, which is subject to change, possibly with retroactive effect as well as certain representations of the Depositary and the assumption that each obligation in the Deposit Agreement, and any related agreements, will be performed in accordance with its terms. This summary does not discuss all aspects of U.S. federal income taxation which may be important to particular investors in light of their individual circumstance, including investors subject to special tax rules, such as residents of the Russian Federation, investors that conduct a business or have a permanent establishment in the Russian Federation, financial institutions, insurance companies, broker-dealers, tax-exempt organisations, partnerships, holders who are not U.S. Holders, holders who own (directly, indirectly or constructively) 10 per cent. or more of NOMOS Bank's voting stock, investors that will hold Ordinary Shares or GDRs as part of a straddle, hedge, conversion, constructive sale, or other integrated transaction for U.S. federal income tax purposes, or investors that have a functional currency other than the U.S. dollar. In addition, this summary does not discuss any other U.S. federal, state, local or non-U.S. tax considerations, including but not limited to U.S. federal estate and gift tax, alternative minimum tax or Medicare or Medicaid tax consequences of the acquisition, ownership or disposition of Ordinary Shares or GDRs. This summary assumes that investors will hold their Ordinary Shares or GDRs as "capital assets" (generally, property held for investment) for U.S. federal income tax purposes. Prospective investors are urged to consult their tax advisors regarding the U.S. federal, state, local and non-U.S. income and other tax considerations relevant to an investment in the Ordinary Shares or GDRs.

For purposes of this summary, a "U.S. Holder" is a beneficial owner of Ordinary Shares or GDRs that is for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the United States, (ii) a corporation created in, or organised under the law of, the United States, any State thereof or the District of Columbia, (iii) an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source, or (iv) a trust the administration of which is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust.

If an entity classified as a partnership for U.S. federal income tax purposes invests in the Ordinary Shares or GDRs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. A partnership considering an investment in the Ordinary Shares or GDRs should consult its tax advisors about the consequences to its partners of the acquisition, ownership or disposition of the Ordinary Shares or GDRs by the partnership.

Ownership of GDRs in General

For U.S. federal income tax purposes, an owner of GDRs generally will be treated as the owner of the Ordinary Shares represented by such GDRs. However, the U.S. Treasury has expressed concerns that parties to whom interests such as the GDRs are delivered in transactions similar to pre-release transactions (see "*Terms and conditions Of The Global Depositary Receipts*" above) may be taking actions that are inconsistent with the

claiming of foreign tax credits for U.S. holders of GDRs. Accordingly, the analysis of the creditability of Russian Federation taxes could be affected by actions taken by parties to whom the GDRs are pre-released. No gain or loss will be recognised if you exchange GDRs for Ordinary Shares represented by those GDRs or if you exchange Ordinary Shares for GDRs that represent them. Your tax basis in such Ordinary Shares will be the same as your tax basis in such GDRs, and the holding period in such Ordinary Shares will include the holding period in such GDRs.

Dividends

Subject to the application of the passive foreign investment company rules discussed below, the U.S. dollar value of distributions paid by NOMOS (including the amount of any taxes withheld) out of its earnings and profits, as determined under U.S. federal income tax principles, will be subject to tax as foreign source ordinary dividend income and will be includible in your gross income upon receipt. Because NOMOS does not intend to compute its earnings and profits for U.S. federal income tax purposes, U.S. Holders generally should treat distributions from NOMOS Bank as ordinary dividend income. Dividends received on the Ordinary Shares or GDRs will not be eligible for the dividends received deduction allowed to corporations. Subject to applicable limitations, dividends paid to non-corporate U.S. Holders in taxable years beginning before 1 January 2013 may be subject to U.S. federal income tax at lower rates (generally 15 per cent.) than other types of ordinary income. You should consult your tax advisor about how to account for payments that are not made in U.S. \$s, including any potential foreign currency exchange gain or loss. If you are not a corporation, you should consult your tax advisor about the applicability and implications of the preferential rate on dividends in your particular circumstances.

Subject to certain limitations, Russian Federation withholding tax, if any, paid in connection with any distribution with respect to Ordinary Shares or GDRs may be claimed as a credit against the U.S. federal income tax liability of a U.S. Holder if such U.S. Holder elects for that year to credit all foreign income taxes; otherwise, such Russian Federation withholding tax may be taken as a deduction. If you are eligible for benefits under the double tax treaty between the United States and the Russian Federation (the “**Treaty**”), you will not be entitled to a foreign tax credit for the amount of any Russian Federation taxes withheld in excess of the maximum rate under the Treaty and with respect to which you can obtain a refund from the Russian Federation taxing authorities. The limitation on foreign taxes eligible for credit or deduction is calculated separately with respect to specific classes of income. As the relevant rules are very complex, you should consult your tax advisor concerning the availability and utilisation of the foreign tax credit or deduction in your particular circumstances.

Sale or Other Disposition of Ordinary Shares or GDRs

Subject to the application of the passive foreign investment company rules discussed below, you will recognise U.S. source capital gain or loss upon the sale or other disposition of Ordinary Shares or GDRs in an amount equal to the difference between the U.S. dollar value of the amount realised upon the disposition and your adjusted tax basis in such Ordinary Shares or GDRs (generally their cost in U.S. \$s). Any capital gain or loss will be long-term if the Ordinary Shares or GDRs have been held for more than one year. Non-corporate U.S. Holders generally are eligible for reduced rates of tax on long term capital gains. The deductibility of capital losses may be subject to limitations. Gain realised by U.S. Holders on the sale or other disposition of Ordinary Shares or GDRs generally will be treated as U.S. source income. Consequently, if Russian tax is imposed on such gain, U.S. Holders will not be able to use the corresponding foreign tax credit, unless U.S. Holders have other foreign-source income of the appropriate type in respect of which the credit may be used. You should consult your tax advisor about how to account for sale or other disposition proceeds that are not paid in U.S. \$s, including any potential foreign currency exchange gain or loss.

Passive Foreign Investment Company Rules

A foreign corporation will be a PFIC in any taxable year in which, after taking into account the income and assets of the corporation after applying certain “look through rules”, either (i) at least 75 per cent. of its gross income is “passive income” or (ii) at least 50 per cent. of the quarterly average value of its assets is attributable to assets which produce passive income or are held for the production of passive income. In making this determination, the non-U.S. corporation is treated as earning its proportionate share of any income and owning its proportionate share of any assets of any company in which it holds a 25 per cent. or greater interest, by value. For these purposes, interest income is generally passive unless it is derived from the active conduct of trade or business. Under the PFIC rules, if NOMOS Bank were considered a PFIC at any time that you held its Ordinary Shares or GDRs, NOMOS Bank would continue to be treated as PFIC with respect to your investment unless you have made certain elections under the PFIC rules.

The IRS has issued a notice and has proposed regulations (with a proposed retroactive effective date) that exclude from passive income any income derived in the active conduct of a banking business by a qualifying foreign bank (the “active bank exception”). NOMOS does not expect NOMOS Bank to be classified as a PFIC for the prior or current year or expect it will be classified as a PFIC in the foreseeable future. However, because the application of the active bank exception is not entirely clear, and because the composition of NOMOS’s income and assets will vary over time, there can be no assurance that NOMOS Bank will not be a PFIC for any taxable year. NOMOS does not intend to assess NOMOS Bank’s PFIC status at the end of the current taxable year or for any future taxable years.

If NOMOS Bank were classified as a PFIC at any time while a U.S. Holder owns its Ordinary Shares or GDRs, the U.S. Holder could be subject to significantly greater amounts of U.S. tax than would otherwise apply with respect to (i) any gain on the sale or exchange of Ordinary Shares or GDRs and (ii) any “excess distributions” (generally distributions during a taxable year exceeding 125 per cent. of the average amount received during the three preceding taxable years or, if shorter, the U.S. Holder’s holding period). Additionally, dividends paid by NOMOS Bank would not be eligible for the special reduced rate of tax described above under “Dividends”. NOMOS Bank holds direct and indirect equity interests in entities that may be PFICs (“**Lower-tier PFICs**”). If NOMOS Bank were classified as a PFIC, U.S. Holders will be subject to the PFIC rules with respect to these Lower-tier PFICs as well. NOMOS does not intend to assess the PFIC status of its direct or indirect subsidiaries for any taxable year.

A U.S. Holder may make a mark-to-market election with respect to the Ordinary Shares or GDRs if the Ordinary Shares or GDRs are “regularly traded” on a “qualified exchange”. In general, the Ordinary Shares or GDRs will be treated as “regularly traded” in any calendar year in which more than a de minimis quantity of Ordinary Shares or GDRs are traded on a qualified exchange on at least 15 days during each calendar quarter.

If a U.S. Holder makes the mark-to-market election, for the first year in which NOMOS Bank is a PFIC during the U.S. Holder’s holding period, the U.S. Holder will generally include as ordinary income the excess, if any, of the fair market value of the Ordinary Shares or GDRs at the end of the taxable year over their adjusted tax basis, and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted tax basis of the Ordinary Shares or GDRs over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). If a U.S. Holder makes the election, the U.S. Holder’s tax basis in the Ordinary Shares or GDRs will be adjusted to reflect any such income or loss amounts. Any gain recognised on the sale or other disposition of Ordinary Shares or GDRs will be treated as ordinary income. You should consult your tax advisor regarding the availability and advisability of making a mark-to-market election in your particular circumstances.

Regardless of whether a U.S. Holder in a PFIC makes a mark-to-market election, a U.S. Holder in a PFIC is subject to additional U.S. tax reporting obligations. You should consult your tax advisor concerning the application of the PFIC rules and alternative tax elections that may be available.

Information Reporting and Backup Withholding

You may be subject to information reporting on amounts received by you from a distribution on, or disposition of, Ordinary Shares or GDRs, unless you establish that you are exempt from these rules. If you do not establish that you are exempt from these rules, you may be subject to backup withholding on the amounts received unless you timely provide your taxpayer identification number and otherwise comply with the requirements of the backup withholding rules. The amount of any backup withholding from a payment that you receive will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, provided that the required information is timely furnished to the U.S. Internal Revenue Service.

In addition, you should consult your tax advisor about any additional reporting obligations that may apply as a result of the acquisition, holding or disposition of the Ordinary Shares or GDRs.

UK Tax Considerations

The following is a general summary of certain UK tax considerations relating to the ownership and disposal of GDRs and Shares. The comments below are of a general nature and are based on current UK law (except where otherwise indicated) and published H.M. Revenue & Customs practice as of the date of this prospectus, as well as the provisions of the 1994 Income and Capital Gains Tax Convention between the UK and Russia (the “**UK Treaty**”), each of which is subject to change, possibly with retroactive effect. The summary only covers the principal UK tax consequences for the absolute beneficial owners of the Shares and GDRs (and any dividends paid in respect of them) who:

- are resident (and, in the case of individuals only, ordinarily resident and domiciled) solely in the UK for tax purposes;

- are not resident in Russia for tax purposes; and
- do not have a permanent establishment or fixed base outside the UK with which the holding of the Shares or GDRs (and the payment of dividends in respect of the Shares or GDRs) is connected.

Such absolute beneficial owners of the Shares or GDRs are referred to in this discussion as “**UK holders**”.

In addition, the summary only addresses the principal UK tax consequences for UK holders who hold the Shares or GDRs as capital assets. It does not address the UK tax consequences that may be relevant to certain other categories of holders, for example, brokers, dealers or traders in shares, securities or currencies. It also does not address the UK tax consequences for holders that are banks, financial institutions, insurance companies, investment companies, collective investment schemes, tax-exempt organisations, persons holding the Shares or GDRs as part of hedging or conversion transactions or persons connected with NOMOS Bank.

Further, the summary assumes that:

- a holder of the GDRs is, for UK tax purposes, absolutely beneficially entitled to the underlying Shares and to the dividends on those Shares;
- the UK holder did not acquire and will not be deemed to have acquired his/her Shares by virtue of an office or employment;
- the Shares will not be held by, and the GDRs will not be issued by, a depositary (or nominee or agent for a depositary) incorporated in the UK;
- the UK holder does not control or hold, either alone or together with one or more associated or connected persons, directly or indirectly, 10 per cent. or more of the shares and/or voting power or rights to profit or capital of NOMOS Bank;
- the Shares or GDRs are not held in an individual savings account;
- neither the Shares nor the GDRs are registered in a register kept in the UK, by or on behalf of NOMOS Bank, and they will not become so registered; and
- the Shares are not paired with shares issued by a body corporate incorporated in the UK nor will they be so paired.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular holder. You should satisfy yourself as to the overall tax consequences, including, specifically, the consequences under UK law and H.M. Revenue & Customs practice, of acquisition, ownership and disposition of the Shares or GDRs in your own particular circumstances, by consulting your own tax advisors.

Taxation of Dividends

Income Tax and Corporation Tax

UK holders will, in general, be subject to UK income tax or corporation tax (subject to ‘*Tax liability for Corporate Shareholders*’ below), as applicable, on the total of the dividends received on their Shares or GDRs plus any withholding tax deducted in Russia.

Russian Withholding Tax and Tax Credits

Any Russian withholding tax may be allowed as a credit against the UK income or corporation tax liability, as applicable, of a UK holder in respect of the dividend depending on the circumstances but any excess of such Russian withholding tax over the UK tax payable on the aggregate amount of the dividend is not generally refundable. The amount of credit for Russian tax cannot exceed the credit that would have been allowed had all reasonable steps been taken under Russian domestic law and under the UK Treaty to minimise the amount of tax payable in the Russian Federation, including obtaining relief at source and any available refunds. See also “— *Russian Tax Considerations*”, in particular, the rules described in “— *Russian Tax Considerations — Taxation of Dividends — Non-Resident Holders-GDRs*” and “— *Russian Tax Considerations — Tax Treaty Procedures*”. For the reasons described in these sections and the reasons given above, a UK holder may be left without credit or relief in both Russia and the UK in respect of Russian withholding tax.

NOMOS Bank need not make any deduction from payments of dividends for or on account of UK tax.

Tax Liability for Individual Holders

For an individual UK holder who is liable to UK income tax on dividends, UK income tax will be chargeable on the gross dividend (as defined below) with potential credit (as described above) for Russian tax deducted at source.

An individual UK holder who receives a dividend will generally be entitled to a tax credit which may be set off against the holder's total income tax liability on the dividend. The tax credit will, subject to certain conditions being met, be equal to 10 per cent. of the aggregate of the dividend (before deduction of any Russian withholding tax) and the tax credit (the "**gross dividend**"). Such an individual UK holder who is liable to income tax at the basic rate will be subject to tax on the dividend at the rate of 10 per cent. of the gross dividend, so that the tax credit will satisfy in full such shareholder's liability to income tax on the dividend. In the case of such an individual UK holder who is liable to income tax at the higher rate, the tax credit will be set against but not fully match the UK holder's tax liability on the gross dividend and such UK holder will have to account for additional income tax equal to 22.5 per cent. of the gross dividend (which is also equal to 25 per cent. of the cash dividend (before deduction of any Russian withholding tax)) to the extent that the gross dividend when treated as the top slice of the UK holder's income falls above the threshold for higher rate income tax. In the case of such an individual UK holder who is subject to income tax at the additional rate, the tax credit will also be set against but not fully match the UK holder's liability on the gross dividend and such UK holder will have to account for additional income tax equal to 32.5 per cent. of the gross dividend (which is also equal to approximately 36 per cent. of the cash dividend received (before deduction of any Russian withholding tax)) to the extent that the gross dividend when treated as the top slice of the shareholder's income falls above the threshold for additional rate income tax.

Tax Liability for Corporate Shareholders

For a UK holder within the charge to UK corporation tax, UK corporation tax will be chargeable on the gross amount of any dividends, subject to any applicable credit for Russian tax suffered either directly or by deduction at source (as described above), unless (subject to special rules for such shareholders that are small companies) the dividends fall within an exempt class (and the holder does not elect for an otherwise exempt dividend to be taxable) and certain other conditions are met. However, no such tax credit for Russian tax suffered either directly or by deduction at source will be available where, for a UK holder within the charge to corporation tax, the dividends are exempt. In appropriate cases, a holder may be entitled to relief at source or a refund of Russian tax.

Provision of Information

Persons in the United Kingdom paying "**foreign dividends**" to, or receiving "**foreign dividends**" on behalf of, another person may be required to provide certain information to H.M. Revenue & Customs regarding the identity of the payee or the person entitled to the "**foreign dividend**" and, in certain circumstances, such information may be exchanged with tax authorities in other countries. Certain payments on or under the Shares or GDRs may constitute "**foreign dividends**" for this purpose. However, in accordance with guidance published by HMRC applicable for the 2011/2012 tax year, dividend payments in respect of the Shares or GDRs should not be treated as falling within the scope of the requirement. There is no guarantee that equivalent guidance will be issued in respect of future years.

Taxation of Capital Gains

The disposal or deemed disposal of all or part of the Shares or GDRs held by a UK holder may give rise to a chargeable gain or an allowable loss for the purposes of UK capital gains tax (where the UK holder is an individual) and UK corporation tax on chargeable gains (where the UK holder is within the charge to UK corporation tax), depending on their circumstances and subject to any available exemption or relief.

As regards individual UK holders, the principal factors that will determine the extent to which such gain will be subject to UK capital gains tax are the extent to which they realise any other capital gains in the tax year in which the disposal takes place, the extent to which they have incurred capital losses in that or any earlier tax year and the level of the annual allowance of tax-free gains in that tax year (the "**annual exemption**").

The annual exemption for individuals is £10,600 for the 2011/2012 tax year.

If, after all allowable deductions, an individual UK holder's taxable income for the year exceeds the basic rate income tax limit, a taxable capital gain accruing on a disposal of Shares or GDRs will be taxed at

28 per cent. In other cases, a taxable capital gain accruing on a disposal of Shares or GDRs may be taxed at 18 per cent. or 28 per cent. or at a combination of both rates.

An individual UK holder who ceases to be resident or ordinarily resident in the United Kingdom for a period of less than five years and who disposes of his or her Shares or GDRs during that period of temporary non-residence may be liable to UK capital gains tax on a chargeable gain accruing on such disposal on his or her return to the UK (subject to available exemptions or reliefs).

A UK holder that is a company may be entitled to an indexation allowance that applies to reduce chargeable gains to the extent that they arise due to inflation. Indexation allowance may reduce a chargeable gain but not create or increase any allowable loss.

Any gains or losses in respect of currency fluctuations relating to the Shares or GDRs would be brought into account on the disposal.

As discussed in “— *Russian Tax Considerations — Taxation of Capital Gains*,” certain capital gains may be subject to Russian tax. Credit against UK capital gains or corporation tax on the same gain may be available in respect of the Russian tax suffered, subject to the detailed UK tax law and practice regarding the availability and calculation of such credit. Relief may also be available for individual holders under the term of the UK Treaty (See “— *Russian Tax considerations — Taxation of Capital Gains — Application of Double Tax Treaties to Capital Gains received by Non-Residents*”).

Stamp Duty and Stamp Duty Reserve Tax

No stamp duty will be payable in the UK in connection with a transfer of the Shares provided that any instrument of transfer is executed and retained outside the UK and does not relate to any property situated or to any matter or thing done or to be done in the UK.

No stamp duty reserve tax (“SDRT”) will be payable in the UK in respect of any agreement to transfer the Shares.

No stamp duty or SDRT will arise in the UK in respect of:

- the issue of the GDRs;
- the delivery of the GDRs into a clearance service, such as DTC, Euroclear or Clearstream; or
- any dealings in the GDRs once they are issued into the clearance service, where such dealings are effected in book entry form in accordance with the procedures of the clearance service and not by written instrument of transfer.

Inheritance tax

UK inheritance tax may be chargeable on the death of, or in certain circumstances on a gift by the owner of, Shares or GDRs where the owner is an individual who is domiciled or is deemed to be domiciled in the UK. For inheritance purposes, a transfer of assets at less than the full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit. Special rules also apply to close companies and to trustees of settlements who hold shares or GDRs, bringing them within the charge of inheritance tax.

Russian Tax Considerations

The following is a summary of certain Russian tax considerations relevant to payments to Russian resident and non-resident investors holding the Shares and the GDRs and to the purchase, ownership and disposition of the Shares and the GDRs by Russian resident and non-resident investors. This summary is based on the laws of Russia in effect as of the date of this Prospectus. The discussion with respect to Russian legislation is based on NOMOS’s understanding of current Russian law and tax rules, which are subject to frequent change and varying interpretations.

This summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. The summary does not seek to address the availability of double tax treaty relief and, in any case, it should be noted that there might be practical difficulties involved in claiming relief under any applicable double tax treaty. You should consult your

own professional advisors regarding the tax consequences of investing in the Shares and GDRs. No representations with respect to the Russian tax consequences to any particular investor are made hereby.

The Russian tax rules applicable to GDRs are characterised by uncertainties and by very limited and insufficient regulations. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian authorities may be subject to more rapid and unpredictable change than in a jurisdiction with more developed capital markets and more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectors.

For the purposes of this summary, a “Russian resident investor” means: (i) an individual investor holding Shares and GDRs actually present in the Russian Federation for 183 days (including days of arrival in Russia and days of departure from Russia) or more in 12 consecutive months (individual presence in Russia is not considered interrupted if an individual departs for short periods (less than six months) for the purpose of medical treatment or education.); or (ii) an investor, which is a Russian legal entity; or (iii) a legal entity or an organisation, in each case organised under a foreign law, that holds and disposes of the Shares and GDRs through its permanent establishment in Russia.

For the purposes of this summary, a “non-resident investor” is a holder of the Shares or GDRs which is not qualified to be a Russian resident investor defined in the previous paragraph.

Taxation of Acquisition of the Shares and GDRs

No Russian tax implications should arise for any Russian resident investor or non-resident investor holding the Shares and GDRs, upon purchase of the Shares and GDRs. However, under certain conditions a taxable material gain may arise for individuals if the Shares and GDRs are purchased at a price below the market value determined by Russian tax legislation.

Taxation of Dividends

A Russian company that pays dividends is generally obliged to act as a tax agent and to withhold tax on those dividends and remit the amount of tax due to the Russian budget. However, the applicable withholding tax rate will depend on the status of the dividend’s recipient.

Russian Resident Investors

- **Shares.** Dividends paid to a Russian resident investor holding Shares that is a Russian legal entity or organisation or an individual will be generally subject to Russian withholding tax at the rate of 9 per cent. The effective rate of this tax may be lower than 9 per cent. owing to the fact that generally NOMOS should calculate this tax based on the formula that takes into consideration the difference between (i) the dividends to be distributed by NOMOS Bank to its shareholders (other than to non-resident companies and non-resident individuals) and (ii) dividends collected by NOMOS in the current and preceding tax (reporting) periods (except for dividends taxable at the rate of 0 per cent. under the current Russian tax law) provided that these amounts have not previously been taken into consideration when calculating tax on dividends. Dividends received by Russian legal entities from the qualified Russian and foreign subsidiaries are taxable at the rate of 0 per cent. This participation exemption is available with respect to subsidiaries in which (1) the participation of the parent company is not less than 50 per cent., and (2) the participation has been held for more than 365 days, and (3) the subsidiary is not a resident of one of the jurisdictions included into the list of tax havens by the Russian Ministry of Finance. According to clarifications issued by the Russian tax authorities, it may be possible to claim that the 9 per cent. withholding tax rate should apply to dividends paid to a Russian permanent establishment of a foreign organisation, based on the non-discrimination provisions of the double tax treaty between Russia and the country of tax residency of the respective foreign organisation. However, as the Russian Tax Code does not specifically provide for the application of the reduced tax rate in such situations and the application of treaty-based non-discrimination cases is still rare in Russian tax practice, no assurance can be given that claims for the application of the 9 per cent. tax rate would not be challenged by the Russian tax authorities, hence it is likely that a 15 per cent. withholding tax rate would be applied by NOMOS.
- **GDRs.** There are uncertainties in relation to withholding tax on dividends payable to Russian resident investors holding GDRs primarily because the taxation of dividends payable under GDRs is poorly addressed in Russian tax law. Although in 2005 there was a single clarification of the Russian Ministry

of Finance having a private nature (not having legislative nature) stating that Russian residents if their income in the form of dividends was taxed at the rate of 15 per cent. may claim a refund or credit of the tax relating to the difference between the 15 per cent. and 9 per cent. tax rates, NOMOS cannot assure that the above clarification would apply to Russian holders of GDRs or whether the Russian tax authorities would follow the above approach. Based on the above and as the Depositary (and not the holders of the GDRs) is the legal holder of Ordinary Shares under Russian law, NOMOS Bank will likely withhold tax at a domestic rate of 15 per cent. applicable to dividends payable to non-resident investors (as described below). Upon receiving dividends, Russian holders, which are legal entities, may be required to pay additional Russian corporate income tax at the rate of 9 per cent. or 20 per cent. (the higher rate applies if the income received is not recognised as dividends) while for Russian resident investors, who are individuals — personal income tax at the rate of 9 per cent. or 13 per cent. (the higher rate applies if the income received is not recognised as dividends for Russian tax purposes). There is also no established procedure providing for the refund or credit of tax withheld from dividends payable through the Depositary to Russian resident investors of GDRs. Accordingly, Russian residents are urged to consult their own tax advisors regarding the tax treatment of the purchase, ownership and disposition of the GDRs.

Non-Resident Investors

- **Shares.** Dividends paid to a non-resident investor holding the Shares will generally be subject to Russian withholding tax, which NOMOS Bank will withhold. Under Russian domestic law dividends paid to a non-resident investor will be subject to Russian withholding tax at a rate of 15 per cent. Withholding tax on dividends may be generally reduced under the terms of a double tax treaty between the Russian Federation and the country of tax treaty residence of a non-resident investor holding of the Shares.
- **GDRs.** Comments provided in the previous section (see “— *Taxation of Dividends — Resident Investors — Shares*”) are also applicable to GDRs. Notwithstanding the foregoing, treaty relief for dividends received may not be available to non-resident investors holding GDRs. In 2005, 2006 and 2007, the Ministry of Finance of the Russian Federation repeatedly expressed an opinion that depositary receipt holders (rather than the Depositary) should be treated as the beneficial owners of dividends for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying ordinary shares, provided that the tax residencies of the depositary receipt holders are duly confirmed. However, in the absence of any specific provisions in Russian tax legislation with respect to the taxation of dividends attributable to investors holding GDRs, it is unclear how the Russian tax authorities and courts would ultimately treat the GDR holders in this regard. Moreover, from a practical perspective, it may not be possible for the Depositary to collect residence confirmations from all investors holding GDRs and submit such information to NOMOS Bank and, in addition, NOMOS Bank may be unaware of the exact amount of income payable to each particular investor. Although non-resident investors holding GDRs may apply for a refund of a portion of the tax withheld under an applicable tax treaty, the procedure to do so may be time consuming and no assurance can be given that the Russian tax authorities would grant such a refund. See “— *Tax Treaty Procedures*” below. With respect to individuals who are non-resident investors holding GDRs, NOMOS Bank may also be obligated to withhold income tax at the rate of 15 per cent. from dividend payments made to the Depositary. NOMOS Bank will not be able to act as a tax agent for these individuals and will not be able to withhold personal income tax with respect to such dividend payments. In practice, it may be impossible to apply a beneficial withholding tax rate in advance with respect to payments made in favour of individuals, as documentation is to be first provided to the tax authorities to obtain their approval for the double tax treaty relief. Individuals who are non-resident investors holding GDRs will then be obliged to submit a personal tax return to the Russian tax authorities. When submitting the tax return, individuals may claim an application of the reduced rates of withholding tax established by the respective international double tax treaties, provided that the procedures described in “— *Tax Treaty Procedures*” are complied with. Obtaining the approvals from the relevant tax authorities may be time-consuming and burdensome. In practice, the tax authorities may not take into account the 15 per cent. tax withheld from payment of dividends to the Depositary as the tax authorities are unlikely to treat the 15 per cent. withholding tax as the tax liability of individual investors. Therefore, it is possible that non-resident investors may be subject to up to a 45 per cent. effective tax on dividends paid on shares held on deposit, i.e. 15 per cent. income tax withheld by NOMOS Bank plus a 15 per cent. or 30 per cent. (the higher rate applies if the income received is not recognised as dividends for Russian tax purposes) Russian personal income tax payable on the self-

assessed basis. See “— *Risk Factors — Risk Relating to the Offering and the Global Depositary Receipts and Shares — Non-resident investors who are individuals holding GDRs may suffer from a higher effective rate of tax on dividends.*”

Taxation of Capital Gains

The following sections summarise the taxation of capital gains in respect of the disposal of the Shares and GDRs. As the Russian legislation related to the taxation of capital gains derived by Russian resident investors (including legal entities, organisations and individuals) in connection with GDRs is not entirely clear, NOMOS urges Russian residents to consult their own tax advisors regarding the tax treatment of any purchase, ownership and disposal of GDRs.

Taxation of Legal Entities and Organisations

- **Russian Resident Investors.** Capital gains arising from the sale of the Shares and GDRs by a Russian resident investor which is an organisation will be taxable at the regular Russian corporate profits tax rate of 20 per cent. Russian tax legislation contains a requirement that in general a profit arising from activities connected with securities quoted on a stock exchange must be calculated and accounted separately from a profit earned from activities connected with securities that are not quoted on a stock exchange and from other profits. Therefore, Russian resident investors may be able to apply losses arising in respect of the listed Shares and the GDRs to offset capital gains, or as a carry-forward amount to offset future capital gains, from the sale, exchange or other disposal of securities quoted on a stock exchange and, in respect of the non-listed GDRs, from the sale, exchange or other disposal of securities not quoted on a stock exchange. Special tax rules apply to Russian organisations that hold a broker and/or dealer license. The Russian Tax Code also establishes special rules for the calculation of the tax base for the purposes of transactions with securities.
- **Non-Resident Investors.** Capital gains arising from the sale, exchange or other disposal of the Shares and GDRs by legal entities and organisations that are non-resident investors should not be subject to tax in Russia if the immovable property located in Russia constitutes 50 per cent. or less of NOMOS’s assets. If more than 50 per cent. of its assets were to consist of immovable property located in Russia, legal entities and organisations that are non-resident investors holding the Shares and GDRs should be subject (except as described below) to a 20 per cent. withholding tax on the gross proceeds from sale, exchange or other disposal of the Shares and GDRs or 20 per cent. withholding tax on the difference between the sales, exchange or other disposal price and the acquisition costs of the Shares and GDRs. However, it should be noted that the determination of whether more than 50 per cent. of its assets consist of immovable property located in Russia is inherently factual and is made on an on-going basis, and the relevant Russian legislation and regulations in this respect are not entirely clear. Hence, there can be no assurance that immovable property owned by NOMOS and located in Russia will not constitute more than 50 per cent. of NOMOS’s assets as at the date of the sale of Shares and GDRs by non-residents. Certain international double tax treaties may provide for protection from the Russian taxation in the case in question. Where the Shares and GDRs are sold by legal entities or organisations to persons other than a Russian company or a foreign company with a registered permanent establishment in Russia, even if the resulting capital gain is considered taxable in Russia, there is currently no mechanism under which the purchaser will be able to withhold the tax and remit it to the Russian Federal Treasury.

Gains arising from a sale of the foregoing types of securities on non-Russian stock exchanges (where these securities are listed) by non-resident investors that are organisations are not treated as income from a Russian source, and are not subject to taxation in Russia. Therefore, as long as the GDRs remain listed on a non-Russian stock exchange, gains arising from a sale of the GDRs on that non-Russian stock exchange by non-resident organisations should not be subject to taxation in Russia.

Taxation of Individuals

- **Russian Resident Investors.** Capital gains arising from the sale, exchange or other disposal of the Shares and GDRs by individuals who are Russian resident investors must be declared on the holder’s tax return and are subject to personal income tax at a rate of 13 per cent. The income in respect of sale of the Shares or the GDRs by an individual is calculated as the sale proceeds less expenses proved by documentary evidence related to the purchase of these securities (including the cost of the securities and the expenses associated with the purchase, keeping and sale of these securities). Similarly for legal entities or organisations, Russian tax legislation contains a requirement that a financial result in respect of activities connected with securities quoted on a stock exchange must be calculated separately from a financial result in respect of trading in non-quoted securities. Russian resident investors may carry forward losses arising from dealing with the quoted securities or derivatives having the quoted

securities as underlying assets to offset future capital gains from the sale, exchange or other disposal of other quoted securities or derivatives having the quoted securities as underlying assets. No loss carry-forward is available for non-quoted securities and derivatives.

- **Non-Resident Investors.** The taxation of the income of non-resident individuals depends on whether this income is received from Russian or non-Russian sources. Russian tax law considers the place of sale as an indicator of source. Accordingly, the sale of the Shares and GDRs outside of Russia by individuals who are non-resident investors should not be considered Russian source income and, therefore, should not be taxable in Russia. However, the Russian tax law gives no clear indication as to how the place of sale of the Shares and GDRs should be defined in this respect. Therefore, the Russian tax authorities may have a certain amount of flexibility in concluding whether a transaction is in, or outside, Russia. The sale, exchange or other disposal of the Shares and the GDRs by non-resident investors in Russia will be considered Russian source income and will be subject to tax at the rate of 30 per cent. on the difference between the sales price and the acquisition value of such Shares and GDRs as well as other documented expenses, such as depositary expenses and broker fees.
- **Withholding of tax on capital gains (Resident and Non-Resident Investors).** Under Russian law if the sale was made by a holder through a professional trust manager, dealer, broker, commissioner or agent that is a Russian legal entity or a foreign legal entity or organisation with a permanent establishment in Russia, such professional trust manager, dealer, broker, commissioner or agent should also act as a tax agent and calculate (including apply deduction of acquisition value or other expenses at the source of payment), withhold the applicable tax from payments due to taxpayers and remit it to the Federal Treasury. Such a tax agent will be required to pay the respective amounts withheld within a month after the end of the reporting year or the date of the payment of income. In case of impossibility to withhold tax, tax agents have an obligation to notify the tax authorities.

Application of Double Tax Treaties to Capital Gains Received by Non-Residents that are Individuals

- In some circumstances, a non-resident investor may be exempt from Russian personal income tax on the sale, exchange or other disposal of the Shares and GDRs under the terms of a double tax treaty between the Russian Federation and the country of residence of the non-resident investor. Under the United States — Russia Tax Treaty, capital gains from the sale of the Shares and/or GDRs by U.S. holders should be exempt from taxation in Russia unless 50 per cent. or more of NOMOS's assets (as the term "fixed assets" is used in the Russian version of the United States — Russia Tax Treaty) were to consist of immovable property located in Russia. If this 50 per cent. threshold is not met, individuals who are U.S. holders may seek to obtain the benefit of the United States — Russia Tax Treaty in relation to capital gains resulting from the sale, exchange or other disposal of the Shares and/or GDRs. The UK — Russia Treaty provides for an exemption from personal income tax on capital gains received by UK holders unless the gains relate to shares that both (a) derive their value or the greater part of their value directly or indirectly from immovable property in Russia and (b) are not quoted on an approved stock exchange. Therefore, individuals who are UK holders, may also apply the provisions of the UK — Russia Tax Treaty as it exempts from Russian taxation any gain on the disposal of the Shares and GDRs quoted on an approved stock exchange.
- In order to apply the provisions of the relevant double tax treaties, the individual investors should receive clearance from the Russian tax authorities as described below. See "*— Tax Treaty Procedures*" below.

Tax Treaty Procedures

The Russian Tax Code does not require a non-resident investor, which is a legal entity, to obtain tax treaty clearance from the Russian tax authorities prior to receiving any income in order to qualify for benefits under an applicable tax treaty. However, a non-resident legal entity seeking to obtain relief from Russian withholding tax under a tax treaty must provide, to a tax agent (i.e. the entity paying income to a non-resident), a confirmation of its tax treaty residence that complies with the applicable requirements in advance of receiving the relevant income.

In accordance with the Russian Tax Code, a non-resident investor, who is an individual, must present to the tax authorities a document confirming his or her residency in his or her home country (a tax residency certificate issued by the competent authorities in their country of residence for tax purposes) and also other supporting documentation, including a statement confirming the income received and the tax paid offshore issued or approved by the tax authorities in the country in which he or she is a resident for tax purposes. The Russian tax authorities may require a Russian translation of certain documents. Technically, the above requirements mean that

an individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her residence. Therefore advance relief from withholding taxes for individuals will generally be impossible as it is very unlikely that the supporting documentation for the treaty relief can be provided to the tax authorities and approval from the tax authorities obtained before the year end. A non-resident investor, which is an individual, may apply for treaty-based benefits within one year following the end of the tax period in which the relevant income was received. Procedures for processing such claims have not been clearly established and there is significant uncertainty regarding the availability and having of such refunds.

If a non-resident investor, which is a legal entity or an organisation, does not obtain tax treaty relief at the time that income or gains are realised and tax is withheld by a Russian tax agent, the non-resident investor may apply for a refund within three years from the end of the tax period (a calendar year) in which the tax was withheld. To process a claim for a refund, the Russian tax authorities require: (i) a confirmation of the tax treaty residence of the non-resident at the time the income was paid; (ii) an application for the refund of the tax withheld in a format provided by the Russian tax authorities; and (iii) copies of the relevant contracts under which the foreign entity received income as well as payment documents confirming the payment of the tax withheld to the Russian budget (Form 1012DT for dividends and interest and Form 1011DT for other income are designed by the Russian tax authorities to connect the requirements specified in (i) and (ii) above and recommended for application). The Russian tax authorities may require a Russian translation of the above documents if they are prepared in foreign language. The refund of the tax withheld should be granted within one month of the filing of the required documents with the Russian tax authorities. However, procedures for processing such claims have not been clearly established and there is significant uncertainty regarding the availability and timing of such refunds.

The procedures referred to above may be more complicated with respect to GDRs because Russian tax law does not comprehensively address taxation and tax treaty procedures for dividends payable under GDRs. Thus, no assurance can be given that NOMOS will be able to apply the respective double tax treaties when paying dividends to non-resident investors in relation to GDRs.

Stamp Duties

No Russian stamp duty will be payable by investors holding Shares and GDRs upon the carrying out of transactions with the Shares and GDRs as discussed in the Taxation section of this prospectus (i.e. on a purchase of the Shares and GDRs, sale of the Shares and GDRs, etc.), except with respect to transactions involving the receipt of inheritance.

PLAN OF DISTRIBUTION AND SELLING RESTRICTIONS

The Offering consists of an offering by the Selling Shareholders of up to 3,374,998 Shares and up to 34,298,004 GDRs excluding Shares sold in the Over-Allotment Option, with each two GDRs representing an interest in one Ordinary Share. The Offering comprises (i) an offering of Shares in the Russian Federation and (ii) an offering of GDRs and Shares outside of the Russian Federation. The Shares and GDRs are being offered outside the United States in reliance on Regulation S and within the United States to QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, registration under the Securities Act.

Under the terms of, and subject to, the conditions contained in the Underwriting Agreement dated 18 April 2011 entered into amongst NOMOS Bank, the Selling Shareholders, Lordline Limited (in its capacity as a Subscribing Shareholder), the Co-Manager and the Joint Bookrunners, the Joint Bookrunners named below have severally agreed to procure purchasers for, or to themselves purchase, at the Offer Price, the number of Shares (in the form of Shares and GDRs) in the aggregate amount as indicated below. NOMOS Bank and the Selling Shareholders have agreed to make available, at the Offer Price, to the Joint Bookrunners, the following number of Ordinary Shares for such purpose:

<u>Joint Bookrunners</u>	<u>Number of Shares (in the form of Shares and GDRs)</u>	<u>Number of GDRs in respect of the Over-Allotment Option</u>
Citigroup Global Markets Limited	2,645,834	668,811
Credit Suisse Securities (Europe) Limited	5,902,245	1,491,963
Deutsche Bank AG, London Branch	5,902,246	1,491,963
VTB Capital plc	5,902,246	1,491,963
	<u>20,352,571</u>	<u>5,144,700</u>

See “*Use of Proceeds*” for an explanation of expenses paid pursuant to the Offering.

The Joint Bookrunners will be soliciting non-binding indications of interest in acquiring GDRs in the Offering from prospective investors. Prospective investors will be required to specify the number of GDRs they would be prepared to acquire at the Offer Price. This process is known as book-building. GDRs allocated under the Offering, following the determination of the Offer Price, will be fully underwritten by the Joint Bookrunners as described in this section. Allocations will be determined by the Joint Bookrunners (with final approval by NOMOS) after non-binding indications of interest from prospective investors have been received in the book-building process.

All GDRs sold in the Offering will be sold at the Offer Price. The Offer Price for the GDRs will be determined by agreement between NOMOS, the Selling Shareholders and the Joint Bookrunners. A number of factors may be considered in determining the Offer Price and the bases of allocation under the Offering, including the level and nature of demand for the GDRs and the objective of encouraging the development of an orderly after-market in the GDRs. The Offer Price may be established at a level determined in accordance with these arrangements, taking into account indications of interest received (whether before or after the times and/or dates stated) from persons (including market makers and fund managers) connected with the Joint Bookrunners.

Application has been made to: (i) the FSA for a listing of up to 46,211,184 GDRs, consisting of 34,298,004 GDRs to be issued on the closing of the Offering, up to 5,144,700 additional GDRs to be issued pursuant to the Over-Allotment Option and up to 6,768,480 additional GDRs to be issued from time to time against the deposit of Ordinary Shares with the Depositary, and to be admitted to the Official List, and (ii) the London Stock Exchange for such GDRs to be admitted to trading on the London Stock Exchange’s regulated market for listed securities. Prior to the Offering, there has been no substantial market for the GDRs. Trading in the GDRs on the London Stock Exchange is expected to commence on 19 April 2011, on a “when and if issued” basis. Closing and settlement are expected to take place on 26 April 2011, and admission to the Official List of the FSA and to unconditional trading on the London Stock Exchange’s regulated market for listed securities are expected to take place on 27 April 2011.

Investors wishing to enter into transactions in the GDRs prior to the closing of the Offering, whether such transactions are effected on the London Stock Exchange or otherwise, should be aware that the closing of the Offering may not take place on 26 April 2011 or at all if certain conditions or events referred to in the Underwriting Agreement are not satisfied or waived or do not occur on or prior to such date. All such transactions will be of no effect if the Offering does not become unconditional.

Underwriting Agreement and Over-Allotment Option

The Underwriting Agreement and related arrangements contain the following provisions, amongst others:

- Lobston Enterprises Limited has granted an Over-Allotment Option to the Joint Bookrunners to acquire up to 5,144,700 additional GDRs at the Offer Price for the purpose of covering over-allotments and other short positions, if any, in connection with the Offering. The Over-Allotment Option is exercisable upon written notice to Lobston Enterprises Limited and NOMOS at any time up to and including the 30th day following the announcement of the Offer Price. If the Joint Bookrunners exercise the Over-Allotment Option, Lobston Enterprises Limited will be obligated to sell and each Joint Bookrunner will be severally obligated, subject to the conditions contained in the Underwriting Agreement, to purchase, a number of additional GDRs proportionate to that Joint Bookrunner's initial amount indicated in the table above.
- The Joint Bookrunners will deduct from the proceeds of the Offering:
 - (i) certain costs and expenses incurred by the Joint Bookrunners in connection with the Offering, including, but not limited to, fees, expenses and disbursements of their legal counsel and out of pocket and other expenses; and
 - (ii) underwriting commissions payable by NOMOS and the Selling Shareholders amounting to 2 per cent. of the gross proceeds of the Offering and, if any Over-Allotment Option is exercised a commission amounting 2 per cent. of any GDRs purchased as a result of the exercise of any Over-Allotment Option; and
 - (iii) at the sole discretion of NOMOS and the Selling Shareholders, an additional fee of up to 1 per cent. of the gross proceeds of the Offering and, if any Over-Allotment Option is exercised, at the sole discretion of NOMOS and the Selling Shareholders, an additional fee of up to 1 per cent. of any GDRs purchased as a result of the exercise of any Over-Allotment Option.
- The obligations of the parties to the Underwriting Agreement are subject to certain conditions that are typical for an agreement of this nature. These conditions include, amongst others, the accuracy of the representations and warranties contained in the Underwriting Agreement and the application for admission to the Official List of the FSA and to trading on the London Stock Exchange having been approved on or prior to the closing of the Offering. The Joint Bookrunners may terminate the Underwriting Agreement prior to the closing of the Offering in certain specified circumstances that are typical for an agreement of this nature. These include the occurrence of certain material changes in NOMOS's condition, including its financial condition, business affairs and business prospects, and certain changes in financial, political or economic conditions (as set out more fully in the Underwriting Agreement). If any of the above-mentioned conditions are not satisfied (or waived, where capable of being waived) by, or the Underwriting Agreement is terminated prior to, the closing of the Offering, then the Offering will lapse.
- NOMOS and the Selling Shareholders have given certain customary representations and warranties to the Joint Bookrunners, including in relation to the business, the accounting records and the legal compliance of NOMOS, in relation to the Ordinary Shares and the GDRs and in relation to the contents of this Prospectus. Lordline Limited has given certain customary representations and warranties to the Joint Bookrunners pursuant to the Closed Subscription.
- Each of NOMOS and the Selling Shareholders has given customary indemnities to the Joint Bookrunners in connection with the Offering.
- If a Joint Bookrunner defaults, the Underwriting Agreement provides that in certain circumstances, the purchase commitments of the non-defaulting Joint Bookrunner may be increased or the Underwriting Agreement may be terminated.

The Joint Bookrunners are offering the GDRs when, as and if, delivered to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the GDRs and other conditions contained in the Underwriting Agreement, such as the receipt by the Joint Bookrunners of, amongst other things, officer's certificates and legal opinions.

Lock-up Provisions

Each of NOMOS Bank, the Selling Shareholders and certain of its other shareholders have agreed that neither it, nor any of its affiliates or subsidiaries, nor any person acting on its or their behalf will, subject to certain exceptions including transfers between existing shareholders at the date of this Prospectus, from the date hereof until 180 days after the later of the Closing Date or the Over-Allotment Option closing date, without the prior written consent of the Joint Bookrunners:

- (i) issue, offer, sell, lend, mortgage, assign, charge, contract to sell, sell or grant any option to contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant or contract to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or

indirectly, any Ordinary Shares or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any Ordinary Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and option or GDRs representing the right to receive any such securities; or

- (ii) enter into any swap or other agreement that transfers, in whole or in part, directly or indirectly, any of the economic consequences of ownership of GDR's Ordinary Shares or other such shares in NOMOS Bank; or
- (iii) enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above, whether any such transaction described above is to be settled by delivery of GDRs, Ordinary Shares or such other securities, in cash or otherwise, subject to certain limitations.

The lock-up arrangement described above shall not apply to the Offering, the Over-Allotment Option and any GDRs lent by Lobston Enterprises Limited in connection therewith.

Stabilisation

In connection with the Offering, the Stabilising Manager or any agent or other person acting for the Stabilising Manager, may over-allot or effect transactions intended to enable it to satisfy any over-allocations or which stabilise, maintain, support or otherwise affect the market price of the GDRs at a level higher than that which might otherwise prevail for a period of 30 days following the announcement of the Offer Price. However, there is no obligation on the Stabilising Manager or any agent of the Stabilising Manager, to do this. Such transactions may be effected on the London Stock Exchange and any other securities market, over-the-counter-market, stock exchange or otherwise. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end 30 days following the announcement of the Offer Price. Save as required by law, the Joint Bookrunners do not intend to disclose the extent of any over-allotments and/or stabilisation transactions under the Offering.

In accordance with applicable regulations the Joint Bookrunners may also sell GDRs in excess of their Over-Allotment Option up to a maximum of 15 per cent. of the Offering, creating a naked short position. The Joint Bookrunners must close out any naked short position by purchasing GDRs in the open market.

In connection with the Offering, each of the Joint Bookrunners and any affiliate acting as an investor for its own account may take up the GDRs offered in the Offering and in that capacity may retain, purchase or sell the GDRs for its own account and may offer or sell such securities otherwise than in connection with the Offering. The Joint Bookrunners do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Other Relationships

The Joint Bookrunners and their respective affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with NOMOS. They receive customary fees and commissions for these transactions and services.

TRANSFER RESTRICTIONS

SELLING RESTRICTIONS

The distribution of this document and the Offering in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any restrictions, including those set forth in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the Securities, or possession or distribution of this Prospectus or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the Securities may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisement in connection with the Securities may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions on the distribution of this Prospectus and the offer, subscription and sale of the Securities offered in the Offering, including those in the paragraphs below. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Prospectus does not constitute an offer to subscribe for or buy any of the Securities offered in the Offering to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

Australia

No document in relation to the Offering has been, or will be lodged with, or registered by, the Australian Securities and Investments Commission in relation to the Offering or the Securities. Accordingly, subject to certain exceptions the Securities may not, directly or indirectly, be offered or sold within Australia or offered or sold to a resident of Australia.

Canada

Resale Restrictions

The distribution of the Securities in Canada is being made only on a private placement basis exempt from the requirement that the Selling Shareholders prepare and file a prospectus with the securities regulatory authorities in each province where trades of Securities are made. Any resale of the Securities in Canada must be made under applicable securities laws which may vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the Securities.

Representations of Purchasers

By purchasing Securities in Canada and accepting delivery of a purchase confirmation, a purchaser is representing to the Selling Shareholders and the dealer from whom the purchase confirmation is received that:

- the purchaser is entitled under applicable provincial securities laws to purchase the Securities without the benefit of a prospectus qualified under those securities laws as it is an “accredited investor” as defined under National Instrument 45-106 — Prospectus and Registration Exemptions,
- the purchaser is a “permitted client” as defined in National Instrument 31-103 — Registration Requirements and Exemptions,
- where required by law, the purchaser is purchasing as principal and not as agent,
- the purchaser has reviewed the text above under Resale Restrictions, and
- the purchaser acknowledges and consents to the provision of specified information concerning the purchase of the Securities to the regulatory authority that by law is entitled to collect the information, including certain personal information. For purchasers in Ontario, questions about such indirect collection of personal information should be directed to Administrative Support Clerk, Suite 1903, Box 55, 20 Queen Street West, Toronto, Ontario M5H 3S8 or on (416) 593-3684.

Rights of Action — Ontario Purchasers

Under Ontario securities legislation, certain purchasers who purchase a security offered by this circular during the period of distribution will have a statutory right of action for damages, or while still the owner of the Securities, for rescission against the Selling Shareholders in the event that this circular contains a misrepresentation without regard to whether the purchaser relied on the misrepresentation. The right of action for damages is exercisable not later than the earlier of 180 days from the date the purchaser first had knowledge of the facts giving rise to the cause of action and three years from the date on which payment is made for the Securities. The right of action for rescission is exercisable not later than 180 days from the date on which payment is made for the Securities. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against the Selling Shareholders. In no case will the amount recoverable in any action exceed the price at which the Securities were offered to the purchaser and if the purchaser is shown to have purchased the securities with knowledge of the misrepresentation, the Selling Shareholders will have no liability. In the case of an action for damages, the Selling Shareholders will not be liable for all or any portion of the damages that are proven to not represent the depreciation in value of the Securities as a result of the misrepresentation relied upon. These rights are in addition to, and without derogation from, any other rights or remedies available at law to an Ontario purchaser. The foregoing is a summary of the rights available to an Ontario purchaser. Ontario purchasers should refer to the complete text of the relevant statutory provisions.

Enforcement of Legal Rights

All of the Selling Shareholders' directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon the Selling Shareholders or those persons. All or a substantial portion of the Selling Shareholders' assets and the assets of those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against the Selling Shareholders or those persons in Canada or to enforce a judgment obtained in Canadian courts against the Selling Shareholders or those persons outside of Canada.

Taxation and Eligibility for Investment

Canadian purchasers of Securities should consult their own legal and tax advisors with respect to the tax consequences of an investment in the Securities in their particular circumstances and about the eligibility of the Securities for investment by the purchaser under relevant Canadian legislation.

European Economic Area

In relation to each Member State of the European Economic Area that has implemented the Prospectus Directive (each, a "**Relevant Member State**"), an offer to the public of Securities which are the subject of the Offering contemplated by this Prospectus may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of Securities may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (i) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (ii) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR 43,000,000 and (3) an annual net turnover of more than EUR 50,000,000, as shown in its last annual or consolidated accounts;
- (iii) by the Joint Bookrunners to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Bookrunners for any such offer; or
- (iv) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Securities shall result in a requirement for the publication by NOMOS or any Joint Bookrunner of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Securities to be offered so as to enable an investor to decide to purchase any Securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Hong Kong

The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the Offering. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice. Please note that (1) the Securities may not be offered or sold in Hong Kong by means of this document or any other document other than to professional investors within the meaning of Part I of Schedule 1 to the Securities and Futures Ordinance of Hong Kong (Cap. 571) (“SFO”) and any rules made thereunder, or in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance of Hong Kong (Cap. 32) (“CO”) or which do not constitute an offer or invitation to the public for the purposes of the CO or the SFO, and (2) no person shall issue, or possess for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to shares which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to such professional investors.

Russian Federation

Neither the GDRs nor this Prospectus have been, or are intended to be, registered in Russia. Each Joint Bookrunner has agreed that the GDRs will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located in the Russian Federation unless and to the extent otherwise permitted under Russian Law; it being understood and agreed that the Joint Bookrunners may distribute this Prospectus in the Russian Federation to “qualified investors” (as defined under Russian law) in a manner that does not constitute an advertisement (as defined in Russian law) of the GDRs and may sell the GDRs to “qualified investors” (as defined under Russian law) in a manner that does not constitute “placement” or “public circulation” of the GDRs in the Russian Federation (as defined under Russian law).

Singapore

This document has not been registered as a prospectus with the Monetary Authority of Singapore, and the GDRs will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the “Securities and Futures Act”). Accordingly, the Securities have not been offered or sold or made the subject of an invitation for subscription or purchase and will not be offered or sold or made the subject of an invitation for subscription or purchase; and this Prospectus or any document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Securities, has not circulated or distributed, nor will be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person under Section 275(1) of the Securities and Futures Act, or to any person pursuant to Section 275(1A) of the Securities and Futures Act and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Each of the following persons specified in Section 275 of the Securities and Futures Act which has subscribed or purchased Securities, namely a person who is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor, should note that shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the GDRs under Section 275 of the Securities and Futures Act except:
 - (i) to an institutional investor under Section 274 of the Securities and Futures Act or to a relevant person or to any person pursuant to Section 275(1) and Section 275(1A) of the Securities and Futures Act, respectively and in accordance with the conditions specified in Section 275 of the Securities and Futures Act; or

- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law; or
- (iv) pursuant to Section 276(7) of the Securities and Futures Act.

United Arab Emirates

The Securities have not been, and are not being, publicly offered, sold, promoted or advertised in the United Arab Emirates (including the Dubai International Financial Centre) other than in compliance with the laws of the United Arab Emirates (and the Dubai International Financial Centre) governing the issue, offering and sale of securities. Further, this Prospectus does not constitute a public offer of securities in the United Arab Emirates (including the Dubai International Financial Centre) and is not intended to be a public offer. This Prospectus has not been approved by or filed with the Central Bank of the United Arab Emirates, the Securities and Commodities Authority or the Dubai Financial Services Authority.

United Kingdom

Each Joint Bookrunner has represented, warranted and agreed that:

- (i) it has only communicated and caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Securities in circumstances in which section 21(1) of the FSMA does not apply to NOMOS; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the GDRs in, from or otherwise involving the United Kingdom.

United States

The Securities offered in the Offering have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in certain transactions exempt from or not subject to the registration requirements of the Securities Act. The Joint Bookrunners propose (i) to offer the Securities to institutional investors outside the United States in accordance with Regulation S under the Securities Act and (ii) to offer the Securities to qualified institutional buyers in the United States as defined under and in accordance with Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

In addition, until 40 days after the commencement of the Offering, an offer or sale of the Securities into or within the United States by a dealer, whether or not such dealer is participating in the Offering, may violate the registration and prospectus delivery requirements of the Securities Act if such offer or sale is not made in accordance with Rule 144A.

TRANSFER RESTRICTIONS

Rule 144A GDRs

Each purchaser of Securities located in the United States, by its acceptance of delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged as follows:

1. The purchaser (i) is a QIB as that term is defined by Rule 144A under the Securities Act, (ii) is aware that, and each beneficial owner of such Securities has been advised that, the sale to it is being made in reliance on Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act, (iii) is acquiring such Securities for its own account or for the account of one or more QIBs and (iv) if it is acquiring such Securities for the account of one or more QIBs, has sole investment discretion with respect to each such account and has full power to make the acknowledgements, representations and agreements herein on behalf of each such account.
2. The purchaser is aware that the Securities purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act have not been and will not be registered under the Securities Act and are being offered in the United States only in transactions not involving any public offering in the United States and are “restricted securities” as defined in Rule 144(a)(3) under the Securities Act (Restricted Securities).
3. In the future, if the purchaser decides to offer, resell, pledge or otherwise transfer the Securities purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act, such Securities may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which the Securities purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act will bear unless otherwise determined by NOMOS and the Depositary in accordance with applicable law:

THIS RULE 144A GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF OPEN JOINT-STOCK COMPANY “NOMOS-BANK” REPRESENTED HEREBY (“**THE SHARES**”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**U.S. SECURITIES ACT**”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER (“**QIB**”) (WITHIN THE MEANING OF RULE 144A UNDER THE U.S. SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE U.S. SECURITIES ACT (IF AVAILABLE) OR (D) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE U.S. SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE “RESTRICTED SECURITIES” WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE RULE 144A GDRS EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

4. For so long as Securities are Restricted Securities, it will not deposit such Ordinary Shares into any depositary receipt facility in respect of shares established and maintained by a depositary bank other than a Rule 144A restricted depositary receipt facility.
5. NOMOS, the Selling Shareholders, the Joint Bookrunners and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Prospective purchasers are hereby notified that the sellers of the Securities purchased pursuant to Rule 144A under the Securities Act may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act.

Regulation S Securities

Each purchaser of the Regulation S Securities will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

1. the purchaser is, at the time of the offer to it of Securities and at the time the buy order originated, outside the United States for the purposes of Rule 903 under the Securities Act;
2. the purchaser is aware that the Regulation S Securities have not been and will not be registered under the Securities Act and are being offered outside the United States in reliance on Regulation S;
3. any offer, sale, pledge or other transfer made other than in compliance with the above stated restrictions shall not be recognised by NOMOS in respect of the Regulation S Securities; and
4. NOMOS, the Selling Shareholders, the Joint Bookrunners and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

CLEARING AND SETTLEMENT

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear, Clearstream, Luxembourg and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including Joint Bookrunners, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective clients may settle trades with each other. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

DTC

DTC is a limited-purpose trust company organised under the laws of the State of New York, a “banking organisation” within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant U.S. tax laws and regulations. See *“Taxation—Certain United States Federal Income Tax Considerations”*.

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg will be represented by the Master Regulation S GDR registered in the name of BT Globenet Nominees Limited, as nominee for Deutsche Bank AG, London Branch, as common depositary for Euroclear and Clearstream, Luxembourg. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR registered in the name of Cede & Co, as nominee for DTC, which will be held by the Depositary through its agent as

custodian for DTC. As necessary, the Depositary will adjust the amounts of GDRs on the relevant register to reflect the amounts of GDRs held through Euroclear, Clearstream, Luxembourg and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream, Luxembourg and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of bookentry interest in the GDRs, will be responsible for establishing and maintaining accounts for their participants and clients having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depositary for Euroclear and Clearstream, Luxembourg and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from NOMOS for holders holding through Euroclear or Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from NOMOS for holders holding through DTC are received by DTC.

NOMOS will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream, Luxembourg or DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreement. See “*Terms and Conditions of the Global Depositary Receipts*.”

Global Clearance and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the two Master GDRs. Purchasers electing to hold book-entry interests in GDRs through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depositary receipts.

Secondary Market Trading

For a description of the transfer restrictions relating to the GDRs, see “*Transfer Restrictions*”.

Trading between Euroclear and Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear or Clearstream, Luxembourg and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC Participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between a DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream, Luxembourg participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, Luxembourg, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, Luxembourg, as the case may

be, to credit the relevant account of the Euroclear or Clearstream, Luxembourg participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to:

- decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR; and
- increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream and represented by the Master Regulation S GDR.

Trading between a Clearstream, Luxembourg/Euroclear Seller and DTC Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream, Luxembourg participant to the account of a DTC participant, the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, Luxembourg, as the case may be, shall on the settlement date instruct the Depositary to:

- decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR; and
- increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 1.44A GDR.

General

Although the foregoing sets forth the procedures of Euroclear, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream, Luxembourg and DTC, none of Euroclear, Clearstream, Luxembourg or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of NOMOS, the Joint Bookrunners, the Depositary, the Custodian or their respective agents will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

Settlement of the Shares

Payment for the GDRs is expected to be made in U.S. dollars in same-day funds through the facilities of DTC, Euroclear and Clearstream on or about the Closing Date. Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg will be represented by the Master Regulation S GDR registered in the name of BT Globenet Nominees Limited as nominee for Deutsche Bank AG, London Branch, as common depositary for Euroclear and Clearstream, Luxembourg. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR registered in the name of Cede & Co, as nominee for DTC, which will be held by the Depositary through its agent in New York as custodian for DTC. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR only through DTC, Euroclear or Clearstream, as applicable.

Transfers within DTC, Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system.

Each investor in the Shares in the Offering is required to pay for any Shares in U.S. dollars or roubles, as the case may be. In order to take delivery of the Shares, an investor should either have a direct account with CJSC “St. Petersburg Central Registration Company”, NOMOS Bank’s share registrar, or a deposit account with DCC or NDC or any other depositary that has an account with DCC or NDC or a direct account with NOMOS Bank’s share registrar. However, directly-held Shares are ineligible for trading on RTS and MICEX. Only if the Shares are deposited with NDC (or through another depositary having an account at NDC), can they be traded on MICEX and only if the Shares are deposited with the DCC or NDC can they be traded on the RTS.

INFORMATION RELATING TO THE DEPOSITARY

Deutsche Bank Aktiengesellschaft (“**Deutsche Bank**” or the “**Bank**”) originated from the reunification of Norddeutsche Bank Aktiengesellschaft, Hamburg, Rheinisch-Westfälische Bank Aktiengesellschaft, Duesseldorf and Süddeutsche Bank Aktiengesellschaft, Munich; pursuant to the Law on the Regional Scope of Credit Institutions, these had been disincorporated in 1952 from Deutsche Bank which was founded in 1870. The merger and the name were entered in the Commercial Register of the District Court Frankfurt am Main on 2 May 1957. Deutsche Bank is a banking institution and a stock corporation incorporated under the laws of Germany under registration number HRB 30 000. The Bank has its registered office in Frankfurt am Main, Germany. It maintains its head office at Taunusanlage 12, 60325 Frankfurt am Main.

A copy of the Depositary’s articles of association, together with copies of its most recent financial statements and annual report, may be found on the Depositary’s website (www.deutsche-bank.com/ir). The contents of the Depositary’s website do not form any part of this document.

LEGAL MATTERS

Certain legal matters with respect to the Offering will be passed upon for NOMOS by Clifford Chance LLP, London, England and Clifford Chance CIS Limited, Moscow, Russian Federation. Certain legal matters with respect to the Offering will be passed upon for the Joint Bookrunners by Freshfields Bruckhaus Deringer LLP, London.

INDEPENDENT AUDITORS

The NOMOS Financial Statements and the BKM Financial Statements included in this Prospectus have been audited by ZAO “Deloitte & Touche CIS” independent accountants, as stated in their reports appearing herein. ZAO “Deloitte & Touche CIS” is a member of the Audit Chamber of Russia.

GENERAL INFORMATION

1. Listing

It is expected that the GDRs will be admitted, subject only to the issue of the Master Regulation S GDR Certificate and the Master Rule 144A GDR Certificate, to the Official List on or about 27 April 2011. Application has been made for the additional GDRs to be traded on the London Stock Exchange. Prior to admission to the Official List, however, dealings will be permitted by the London Stock Exchange in accordance with its rules on an “as, when and if issued” basis. Transactions in GDRs will normally be effected for delivery on the third working day after the day of the transaction.

2. Authorisations

NOMOS has obtained all consents, approvals and authorisations in Russia in connection with the issue of the GDRs.

3. Documents Available for Inspection

Copies of the following documents will be available for inspection free of charge, during normal business hours on any weekday, at the registered offices of NOMOS from the date of publication of this Prospectus to Admission:

- This Prospectus;
- NOMOS Bank’s charter;
- The NOMOS Financial Statements;
- The BKM Financial Statements; and
- The Pro Forma Financial Information.

The registered office of NOMOS Bank is located at 3, building 1, Verkhnyaya, Radischevskaya Street, Moscow 109240, Russian Federation. Telephone: +7 (495) 424 96 46.

4. Security Codes

The Shares ISIN is RU000A0JRAF8; the Rule 144A GDR ISIN is US65538M1053; the Rule 144A GDR Common Code 060558027; the Rule 144A GDR CUSIP is 65538M105; the Rule 144A SEDOL is B3N6NPI; the Regulation S GDR ISIN is US65538M2044; the Regulation S GDR Common Code is 060557772; the Regulation S GDR CUSIP is 65538M204; the Regulation S SEDOL is B564R32; the London Stock Exchange GDR trading symbol is “NMOS”; the RTS Shares trading symbol is “NMOS”; and the MICEX Shares trading symbol is “NMOS”.

The London Stock Exchange trading symbol is “NMOS”.

5. Offer Price

The GDRs are not denominated in any currency and have no nominal or par value. The offer price was determined based on the results of the bookbuilding exercise conducted by the Joint Bookrunners. The results of the Offering will be made public by NOMOS through a press release and notice to the Regulatory Information Service promptly upon the closing of the Offering.

6. Depositary and Agent

Holders of GDRs may contact Deutsche Bank Aktiengesellschaft, as Depositary for the GDRs with questions relating to the transfer of GDRs on the books of the Depositary, which shall be maintained at the Depositary’s Trust & Securities Services/Global Equity Services office at Taunusanlage 12, 60325 Frankfurt Am Main, Telephone: +49 69 910 33375/33690/43540, Fax: +49 69 910 38794 with a copy to: Deutsche Bank Trust Company Americas, 60 Wall Street, New York, New York 10005 Attention: Depositary Receipts Group.

If definitive certificates are issued in exchange for the Master GDR Certificates, NOMOS will appoint an agent in the United Kingdom.

7. Significant Change

Except as described in “*Business — Recent Developments*” in relation to the purchase of its preferred shares and the repayment of the loan by PIK of its outstanding loan to NOMOS, there has been no significant change in the financial or trading position of NOMOS since 31 December 2010, the end of the last financial period for which financial information has been published.

8. Subsidiaries

As at the date of this Prospectus, NOMOS Bank is a parent company of a banking group that comprises other companies. These companies undertake various types of activities including investment management, leasing, banking and other finance activities. NOMOS has, on occasion, acquired companies operating in specific areas of the financial services sector which then became centres for launching its new business products. Further detail on NOMOS's subsidiaries as at the date of this Prospectus is provided below.

Name of subsidiary	Jurisdiction of incorporation	NOMOS's share (per cent.)	Industry
OJSC "NOMOS-Bank"	Russian Federation	Parent company	Banking activity
OJSC "NOMOS-REGIOBANK"	Russian Federation	100%	Banking activity
OJSC "NOMOS-Bank-Siberia"	Russian Federation	100%	Banking activity
LLC "Inbank"	Russian Federation	74.15%	Banking activity
OJSC "Khanty-Mansiysk Bank"	Russian Federation	51.29%	Banking activity
BKM Finance Limited ⁽¹⁾	Ireland	(contractual arrangements)	Issue of securities
LLC "Yugra-Leasing"	Russian Federation	51.29%	Finance lease of equipment
LLC "GPF"	Russian Federation	51.29%	Construction
LLC "NM-Expert"	Russian Federation	19.90%	Construction
OJSC "Novosibirsk Municipal Bank"	Russian Federation	38.53%	Banking activity
LLC "Promgazkomplekt"	Russian Federation	100%	Office building ownership
OJSC "Promestate"	Russian Federation	100%	Office building ownership
CJSC "Sovfintrast"	Russian Federation	100%	Investment management
CJSC "Upravlyaushaya compania aktivami"	Russian Federation	100%	Asset management
Nomos Capital Plc ⁽¹⁾	Ireland	(contractual arrangements)	Issue of Securities
CJSC "Erada"	Russian Federation	100%	Office building ownership
LLC "NM-Garant"	Russian Federation	100%	Investment management
LLC "Leasing-Project"	Russian Federation	100%	Finance lease of equipment
LLC "BFK-Invest"	Russian Federation	100%	Office building ownership
LLC "Baltaktiv"	Russian Federation	100%	Wholesale commerce
LLC "Upravlyaushaya compania NOMOS BANK"	Russian Federation	100%	Asset management
LLC "KN-Estate"	Russian Federation	100%	Office building ownership
LLC "East-Capital"	Russian Federation	100%	Investment management
LLC "Attenium"	Russian Federation	51%	Payment systems
LLC "Processing Center Rapida"	Russian Federation	51%	Payment systems
LLC Non-banking Credit Organisation "Payment System Rapida"	Russian Federation	51%	Payment systems
LLC "Gikor"	Russian Federation	51%	Payment systems

- (1) Nomos Capital Plc. and BKM Finance Limited are orphan special purpose vehicles established for issue of loan participation notes. NOMOS does not directly or indirectly own these entities but NOMOS consolidates their results of operations in NOMOS's consolidated financial statements under IFRS.

As at 31 December 2010, NOMOS also exercised control over ZPIFVI "Venchurny fond investitsionnogo i proektnogo finansirovaniya" (Venture Fund for Investment and Project Finance) and ZPIFRE "Universal — Real estate fund".

As part of the distressed banks' rescue programme operated by the DIA, in April 2009, NOMOS acquired stakes in VEFK Siberia Bank and VEFK Bank. NOMOS acquired 100.00 per cent. of VEFK Siberia Bank (which name was subsequently changed to CJSC "NOMOS-BANK-Siberia") through its subsidiary LLC "Promgazkomplekt". The acquisition of VEFK Siberia Bank allowed NOMOS to significantly increase its presence in the Siberia region.

In April 2009, NOMOS acquired 24.99 per cent. of VEFK Bank that was subsequently renamed OJSC "Bank "Petrovskiy" and sold to a third party in August 2010.

In June 2009, NOMOS disposed of its shares in asset management company CJSC "Upravlyaushaya compania "Universal".

In December 2009, as part of the project for the development of remote banking, NOMOS acquired a 100 per cent. interest in limited liability company “Baltaktiv” and, through this acquisition, a 99 per cent. interest in limited liability company “Commercial Bank Uran”, a Russian financial institution specialising in provision of remote banking services to corporate and retail clients. In January 2010, limited liability company “Commercial Bank Uran” was rebranded as “Inbank, Ltd”.

9. Nomos Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by NOMOS within the two years immediately preceding the date of this document and are, or may be, material or have been entered into at any time by NOMOS and contain provisions under which NOMOS has an obligation or entitlement which is, or may be, material to NOMOS at the date of this document:

9.1 Loan Participation Notes due 2012

On 17 December 2009, Nomos Capital Plc. (“**Nomos Capital**”), a special purpose vehicle incorporated in Ireland, issued loan participation notes in an amount of U.S.\$200 million with an annual coupon of 9.25 per cent. maturing on 17 December 2012 subject to repayment of the loan under the Loan Agreement 2012 defined below (“**LPN 2012**”). The coupon is paid on a semi-annual basis. The notes are listed on the Official List of the Irish Stock Exchange and are regulation S compliant. They are in registered form, without coupons attached, in the denomination of U.S.\$100,000, and integral multiples of U.S.\$1,000 in excess thereof.

The proceeds of the issue of the notes are used to finance a loan to NOMOS Bank pursuant to a loan agreement dated 14 December 2009 (the “**Loan Agreement 2012**”) between Nomos Capital and NOMOS Bank. The proceeds from the loan are used by NOMOS for general corporate purposes. The notes are secured limited recourse obligations of Nomos Capital. The notes constitute the obligation of the Nomos Capital to apply an amount equal to the proceeds from the issue solely for the purpose of financing the Loan Agreement 2012.

The notes are secured by three charges: firstly, over the amounts paid and payable by NOMOS Bank to Nomos Capital as lender under the Loan Agreement 2012; secondly, over the right to receive all sums which may be paid or be or become payable by NOMOS Bank under any claim, award or judgment relating to the Loan Agreement 2012 and thirdly, over an account in the name of Nomos Capital with The Bank of New York Mellon.

The LPN 2012 contains customary covenants by Nomos Capital including covenants against modification of the Loan Agreement 2012, establishment of subsidiaries, declaration of dividends, acquisition of real property, issuance of shares and petitioning for winding-up or bankruptcy. Where withholding tax is payable, NOMOS Bank will indemnify the lender against such amounts.

The Loan Agreement 2012

The Loan Agreement provides a single advance of U.S.\$200 million on which interest is payable at 9.25 per cent. per annum. The Loan Agreement 2012 contains customary representations, warranties and covenants. The covenants include a negative pledge, a limitation of disposals of material assets which are not at arm’s length or for securitisation purposes and maintenance of capital adequacy.

The Loan Agreement 2012 also contains customary events of default and a cross-default provision (at a threshold of U.S.\$20 million). Upon the occurrence of an event of default, the lenders may declare any outstanding advance immediately due and payable, or payable on demand.

The Loan Agreement 2012 allows for voluntary prepayment of the whole (but not part only) of the outstanding principal together with accrued interest for specified tax reasons or for reasons of increased costs. No other prepayment is allowed under the Loan Agreement 2012.

9.2 Loan Participation Notes due 2013

On 21 October 2010, Nomos Capital issued loan participation notes in an amount of U.S.\$400 million with an annual coupon of 6.5 per cent. maturing on 21 October 2013 subject to repayment under the Loan Agreement 2013 as defined below (“**LPN 2013**”). The coupon is paid on a semi-annual basis. The notes are listed on the Official List of the Irish Stock Exchange and are Regulation S compliant. They are in registered form, without coupons attached, in the denomination of U.S.\$150,000, and integral multiples of U.S.\$1,000 in excess thereof.

The proceeds of the issue of the notes are used to finance the loan to NOMOS Bank pursuant to a loan agreement dated 19 October 2010 (the “**Loan Agreement 2013**”) between Nomos Capital and NOMOS Bank. The proceeds from the Loan Agreement 2013 are used by NOMOS for general corporate purposes. The notes are secured limited recourse obligations of Nomos Capital. The notes will constitute the obligation of the Nomos Capital to apply an amount equal to the proceeds from the issue of the notes to finance the loan to NOMOS Bank.

The notes are secured by three charges: firstly, over the amounts paid and payable by NOMOS Bank to Nomos Capital as lender under the Loan Agreement 2013; secondly, over the right to receive all sums which may be paid or be or become payable by NOMOS Bank under any claim, award or judgment relating to the Loan Agreement 2013 and thirdly, over an account in the name of Nomos Capital with The Bank of New York Mellon.

The LPN 2013 contains customary covenants by Nomos Capital including covenants against modification of the Loan Agreement 2013, establishment of subsidiaries, declaration of dividends, acquisition of real property, issuance of shares and petitioning for winding-up or bankruptcy. Where withholding tax is payable, NOMOS Bank will indemnify the lender against such amounts.

The Loan Agreement 2013

The Loan Agreement 2013 provides a single advance of U.S.\$400 million on which interest is payable at 6.5 per cent. per annum. The Loan Agreement 2013 contains customary representations, warranties and covenants. The covenants include a negative pledge, a limitation of disposals of material assets which are not at arm's length or for securitisation purposes and maintenance of capital adequacy.

The Loan Agreement 2013 also contains customary events of default and a cross-default provision (at a threshold of U.S.\$20 million). Upon the occurrence of an event of default, the lenders may declare any outstanding advance immediately due and payable, or payable on demand.

The Loan Agreement 2013 allows for voluntary prepayment of the whole (but not part only) of the outstanding principal together with accrued interest for specified tax reasons or for reasons of increased costs. No other prepayment is allowed under the Loan Agreement 2013.

9.3 Loan Participation Notes due 2015

On 21 April 2010, Nomos Capital issued loan participation notes in an amount of U.S.\$350 million with an annual coupon of 8.75 per cent. maturing on 21 October 2015 subject to repayment under the Subordinated Loan Agreement 2015 as defined below ("**LPN 2015**"). The coupon is paid on a semi-annual basis. The notes are listed on the Official List of the Irish Stock Exchange and are Regulation S compliant. They are in registered form, without coupons attached, in the denomination of U.S.\$100,000, and integral multiples of U.S.\$1,000 in excess thereof.

The proceeds of this issuance were loaned to NOMOS Bank as a subordinated loan for inclusion into its own funds (capital) under the CBR regulations at the same interest rate per annum and were used by NOMOS Bank to repay the U.S.\$260 million subordinated loan provided by its shareholders in July 2009 (the "**Subordinated Loan Agreement 2015**") and for general corporate purposes.

The notes are secured by three charges: firstly, over the amounts paid and payable by NOMOS Bank to Nomos Capital as lender under the Subordinated Loan Agreement 2015; secondly, over the right to receive all sums which may be paid or be or become payable by NOMOS Bank under any claim, award or judgment relating to the Subordinated Loan Agreement 2015 and thirdly, over an account in the name of Nomos Capital with The Bank of New York Mellon.

The LPN 2015 contains customary covenants by Nomos Capital including covenants against modification of the Subordinated Loan Agreement 2015, establishment of subsidiaries declaration of dividends, acquisition of real property, issuance of shares and petitioning for winding-up or bankruptcy. Where withholding tax is payable, NOMOS Bank will indemnify the lender against such amounts.

The Subordinated Loan Agreement 2015

The Subordinated Loan Agreement 2015 provides a single advance of U.S.\$350 million with interest payable at 8.75 per cent. per annum. The claims of the lender in respect of the principal of, and interest on, the subordinated loan rank at least equally with all other unsecured and subordinated obligations of NOMOS Bank.

The Subordinated Loan Agreement 2015 contains customary representations, warranties and covenants. The covenants include a limitation of disposals of material assets which are not at arm's length or for securitisation purposes, a restriction on mergers of NOMOS Bank or its subsidiaries without prior consent of the lender, maintenance of capital adequacy and best efforts to ensure that the CBR issues approval for the treatment of the subordinated loan as own funds.

The lender may declare all amounts immediately due and payable in the case of NOMOS Bank's bankruptcy.

The Subordinated Loan Agreement 2015 allows for voluntary prepayment in case of certain legislation changes but subject to the consent of the CBR.

9.4 Loan Participation Notes due 2016

On 20 October 2006, Nomos Capital issued loan participation notes in an amount of U.S.\$125 million with an annual coupon of 9.75 per cent. maturing on 20 October 2016 with interest rate step-up in 2011 subject to repayment under the Subordinated Loan Agreement 2016 as defined below (“**LPN 2016**”). The coupon is paid on the semi-annual basis. The Subordinated Loan Agreement 2016 defined below envisages the step-up of the interest rate equal to 150 basis points above the U.S. Treasury Rate (as defined in the Subordinated Loan Agreement 2016) plus 5.03 per cent. per annum on 20 October 2011. The notes are listed on the Official List of the Irish Stock Exchange and are Regulation S compliant. They are in registered form, without coupons attached, in the denomination of U.S.\$100,000, and integral multiples of U.S.\$1,000 in excess thereof.

The proceeds of the issuance were loaned to NOMOS Bank as a subordinated loan (the “**Subordinated Loan Agreement 2016**”) for inclusion into its own funds (capital) under the CBR regulations at the same interest rate per annum and were used by NOMOS Bank for general corporate purposes.

The notes are secured by three charges: firstly, over the amounts paid and payable by NOMOS Bank to Nomos Capital as lender under the Subordinated Loan Agreement 2016; and, secondly, over the right to receive all sums which may be paid or be or become payable by NOMOS Bank under any claim, award or judgment relating to the Subordinated Loan Agreement 2016 and thirdly, over an account in the name of Nomos Capital with The Bank of New York Mellon.

The LPN 2016 contains customary covenants by Nomos Capital including covenants against modification of the Subordinated Loan Agreement 2016, establishment of subsidiaries, declaration of dividends, acquisition of real property, issuance of shares and petitioning for winding-up or bankruptcy. Where withholding tax is payable, NOMOS Bank will indemnify the lender against such amounts.

The Subordinated Loan Agreement 2016

The Subordinated Loan Agreement 2016 provides a single disbursement of U.S.\$125 million with interest payable at 9.75 per cent. per annum. The claims of the lender in respect of the principal of, and interest on, the subordinated loan rank at least equally with all other unsecured and subordinated obligations of NOMOS Bank.

The Subordinated Loan Agreement 2016 contains customary representations, warranties and covenants. The covenants include a limitation of disposals of material assets of NOMOS Bank or its subsidiaries which are not at arm’s length or for securitisation purposes, a restriction on mergers of NOMOS Bank or its subsidiaries without prior consent of the lender, maintenance of capital adequacy and best efforts to ensure that the CBR issues approval for the treatment of the subordinated loan as own funds.

The lender may declare all amounts immediately due and payable in the case of NOMOS Bank’s bankruptcy.

The Subordinated Loan Agreement 2016 allows for voluntary prepayment on 20 October 2011 or in case of certain legislation changes but subject to the consent of the CBR.

9.5 Loan Participation Notes due 2018

On 20 December 2007, BKM Finance Limited, a special purpose vehicle incorporated in Ireland, issued loan participation notes in an amount of U.S.\$100 million with an annual coupon of 11 per cent. maturing on 20 June 2018 with interest rate step-up in 2013 subject to repayment under the Subordinated Loan Agreement 2018 as defined below (“**LPN 2018**”). The coupon is paid on the semi-annual basis. The Subordinated Loan Agreement 2018 defined below envisages the step-up of the interest rate per annum representing the aggregate of: (i) the U.S. Treasury Rate (as defined in the Subordinated Loan Agreement 2018); (ii) the Margin (as defined in the Subordinated Loan Agreement 2018); and (iii) 150 basis points after five years and six months following the date when the subordinated loan was included in BKM Bank’s own funds. The notes are listed on the Official List of the Irish Stock Exchange and are Regulation S compliant. They are in registered form, without coupons attached, in the denomination of U.S.\$100,000, and integral multiples of U.S.\$1,000 in excess thereof.

The proceeds of the issuance were loaned to BKM Bank as a subordinated loan for inclusion (the “**Subordinated Loan Agreement 2018**”) into its own funds (capital) under the CBR regulations at the same interest rate per annum and were used by BKM Bank for general corporate purposes.

The notes are secured by two charges: firstly, over the amounts paid and payable by BKM Bank to BKM Finance Limited as lender under the Subordinated Loan Agreement 2018; and, secondly, over an account in the name of BKM Finance Limited with Deutsche Bank AG.

The LPN 2018 contains certain customary covenants by BKM Finance Limited including covenants against actions which will cause its centre of main interests to be located in any other jurisdiction other than Ireland.

The Subordinated Loan Agreement 2018

The Subordinated Loan Agreement 2018 provides a single disbursement of U.S.\$100 million with interest payable at 11 per cent. per annum. The claims of the lender in respect of the principal of, and interest on, the subordinated loan rank at least equally with all other unsecured and subordinated obligations of BKM Bank.

The Subordinated Loan Agreement 2018 contains customary representations warranties and covenants. The covenants include a limitation of disposals of material assets which are not in the ordinary course of business and at arm's length or permitted by the lender, a restriction of mergers of BKM Bank without prior consent of the lender, restrictions on change of business or additional indebtedness and best efforts to ensure that CBR issues approval for the treatment of the subordinated loan as own funds.

The lender may declare all amounts immediately due and payable in the case of BKM Bank's bankruptcy or winding-up proceedings.

The Subordinated Loan Agreement 2018 allows for prepayment in case of failure to obtain the CBR approval for the subordinated loan as own funds; in case of certain legislation changes subject to the consent of the CBR and prior notification of the lender and the trustee; after five years and six months following the date when the subordinated loan was included in BKM Bank's own funds subject to prior notification of the lender and the trustee; in case of specified tax reasons subject to the CBR consent and prior notification of the lender and the trustee.

10. Consents

ZAO "Deloitte & Touche CIS" has given and has not withdraw its written consent to the inclusion of its audit report on NOMOS in the NOMOS Financial Statements in this Prospectus and the references thereto in the form and context in which they appear and has authorised the contents of such reports for the purposes of paragraph 5.5.4(R)(2)(f) of the Prospectus Rules and Annex X item 23.1 in appendix 3 to the Prospectus Rules. ZAO "Deloitte & Touche CIS" accepts responsibility for the information contained in the audit report on NOMOS, and that to the best of the knowledge and belief of ZAO "Deloitte & Touche CIS", having taken all reasonable care to ensure that such is the case, the information contained in the audit report on NOMOS is in accordance with the facts and does not omit anything likely to affect the import of such information. A written consent under the Prospectus Rules is different from a consent filed with the second under Section 7 of the U.S. Securities Act. As the offered depository receipts have not and will not be registered under the U.S. Securities Act. ZAO "Deloitte & Touche CIS" has not filed a consent under Section 7 of the U.S. Securities Act.

ZAO "Deloitte & Touche CIS" has given and has not withdraw its written consent to the inclusion of its audit report on BKM in the BKM Financial Statements in this Prospectus and the references thereto in the form and context in which they appear and has authorised the contents of such reports for the purposes of paragraph 5.5.4(R)(2)(f) of the Prospectus Rules and Annex X item 23.1 in appendix 3 to the Prospectus Rules. ZAO "Deloitte & Touche CIS" accepts responsibility for the information contained in the audit report on BKM, and that to the best of the knowledge and belief of ZAO "Deloitte & Touche CIS", having taken all reasonable care to ensure that such is the case, the information contained in the audit report on BKM is in accordance with the facts and does not omit anything likely to affect the import of such information. A written consent under the Prospectus Rules is different from a consent filed with the second under Section 7 of the U.S. Securities Act. As the offered depository receipts have not and will not be registered under the U.S. Securities Act. ZAO "Deloitte & Touche CIS" has not filed a consent under Section 7 of the U.S. Securities Act.

INDEX TO FINANCIAL STATEMENTS

NOMOS Consolidated Financial Statements as at and for the years ended 31 December 2010, 2009 and 2008	F-2
Independent Auditors' Report	F-5
Consolidated Income Statement for the years ended 31 December 2010, 2009 and 2008	F-6
Consolidated Statement of Comprehensive Income for the years ended 31 December 2010, 2009 and 2008	F-7
Consolidated Statement of Financial Position as at 31 December 2010, 2009 and 2008	F-8
Consolidated Statement of Changes in Equity for the year ended 31 December 2010	F-9
Consolidated Statement of Cash Flows for the years ended 31 December 2010, 2009 and 2008	F-10
Notes to the Consolidated Financial Statements as at and for the years ended 31 December 2010, 2009 and 2008	F-12
 BKM Consolidated Financial Statements as at and for the year ended 31 December 2010	F-112
Independent Auditors' Report	F-115
Consolidated Income Statement for the year ended 31 December 2010	F-117
Consolidated Statement of Comprehensive Income for the year ended 31 December 2010	F-118
Consolidated Statement of Financial Position as at 31 December 2010	F-119
Consolidated Statement of Changes in Equity for the year ended 31 December 2010	F-120
Consolidated Statement of Cash Flows for the year ended 31 December 2010	F-121
Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2010	F-123

**Open Joint-Stock Company
“NOMOS-BANK”**

Consolidated Financial Statements
For the Years Ended 31 December 2010, 2009 and 2008

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008

TABLE OF CONTENTS

	<u>Page</u>
Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the years ended 31 December 2010, 2009 and 2008	F-4
Independent auditors' report	F-5
Consolidated income statement for the years ended 31 December 2010, 2009 and 2008	F-6
Consolidated statement of comprehensive income for the years ended 31 December 2010, 2009 and 2008	F-7
Consolidated statement of financial position as at 31 December 2010, 2009 and 2008	F-8
Consolidated statement of changes in equity for the year ended 31 December 2010	F-9
Consolidated statement of cash flows for the years ended 31 December 2010, 2009 and 2008	F-10
Selected explanatory notes to the consolidated financial statements for the years ended 31 December 2010, 2009 and 2008	F-12-F-111
1. Organisation	F-12
2. Basis of presentation	F-14
3. Significant accounting policies	F-15
4. Acquisitions and disposals	F-35
5. Non-controlling interest	F-40
6. Net interest income	F-41
7. Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	F-42
8. Net gain on foreign exchange operations	F-42
9. Net gain on operations with precious metals	F-42
10. Net fee and commission income	F-43
11. Other income	F-43
12. Operating expenses	F-44
13. Income tax	F-44
14. Earnings per share	F-47
15. Cash and balances with the Central Bank of the Russian Federation	F-48
16. Precious metals	F-48
17. Financial assets at fair value through profit or loss	F-49
18. Derivative financial instruments	F-51
19. Loans and advances to banks and other financial institutions	F-53
20. Loans to customers	F-54
21. Investments available-for-sale	F-63
22. Investments held to maturity	F-65
23. Property, plant and equipment	F-66
24. Intangible assets	F-67
25. Other assets	F-68
26. Due to Banks and the Central Bank of the Russian Federation	F-69
27. Customer accounts	F-70
28. Bonds and Eurobonds	F-71
29. Promissory notes issued	F-73
30. Other liabilities	F-73
31. Subordinated debt	F-74
32. Share capital and share premium	F-75
33. Commitments and contingencies	F-76
34. Segment reporting	F-78
35. Fair value of financial instruments	F-85
36. Capital management	F-88
37. Risk management policy	F-89
38. Transactions with related parties	F-109
39. Subsequent events	F-111

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND
APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008

Management is responsible for the preparation of the consolidated financial statements that presents fairly the financial position of Open Joint-Stock Company "NOMOS-BANK" (the "Bank") and its subsidiaries (the "Group") as at 31 December 2010, 2009 and 2008 and the consolidated results of its operations, cash flows and changes in shareholders' equity for the three years period, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Stating whether IFRS has been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation ("RF");
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the years ended 31 December 2010, 2009 and 2008 were authorized for issue by the Supervisory Board of the Bank on 18 March 2011.

On behalf of the Supervisory Board



President

18 March 2011
Moscow



Chief Accountant

18 March 2011
Moscow

INDEPENDENT AUDITORS' REPORT

To: Shareholders and the Board of Directors of Open Joint-Stock Company "NOMOS-BANK":

We have audited the accompanying consolidated financial statements of Open Joint-Stock Company "NOMOS-BANK" and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2010, 2009 and 2008 and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

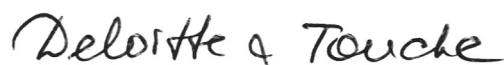
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2010, 2009 and 2008 and its financial performance and its cash flows for each of the three years then ended in accordance with International Financial Reporting Standards.



20 March 2011
Moscow

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OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

CONSOLIDATED INCOME STATEMENT

FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008

(in thousands of Russian Roubles, except for earnings per share which are in Roubles)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Interest income	6, 38	29,350,357	36,424,747	26,331,824
Interest expense	6, 38	(14,988,622)	(18,905,058)	(13,136,565)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		14,361,735	17,519,689	13,195,259
Allowance for impairment losses on interest bearing assets	20, 22, 38	(4,148,455)	(12,048,082)	(5,274,833)
NET INTEREST INCOME		10,213,280	5,471,607	7,920,426
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss:	7, 38	1,988,041	3,736,351	(571,783)
Securities		1,702,385	3,523,977	(424,461)
Derivatives on precious metals		80,323	700,211	207,575
Derivatives on foreign currency		276,372	(423,901)	(354,897)
Other derivatives		(71,039)	(63,936)	—
Net gain on foreign exchange operations	8, 38	624,769	1,283,315	673,422
Net gain on operations with precious metals	9	244,810	67,536	286,452
Net fee and commission income		2,116,303	1,752,802	1,606,367
Fee and commission income	10, 38	2,484,686	2,079,592	1,887,307
Fee and commission expense	10, 38	(368,383)	(326,790)	(280,940)
Net (loss)/gain on investments available-for-sale		(9,423)	669,085	9,785
Net gain/(loss) on disposal of loans	20	1,195,845	(171,899)	—
Recovery of allowance/(allowance) for impairment losses on other transactions	25, 30	245,955	(233,464)	(445,608)
Impairment of investments available for sale	21	(2,309)	(115,738)	(1,803)
Loss from revaluation of investment property	25	(94,471)	—	—
Other income	11, 38	821,563	435,583	269,177
NET NON-INTEREST INCOME		7,131,083	7,423,571	1,826,009
OPERATING INCOME		17,344,363	12,895,178	9,746,435
OPERATING EXPENSES	12, 38	(8,017,786)	(6,368,900)	(5,480,029)
Impairment of buildings and constructions	23	(115,973)	(986,663)	(78,422)
OPERATING PROFIT BEFORE INCOME TAX		9,210,604	5,539,615	4,187,984
Income tax expense	13	(1,784,899)	(1,278,692)	(957,447)
PROFIT FROM CONTINUING OPERATIONS		7,425,705	4,260,923	3,230,537
Income from discontinued operations		—	—	256,490
NET PROFIT		7,425,705	4,260,923	3,487,027
Attributable to:				
Equity holders of the parent (total)		7,384,820	4,253,388	3,469,539
Profit for the year from continuing operations		7,384,820	4,253,388	3,213,049
Profit for the year from discontinued operations		—	—	256,490
Non-controlling interest (total)	5	40,885	7,535	17,488
Profit for the year from continuing operations		40,885	7,535	17,488
Profit for the year from discontinued operations		—	—	—
EARNINGS PER SHARE				
attributable to equity holders of the parent, basic and diluted, in Roubles, from continuing and discontinued operations:	14	87.53	51.88	44.01
Continuing operations	14	87.53	51.88	40.76
Discontinued operations	14	—	—	3.25

On behalf of the Supervisory Board



President

18 March 2011
Moscow



Chief Accountant

18 March 2011
Moscow

The selected notes on pages 9-108 form an integral part of the consolidated financial statements.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
NET PROFIT		<u>7,425,705</u>	<u>4,260,923</u>	<u>3,487,027</u>
OTHER COMPREHENSIVE INCOME				
Net change in fair value of investments available-for-sale		1	9,389	(2,250)
—deferred income tax effect	13	—	(1,878)	450
Revaluation of property, plant and equipment		102,082	(172,548)	(141,219)
—deferred income tax effect	13	(20,416)	34,510	28,385
—change of tax rates	13	—	—	60,960
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX		<u>81,667</u>	<u>(130,527)</u>	<u>(53,674)</u>
TOTAL COMPREHENSIVE INCOME		<u>7,507,372</u>	<u>4,130,396</u>	<u>3,433,353</u>
Attributable to:				
Equity holders of the parent		7,466,487	4,122,861	3,415,865
Non-controlling interest	5	<u>40,885</u>	<u>7,535</u>	<u>17,488</u>

On behalf of the Supervisory Board



President

18 March 2011
Moscow



Chief Accountant

18 March 2011
Moscow

The selected notes on pages 9-108 form an integral part of the consolidated financial statements.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

	Notes	31 December 2010	31 December 2009	31 December 2008
ASSETS				
Cash and balances with the Central Bank of the Russian Federation	15	40,488,751	14,075,379	11,021,373
Minimum reserve deposits with the Central Bank of the Russian Federation		2,817,306	1,192,375	237,976
Precious metals	16	4,676,504	4,615,197	3,309,468
Financial assets at fair value through profit or loss	17, 18, 38	55,522,040	57,666,284	34,949,910
Loans and advances to banks and other financial institutions	19, 38	41,577,498	26,814,738	22,271,778
Loans to customers	20, 38	339,301,912	162,649,733	187,721,316
Investments available-for-sale	21	25,763,294	173,807	91,080
Investments held to maturity	22	851,707	1,362,518	3,815,723
Property, plant and equipment	23	10,976,005	5,935,544	5,163,592
Goodwill	4	597,652	—	—
Intangible assets	24	2,601,513	85,092	34,513
Other assets	25	5,042,565	2,540,477	9,178,469
TOTAL ASSETS		<u>530,216,747</u>	<u>277,111,144</u>	<u>277,795,198</u>
LIABILITIES AND EQUITY				
LIABILITIES:				
Financial liabilities at fair value through profit or loss	18, 38	1,005,071	503,877	2,688,050
Due to banks and the Central Bank of the Russian Federation	26, 38	59,838,706	48,396,870	68,296,774
Customer accounts	27, 38	313,376,341	134,203,884	116,070,590
Bonds and Eurobonds	28	34,411,692	24,949,543	21,641,797
Promissory notes issued	29	33,168,097	7,501,173	25,302,687
Deferred income tax liabilities	13	1,182,284	911,200	370,563
Other liabilities	30, 38	2,209,305	1,368,278	1,160,655
Subordinated debt	31, 38	27,090,583	22,664,116	9,759,319
TOTAL LIABILITIES		<u>472,282,079</u>	<u>240,498,941</u>	<u>245,290,435</u>
EQUITY:				
Equity attributable to equity holders of the parent:				
Share capital		6,225,430	5,982,374	5,982,374
Preference treasury shares		(484,000)	—	—
Share premium	32	15,859,498	12,602,553	12,602,553
Property, plant and equipment revaluation reserve		716,931	592,328	730,366
Revaluation of investments available-for-sale		5,712	5,711	(1,800)
Retained earnings		24,559,511	17,388,512	13,117,044
Total equity attributable to equity holders of the parent		46,883,082	36,571,478	32,430,537
Non-controlling interest	5	11,051,586	40,725	74,226
Total equity		<u>57,934,668</u>	<u>36,612,203</u>	<u>32,504,763</u>
TOTAL LIABILITIES AND EQUITY		<u>530,216,747</u>	<u>277,111,144</u>	<u>277,795,198</u>

On behalf of the Supervisory Board



President

18 March 2011
Moscow



Chief Accountant

18 March 2011
Moscow

The selected notes on pages 9-108 form an integral part of the consolidated financial statements.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010
(in thousands of Russian Roubles)

	Note	Share capital	Preference treasury shares	Share premium	Property, plant and equipment revaluation reserve	Revaluation of investments available-for-sale	Retained earnings	Total equity attributable to equity holders of the parent company	Non-controlling interest	Total equity
31 December 2007		5,655,985		8,228,942	782,240		9,696,283	24,363,450	118,752	24,482,202
Net profit for the year		—	—	—	—	—	3,469,539	3,469,539	17,488	3,487,027
Total other comprehensive income for the period, net of tax		—	—	—	(51,874)	(1,800)	—	(53,674)	—	(53,674)
Share capital increase										
—ordinary shares		326,389		4,373,611	—	—	—	4,700,000	—	4,700,000
Effect of increase of the Group's shareholding in subsidiaries	5	—	—	—	—	—	11,722	11,722	(35,875)	(24,153)
Discontinued operations	5	—	—	—	—	—	—	—	(26,139)	(26,139)
Dividends declared and paid on preference shares		—	—	—	—	—	(60,500)	(60,500)	—	(60,500)
31 December 2008		5,982,374		12,602,553	730,366	(1,800)	13,117,044	32,430,537	74,226	32,504,763
Net profit for the year		—	—	—	—	—	4,253,388	4,253,388	7,535	4,260,923
Total other comprehensive income for the period, net of tax		—	—	—	(138,038)	7,511	—	(130,527)	—	(130,527)
Effect of increase of the Group's shareholding in subsidiaries	5	—	—	—	—	—	18,080	18,080	(41,036)	(22,956)
31 December 2009		5,982,374		12,602,553	592,328	5,711	17,388,512	36,571,478	40,725	36,612,203
Net profit for the year		—	—	—	—	—	7,384,820	7,384,820	40,885	7,425,705
Total other comprehensive income for the period, net of tax		—	—	—	81,666	1	—	81,667	—	81,667
Share capital increase (issue of ordinary shares)		243,056	—	3,256,945	—	—	—	3,500,001	—	3,500,001
Purchase of treasury shares		—	(484,000)	—	—	—	(147,908)	(631,908)	—	(631,908)
Acquisition of subsidiaries	5	—	—	—	—	—	—	—	10,944,206	10,944,206
Effect of increase/ decrease of the Group's shareholding in subsidiaries	5	—	—	—	42,937	—	(65,913)	(22,976)	25,770	2,794
31 December 2010		6,225,430	(484,000)	15,859,498	716,931	5,712	24,559,511	46,883,082	11,051,586	57,934,668

On behalf of the Supervisory Board



President


Chief Accountant

18 March 2011
Moscow

18 March 2011
Moscow

The selected notes on pages 9-108 form an integral part of the consolidated financial statements.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
CASH FLOWS FROM OPERATING ACTIVITIES:				
Profit before income tax including profit from discontinued operations		9,210,604	5,539,615	4,444,474
Adjustments for:				
Allowance for impairment losses on interest bearing assets		4,148,455	12,048,082	5,274,833
Allowance for impairment losses on other transactions		(245,955)	233,464	445,608
Foreign currency revaluation (gain)/loss	8	(190,959)	6,341	829,141
(Gain)/loss on disposal of loans	20	(1,195,845)	171,899	—
Impairment of investments available-for-sale	21	2,309	115,738	1,803
Precious metals revaluation gain	9	(159,939)	(461,727)	(387,995)
Discontinued operations		—	—	(137,062)
Depreciation and amortization expense	12	435,046	394,773	269,936
Amortization of intangible assets	12	83,044	59,721	32,145
Change in interest accruals, net		(2,126,716)	(248,724)	(710,406)
Change in other accruals, net		703,024	14,455	(26,128)
Gain on disposal of property, plant and equipment	11	(29,195)	(4,914)	(42,459)
Impairment of buildings and construction	23	115,973	986,663	78,422
Goodwill written-off on acquisition		—	134,317	(284)
Loss from revaluation of investment property	25	94,471	—	—
Net change in fair value of assets and liabilities at fair value through profit or loss	7	(510,844)	847,804	(620,715)
Cash flows from operating activities before changes in operating assets and liabilities		10,333,473	19,837,507	9,451,313
Changes in operating assets and liabilities				
(Increase)/decrease in operating assets:				
Minimum reserve deposit with the Central Bank of the Russian Federation		(673,674)	(938,091)	1,745,182
Precious metals		1,038,534	(296,213)	(1,748,850)
Financial assets at fair value through profit or loss		5,405,492	(23,916,857)	(4,934,131)
Loans and advances to banks and other financial institutions		(2,585,415)	2,515,094	(6,012,414)
Loans to customers		(72,428,532)	18,557,168	(50,909,686)
Other assets		462,808	5,281,009	(3,110,447)
Increase/(decrease) in operating liabilities:				
Due to banks and the Central Bank of the Russian Federation		(2,872,698)	(20,763,180)	17,944,374
Bonds and Eurobonds issued		13,770,715	12,552,185	—
Promissory notes issued/(redeemed), net		8,430,020	(18,883,441)	4,213,834
Customer accounts		76,297,406	11,957,139	26,912,480
Other liabilities		(214,061)	104,339	(337,589)
Cash inflows/(outflows) from operating activities before taxation		36,964,068	6,006,659	(6,785,934)
Income tax paid		(1,900,966)	(733,585)	(1,370,648)
Net cash inflows/(outflows) from operating activities		35,063,102	5,273,074	(8,156,582)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds on investments held to maturity repayment		—	2,046,463	—
Purchase of property, plant and equipment	23	(449,120)	(633,463)	(4,090,343)
Purchase of intangible assets	24	(93,340)	(110,300)	(33,007)
Proceeds on sale of property, plant and equipment		118,020	125,296	1,783,268
Proceeds on sale of investments available-for-sale		—	7,511	441,789
Purchase of investments available-for-sale		(1,086,439)	(190,157)	(420,598)
Discontinued operations		—	—	341,272
Disposal of subsidiaries, net of cash disposed	4	—	51,275	—
Increase of share of subsidiaries		—	(22,956)	(24,153)
Acquisition of subsidiaries, net of cash acquired	4	2,304,248	(131,564)	(165,835)
Net cash (outflows)/inflows from investing activities		793,369	1,142,105	(2,167,607)

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
CASH FLOWS FROM FINANCING ACTIVITIES:				
Issue of ordinary share capital		243,056	—	326,389
Share premium		3,256,945	—	4,373,611
Purchase of treasury shares		(631,908)	—	—
Subordinated debt received		12,249,612	12,763,492	—
Subordinated debt repayment		(12,863,492)	—	—
Repayment of bonds and Eurobonds issued		(10,231,698)	(10,163,076)	—
Issuance of bonds and Eurobonds issued		—	—	8,022,667
Disposal of non-controlling interest		230,814	—	—
Acquisition of non-controlling interest		(228,020)	—	—
Dividends paid		—	—	(60,500)
Net cash (outflow)/inflow from financing activities		(7,974,691)	2,600,416	12,662,167
Effect of changes in foreign exchange rate on cash and cash equivalents		(74,233)	116,443	238,370
NET INCREASE IN CASH AND CASH EQUIVALENTS		27,807,547	9,132,038	2,576,347
CASH AND CASH EQUIVALENTS, beginning of period	15	27,452,301	18,320,263	15,743,916
CASH AND CASH EQUIVALENTS, end of period	15	55,259,848	27,452,301	18,320,263

Interest paid and received by the Group during the year ended 31 December 2010, included in cash from operating activities amounted to RUB 15,354,885 thousand and RUB 27,584,287 thousand, respectively.

Interest paid and received by the Group during the year ended 31 December 2009, included in cash from operating activities amounted to RUB 17,086,784 thousand and RUB 34,357,749 thousand, respectively.

Interest paid and received by the Group during the year ended 31 December 2008, included in cash from operating activities amounted to RUB 12,740,482 thousand and RUB 25,225,335 thousand, respectively.

On behalf of the Supervisory Board



President

18 March 2011
Moscow



Chief Accountant

18 March 2011
Moscow

The selected notes on pages 9-108 form an integral part of these consolidated financial statements.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

1. ORGANISATION

OJSC “NOMOS-BANK” (the “Bank”) is a joint-stock bank incorporated in the Russian Federation in 1992. The Bank is regulated by the Central Bank of the Russian Federation (the “CBR”) and conducts its business under general license number 2209. The Bank’s primary business consists of commercial activities, trading with securities, foreign currencies and derivative instruments, providing loans and guarantees.

The registered office of the Bank is located at 3, Verhnaya Radishevskaya st., Moscow, 109240, Russia.

As at 31 December 2010 the Bank had 51 branches operating in the Russian Federation, 2 representative office in the Russian Federation and 1 representative office abroad.

The accompanying consolidated financial statements comprise the accounts of Open joint stock company “NOMOS-BANK” and its subsidiaries (together the “Group”). The consolidated financial statements include the following incorporated subsidiaries:

Name	Country of incorporation	Notes	The Bank’s ownership interest/control (*)			Type of activity
			31 December 2010 %	31 December 2009 %	31 December 2008 %	
OJSC “NOMOS-Bank”	Russian Federation		Parent company	Parent company	Parent company	Banking activity
OJSC “NOMOS-REGIOBANK”	Russian Federation		100/100	98.04/98.04	95.98/95.98	Banking activity
OJSC “NOMOS Siberia”	Russian Federation		100/100	100/100	—	Banking activity
LLC “Inbank”	Russian Federation		74.15/74.15	99.00/99.00	—	Banking activity
OJSC “Khanty-Mansiysk Bank”	Russian Federation	4	51.29/51.29	—	—	Banking activity
BKM Finance Limited	Ireland	4	(contractual agreement)	—	—	Issue of securities
LLC “Yugra-Leasing”	Russian Federation	4	51.29/100	—	—	Finance lease of equipment
LLC “GPF”	Russian Federation	4	51.29/100	—	—	Construction
OJSC “Novosibirsk Municipal Bank”	Russian Federation	4	38.53/75.13	—	—	Banking activity
LLC “NM-Expert”	Russian Federation	4	19.90/100	—	—	Construction
LLC “Promgazkomplekt”	Russian Federation		100/100	100/100	100/100	Office building ownership
OJSC “Promestate”	Russian Federation		100/100	100/100	100/100	Office building ownership
CJSC “Sovfintrast”	Russian Federation		100/100	100/100	100/100	Investment management
CJSC “Upravlyaushaya compania aktivami”	Russian Federation		100/100	100/100	100/100	Asset management
Nomos Capital Plc.	Ireland		(contractual agreement)	(contractual agreement)	(contractual agreement)	Issue of Eurobonds
CJSC “Erada”	Russian Federation		100/100	100/100	100/100	Office building ownership
LLC “NM-Garant”	Russian Federation		99.9/99.9	99.9/99.9	99.9/99.9	Investment management
LLC “Leasing-Project”	Russian Federation		100/100	100/100	100/100	Finance lease of equipment
LLC “BFK-Invest”	Russian Federation		100/100	100/100	100/100	Office building ownership
LLC “Baltaktiv”	Russian Federation		100/100	100/100	—	Wholesale commerce
LLC “Finance and investments”	Russian Federation		—	100/100	—	Investment management
CJSC “Upravlyaushaya compania “Universal”	Russian Federation		—	—	100/100	Asset management
LLC “Upravlyaushaya compania NOMOS BANK”	Russian Federation		100/100	100/100	—	Asset management
LLC “KN-Estate”	Russian Federation	4	100/100	—	—	Office building ownership
LLC “IST-Capital”	Russian Federation	4	100/100	—	—	Investment management

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

(*) The Ownership and control represent the following:

- Ownership represents the effective ownership interest in the subsidiary by the ultimate parent company—OJSC Nomos Bank;
- Control represents the total % of shares controlled, either directly or indirectly, by the entities of the Group;

Additionally, the Group exercises 100 per cent control over the following investment funds, as contractually stipulated:

- ZPIFVI “Venchurny fond investitsionnogo i proektnogo finansirovaniya”,
- ZPIFRE “Universal—Real estate fund”,
- ZPIF “KhMB-Capital”.

As at 31 December 2010 the Group also had holdings (50%) in ZAO PK HESCARD that does not conduct active operations and is immaterial in terms of the Group’s financial statements.

As at 31 December 2010, 2009 and 2008 Group had 9,408 employees, 4,882 employees and 5,232 employees, respectively.

The Group also operates a number of network supplementary offices and currency exchange offices within Russian Federation. As at 31 December 2010, 2009 and 2008 the Group had respectively 249, 140 and 158 points of sale including branches, supplementary offices and currency exchange offices.

The information about acquisitions and disposals of subsidiaries during years ended 31 December 2010, 2009 and 2008 is presented in Note 4.

As at 31 December 2010, 2009 and 2008, the following shareholders owned the issued shares of the Bank:

<u>Shareholders</u>	<u>31 December 2010, %</u>	<u>31 December 2009, %</u>	<u>31 December 2008, %</u>
Shareholders of the Bank (Shareholders of the first level):			
“Russia Finance Corporation B.V.”	28.24	29.91	29.91
“Lobston Enterprises limited” (Cyprus)	18.87	19.99	19.99
“Vitalpeake limited”	18.66	19.77	19.77
“Lordlaine limited”	10.04	10.64	10.64
“Viewrock limited”	10.04	10.64	10.64
“Arrowzone limited”	8.46	8.96	8.96
CJSC “Eniseyskaya investment company”	5.60	0.00	0.00
Other	0.09	0.09	0.09
Total	100.00	100.00	100.00

<u>Shareholders</u>	<u>31 December 2010, %</u>	<u>31 December 2009, %</u>	<u>31 December 2008, %</u>
Ultimate shareholders of the Bank:			
Mr. Kellner P.	28.24	29.91	29.91
Mr. Korbacka R.	18.87	19.99	19.99
Mr. Nesis A.N.	18.66	19.77	19.77
Mr. Dobrinov N.I.	12.03	10.64	10.64
Mr. Gudaytis A.A.	12.03	10.64	10.64
Mr. Finogenov I.V.	4.15	4.39	4.39
Mr. Sokolov D.V.	4.15	4.39	4.39
Mr. Terzian N.	1.71	—	—
Mr. Petropavlovsky A.F.	0.16	0.18	0.18
Other	—	0.09	0.09
Total	100.00	100.00	100.00

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

As at 31 December 2010, 2009 and 2008 the following companies owned the outstanding preference shares of the Bank:

<u>Shareholders of outstanding preference shares</u>	<u>31 December 2010, %</u>	<u>31 December 2009, %</u>	<u>31 December 2008, %</u>
Shareholders of outstanding preference shares the Bank			
(Shareholders of the first level):			
“Lobston Enterprises limited” (Cyprus)	100.00	20.00	20.00
“Arrowzone limited” (Cyprus)	—	50.00	50.00
“Russia Finance Corporation B.V.”	—	30.00	30.00
Total	100.00	100.00	100.00
<u>Shareholders of outstanding preference shares</u>	<u>31 December 2010, %</u>	<u>31 December 2009, %</u>	<u>31 December 2008, %</u>
Ultimate shareholders of outstanding preference shares the Bank:			
Mr. Korbacka R.	100.00	20.00	20.00
Mr. Kellner P.	—	30.00	30.00
Mr. Finogenov I.V.	—	24.50	24.50
Mr. Sokolov D.V.	—	24.50	24.50
Mr. Petropavlovsky A.F.	—	1.00	1.00
Total	100.00	100.00	100.00

In December 2010 the 100% owned subsidiary company of the Group, LLC “Promgazcomplekt” has repurchased 9,680,000 of the Group’s preference shares. The deal was performed in terms of the Group’s organization structure optimization. The Group has no intention to sell back these shares in the foreseeable future.

These consolidated financial statements were authorized for issue by the Supervisory Board of the Bank on 18 March 2011.

2. BASIS OF PRESENTATION

Accounting basis

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale investments, derivative financial instruments, other financial assets and liabilities held for trading, and financial assets and liabilities designated at fair value through profit or loss, which have all been measured at fair value.

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future. The management and shareholders have the intention to further develop the business of the Group in the Russian Federation both in corporate and retail segments. The management believes that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy and based on historical experience that short-term obligations will be refinanced in the normal course of business. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group’s ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

The Bank and its consolidated companies, registered in the Russian Federation, maintain their accounting records in accordance with Russian Accounting Standards (“RAS”), foreign consolidated companies of the Bank maintain their accounting records in accordance with the laws and regulations of the countries, in which they operate. Necessary translation adjustments are applied in consolidation process to ensure convergence to IFRS.

Nomos Capital Plc. and BKM Finance Limited maintain the accounting records in U.S. dollars and in accordance with IFRS.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

Functional currency

The functional currency of a majority of the entities within the Group is Russian Roubles ("RUB"). Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The presentational currency of the consolidated financial statements of the Group is the RUB. All values are rounded to the nearest thousand Roubles, except when otherwise indicated.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

This consolidated financial statements incorporates the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The ownership interest of Bank and/or the proportion of voting power of Bank in the significant subsidiaries as at 31 December 2010, 2009 and 2008 are presented in Note 1.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. From 1 January 2010, acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. In a business combination achieved in stages, the previously held equity interest is remeasured at the acquisition-date fair value with the resulting gain or loss recognised in the income statement. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are treated as transactions between equity holders and are reported in equity.

Entities that are controlled by the Group are consolidated until the date that control ceases.

From 1 January 2010, the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss. For acquisitions before 1 January 2010, contingent consideration was recorded when its amount become probable and reliably measurable.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Recognition of income and expense

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and allocating of interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned and paid on assets and liabilities at fair value is classified within interest income and interest expense, respectively.

Recognition of fee and commission income and expense

Loan origination fees are deferred, together with the related direct incremental costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct incremental costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in profit or loss when the syndication has been completed. All other commission income are recognized when services are provided.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

Recognition of income on repurchase and reverse repurchase agreements

Gain/loss on the sale of the above instruments is recognized as interest income or expense in the income statement based on the difference between the repurchase price accreted to date using the effective interest method and the sale price when such instruments are sold to third parties. When the reverse repo/repo is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognized using the effective interest method.

Financial instruments

The Group recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

Financial assets are classified as assets at fair value through profit or loss when the asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

- It has been acquired or incurred principally for the purpose of repurchasing or selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset (other than a financial asset held for trading) may also be designated as at fair value through profit or loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset or liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest earned on the financial asset or interest paid on the financial liability, which are included in the interest income or interest expense in the consolidated income statement.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

Reclassification of financial assets

Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be reclassified out of the fair value through profit or loss category in the following circumstances:

- Financial assets that would have met the definition of loans and receivables at initial recognition (if the financial asset had not been required to be classified as held for trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity; and
- Financial assets (except financial assets that would have met the definition of loans and receivables at initial recognition) may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

When a financial asset is reclassified as described in the above circumstances, the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in the income statement is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Investments held to maturity

Debt securities with fixed or determinable payments and fixed maturity dates that the Group has positive intent and ability to hold to maturity are classified as held to maturity investments. Held to maturity investments are measured at amortised cost using the effective interest method less any impairment.

If the Group were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the following two years.

Investments available-for-sale

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (2) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Debt and equity investments held by the Group that are traded in an active market are classified as available for sale and are stated at fair value. The Group also has investments in unlisted shares that are not traded in an active market but that are also classified as available for sale financial assets because the management of the Group considers that fair value can be reliably measured. Gains and losses arising from changes in fair value are recorded in other comprehensive income and accumulated in the revaluation of the investments available-for-sale reserve, with the exception of the impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the revaluation of the investments available-for-sale reserve is reclassified to the profit or loss. With the exception of equity investments available-for-sale, if, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of equity investments available-for-sale, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in consolidated other comprehensive income.

Dividends on available-for-sale equity instruments are recognized in profit or loss in other income when the Group's right to receive the dividends is established.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

Loans and advances to banks and other financial institutions

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks and other financial institutions. Loans and advances to banks and other financial institutions are initially recognized at fair value, plus incremental direct transactions costs. Loans and advances to banks and other financial institutions are subsequently measured at amortized cost using the effective interest method. Amounts of loans and advances to banks and other financial institutions are carried net of any allowance for impairment losses.

Loans to customers

Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market, other than those classified in other categories of financial assets.

Loans to customers granted by the Group are initially recognized at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the consolidated income statement according to nature of the losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Securities repurchase and reverse repurchase agreements

In the normal course of business, the Group enters into financial assets sale and repurchase agreements (“repos”) and financial asset purchase and sellback agreements (“reverse repos”) in the normal course of its business. Repos and reverse repos are utilized by the Group as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the consolidated financial statements and consideration received under these agreements is recorded as collateralized deposit received within balances due to banks/customer accounts.

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit collateralized by securities and other assets and are classified within balances due from banks/loans to customers.

In the event that assets purchased under reverse repo are sold to third parties, the results are recorded in net gains/(losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income or expense in the consolidated income statement.

The Group enters into securities repurchase agreements and securities reverse repurchase agreements under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the Russian Federation and other Commonwealth of Independent States (“CIS”), the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction, only if the counterparty fails to meet its obligations per the agreement on the lending transaction.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. The Group accounts for impairment of financial assets not recorded at fair value when there is an objective evidence of impairment of a financial asset or a group of financial assets as a result of one or more events that occurred after the initial recognition of the financial asset.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. The Group accounts for impairment of financial assets not recorded at fair value when there is an objective evidence of impairment of a financial asset or a group of financial assets as a result of one or more events that occurred after the initial recognition of the financial asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

For listed and unlisted equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For available-for-sale securities, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty; or default or delinquency in interest or principal payments; or it becoming probable that the borrower will enter bankruptcy or financial re-organisation. The impairment of available-for-sale financial assets represents a difference between the carrying value of the asset and its current fair value.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

- For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement to the extent of the increase in fair value;
- For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses recognised on the equity security are not reversed through the income statement. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

For the financial instruments recorded at amortized cost the impairment represents the difference between the carrying value of the financial asset and current value of the estimated future cash flows discounted using the current market interest rate for a similar financial instrument. Such impairment losses are not reversed.

For financial assets carried at amortized cost, the impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or joint evaluation of financial assets not being material individually. Collectively assessed corporate financial assets are grouped on industry basis and retail financial assets are grouped by type of products.

The change in the impairment is included into consolidated income statement using the provision account (financial assets recorded at amortized cost) or by a direct write-off (financial assets recorded at cost). Assets recorded in the consolidated statement of financial position are reduced by the amount of the impairment. The factors the Group evaluates in determining the presence of objective evidence of occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets. Cash recoveries of loans previously written off are recorded as “other income”.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

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. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated income statement in the period of recovery.

Derecognition of 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 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.

Derecognition of financial liabilities

A financial liability is derecognised 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. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the Central Bank of the Russian Federation and correspondent accounts with banks margin deposits for operations with plastic cards, which may be converted to cash within a short period of time (less than 90 days).

Minimum reserve deposits with the Central Bank of the Russian Federation

Minimum reserve deposits with the Central Bank of the Russian Federation (CBR) represent the amount of obligatory reserves deposited with the Central Bank of the Russian Federation in accordance with requirements established by the Central Bank of the Russian Federation. The minimum reserve deposits with the Central Bank of the Russian Federation are subject to restrictions on its availability, therefore for purposes of determining cash flows, the minimum reserve deposit required by the Central Bank of the Russian Federation is not included as a cash equivalent. The Bank is required to maintain the minimum reserve deposit with the Central Bank of the Russian Federation at the constant basis.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

Precious metals

Assets and liabilities denominated in precious metals are translated into Roubles at the current rate computed based on the second fixing of the London Metal Exchange rates, using the RUB/USD exchange rate effective at the date. Changes in the bid prices are recorded in net (loss)/gain on operations with precious metals.

Financial liabilities and equity instruments issued

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Bank's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the income statement.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

Other financial liabilities

Due to banks, customer accounts, debt securities issued and subordinated debt

Due to banks, customer accounts, debt securities issued and subordinated debt are initially recognized at fair value. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings, using the effective interest method.

Derivative financial instruments

The Group enters into variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange risk, including forwards, swaps and options on foreign currency, precious metals and securities. Derivative financial instruments entered by the Group are not designated as hedges and do not qualify for hedge accounting.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently stated at their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the consolidated statement of financial position. Gains and losses resulting from these instruments are included in net gain (loss) on financial assets and liabilities at fair value through profit or loss in the consolidated income statement.

Derivative instruments embedded in other financial instruments or other host contracts are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value through profit or loss. An embedded derivative is a component of a hybrid financial instrument that includes both the embedded derivative and the underlying host.

Finance leases

Finance leases are leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The lease is classified as a finance lease if:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

The Group as a lessor

The Group as a lessor presents finance leases as loans and initially measures them at an amount equal to the net investment in the lease. Subsequently, the recognition of finance income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment in the finance lease.

Before commencement date property, plant and equipment purchased for future transfer to finance lease is recognized in the consolidated financial statements as property, plant and equipment purchased to transfer to finance lease at cost.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

The Group as a lessee

At the commencement of the lease term, the Group as a lessee recognizes finance leases as assets and liabilities in its consolidated statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present values of the minimum lease payments. Subsequently, the minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs. Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rents are charged as expenses in the periods in which they are incurred. Depreciation of the lease property is charged in accordance with depreciation policy that is applied to property owned by the Group.

Operating leases

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rents are charged as expenses in the periods in which they are incurred. Depreciation of the lease property is charged in accordance with depreciation policy that is applied to property owned by the Group.

Property, plant and equipment and intangible assets

Property, plant and equipment (except for land and buildings and constructions) and intangible assets, acquired after 1 January 2003 are carried at historical cost less accumulated depreciation and any recognized impairment loss. Property, plant and equipment (except for land and buildings and constructions) and intangible assets, acquired before 1 January 2003 are carried at historical cost restated for inflation less accumulated depreciation and any recognized impairment loss.

Depreciation is charged on the carrying value of property, plant and equipment and is designed to write off assets (less their residual value) over their useful economic lives. Depreciation is calculated on a straight line basis at the following annual prescribed rates:

Buildings and constructions	2%-2.63%
Furniture and equipment	20%
Other property, plant and equipment	20%-25%
Intangible assets	16%-25%

Leasehold improvements are amortized over the life of the related leased asset or the lease period whichever is shorter.

Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount, impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Land, buildings and constructions held for use in supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

Any revaluation increase arising on the revaluation of such land, buildings and constructions is credited to the property, plant and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to profit or loss for the period to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the property, plant and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to the consolidated income statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property, plant and equipment revaluation reserve is transferred directly to retained earnings.

Market value of property is assessed using three methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;
- The costs method, which presumes the value of property to be equal to its recoverable amount less any depreciation charges.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

The amortization period for intangible assets vary from 5 to 6 years.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Taxation

The current tax expense is based on an estimate of taxable profit for the period. Taxable profit differs from net profit before tax as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are non-taxable or non-deductible. The Group's current tax expense is calculated using tax rates that have been enacted for the reporting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and deferred income tax liabilities are offset and reported net in the consolidated statement of financial position if:

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

The Russian Federation and Ireland also have various other taxes not based on income, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated income statement.

Non-current assets held for sale

Non-current assets held for sale represent repossessed collateral for overdue loans to customers.

A non-current asset is classified as held for sale if it is highly probable that the asset's carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition and the sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification of an asset as held for sale.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the consolidated income statement as loss from non-current assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

Investment property

Investment property, comprising office and commercial buildings, is held to earn future rentals or for capital appreciation. Investment property is initially measured at cost, including transactions costs. Subsequent to initial recognition, investment property is measured at the fair value amount, determined from market-based evidence by appraisal undertaken by professional independent appraisers. Gains and losses arising from changes in the fair value of investment property are included in income statement in the period in which they arise.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group provide for specified payments to be made in order to reimburse the holder for a loss incurred such that payments are made when a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

During the reporting period the Bank changed the methodology of estimation of provisions for guarantees and other off-balance sheet commitments. Currently to determine the value of provisions for guarantees and other off-balance sheet commitments the Group performs the analysis of historical trends based on collected statistical information on collective basis. Based on the statistics on actual loss incurred by the Group during previous periods the calculation of estimated future losses is performed.

Previously the Group was analysing guarantees on an individual basis and performed assessment for impairment. Impairment losses were recognized as the difference between the carrying value of the guarantee and the discounted value of estimated future cash repayments and proceeds. These estimates took into account the strength of the client's financial solvency and liquidity as well as their historic guarantee servicing.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

Contingencies

Contingent liabilities, which include certain guarantees, letters of credit and commitments loans and unused credit lines, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Group; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Share capital and share premium

Share capital and share premium amounts received before 1 January 2003 are recognized at the amount received restated for inflation and after 1 January 2003 are recognized at the amount received. Share premium represents the excess of the amount received over the nominal value of the shares issued.

Costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Holders of preference shares with non-fixed rate dividend income are entitled to: participate in the General Meeting of shareholders with voting rights addressing issues of reorganization and liquidation of the Bank and addressing issues on introducing amendments and additions to the Charter restricting the rights of holders of preferred shares. Each preference share entitles the holder to receive dividends on an equal basis with holders of ordinary shares.

Dividends on ordinary shares and preference shares classified as equity are recognized, as a distribution of equity in the period in which they are approved by shareholders.

Goodwill

The goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill on acquisitions of subsidiaries is disclosed on face of the statement of financial position.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill at the end of the reporting period was RUB 597,652 thousand.

As the goodwill that forms part of the carrying amount of an investment in an associate is not separately recognized, it is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount when there are indicators that the investment is impaired. An impairment loss recognized is not allocated to any asset, including goodwill. Any reversal of impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases. The recoverable amount of an investment in an associate is assessed for each associate, unless the associate does not generate cash inflows from continuing use that are largely independent of those from other assets of the Group.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

Retirement and other benefit obligations

In accordance with the requirements of the Russian Federation legislation, pension payments are calculated by an employer as certain percentages of salary expenses and transferred to the Pension fund of the Russian Federation, which transfers them to pension funds selected by employees. The Group does not have obligation to transfer pension payments directly to pension funds selected by employees. This expense is charged to profit or loss in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the pension funds selected by employees. The Group provides its employees with post-employment benefits in the form of defined contribution plans. The contributions to the defined contribution plan are included in staff costs on accrual basis. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Foreign currency translation

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign currency and precious metals transactions are accounted for at the foreign exchange rates prevailing at the date of the transaction. Profits and losses arising from the translations are included in net gains on foreign exchange transactions and net gains on transactions with precious metals.

Rates of exchange

The exchange rates used by the Group to translate foreign currency balances and balances denominated in precious metals are as follows:

	31 December 2010	31 December 2009	31 December 2008
RUB/1 U.S. Dollar	30.4769	30.2442	29.3804
RUB/1 Euro	40.3331	43.3883	41.4411
RUB/Gold bullion (1 ounce)	42,980.05	33,389.60	25,414.05

Fiduciary activities

The Group also provides depositary services to its customers, which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

Segment reporting

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group measures information about operating segments in accordance with IFRS. Information about operating segment meets any one of the following quantitative thresholds:

- Its reported revenue, from both external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments; or
- The absolute measure of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; or
- Its assets are 10 per cent or more of the combined assets of all operating segments.

Operating segments not meeting above quantitative thresholds may be aggregated to produce a reportable segment if they share similar economic characteristics and meet the aggregation criteria as defined.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments are identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75 per cent of the Group's revenue is included in reportable segments.

Areas of significant management judgment and sources of estimation uncertainty

The preparation of the Group's consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The following estimates and judgments are considered key significant judgments and estimation uncertainty in relation to the financial position and performance of the Group:

	31 December 2010	31 December 2009	31 December 2008
Allowance for impairment losses on loans to customers	15,557,694	17,026,959	11,696,307
Allowance for impairment losses for investments held to maturity	1,129,362	683,941	184,758
Allowance for impairment losses for other assets	398,850	283,400	56,209
Land, buildings and constructions at revalued amount	8,900,555	4,797,228	4,137,886
Provision for guarantees and other off-balance sheet commitments	324,213	591,430	585,157

Fair value estimates were considered as critical accounting policies of the Group's financial statements.

Allowance for impairment of loans

Loans to customers are measured at amortized cost less allowance for impairment losses. A loan is impaired when there is objective evidence that events since the loan was granted have affected expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate. The estimation of allowances for impairments involves the exercise of significant judgment. The Group estimates allowances for impairment with the objective of maintaining balance sheet provisions at a level believed by management to be sufficient to absorb losses incurred in the Group's loan portfolio. The calculation of provisions on impaired loans is based on the likelihood of the asset being written off and the estimated loss on such a write-off. These assessments are made using statistical techniques based on historic experience. These determinations are supplemented by the application of management judgment.

Loans, above the minimum level determined by the Group's Management are individually assessed for impairment. Impairment losses are recognized as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any collateral held. These estimates take into account the strength of the client's financial solvency and liquidity as well as their historic loan servicing, general business risks and national and local economic tendencies and conditions, all of which may be affected by future economic conditions.

The Group estimates the impairment allowance for loans to individuals based on its past loss experience for these types of loans. The significant assumptions used in determining the impairment allowance for loans to individuals are as follows:

- Management assumes that loss migration rates can be estimated based on historic loss migration pattern using historical data;
- Management adjusts its past historical loss experience taking into account the current economic situation and the impact of the economic crisis on the quality of the loan portfolio.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

The Group considers accounting estimates related to provisions for loans key sources of estimation uncertainty because: (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of losses relating to impaired loans and advances are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses (as reflected in the provisions) and actual losses will require the Group to take provisions which, if significantly different, could have a material impact on its future income statement and its statement of financial position. The Group's assumptions about estimated losses are based on past performance, past customer behaviour, the credit quality of recent underwritten business and general economic conditions, which are not necessarily an indication of future losses.

Allowance for impairment losses for investments held to maturity

The Group accounts for impairment of investments held to maturity when there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition.

For the financial instruments recorded at amortized cost the impairment represents the difference between the carrying value of the financial asset and current value of the estimated future cash flows discounted using the current market interest rate for a similar financial instrument.

Allowance for impairment losses for other assets

The impairment for other assets is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding other assets being material individually and on the basis of an individual or joint evaluation of other assets not being material individually.

Valuation of land, buildings and investment property

The Group uses the valuation performed by its external appraisers as the fair value of its land, buildings and investment properties.

The valuation of the Group's property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental revenues from that particular property. As a result, the valuations the Group places on its property portfolio are subject to a degree of uncertainty and are made on the basis of assumptions which may not prove to be accurate, particularly in periods of volatility or low transaction flow in the commercial property market.

The investment property valuation contains a number of assumptions upon which the external appraisers has based its valuation of the Group's properties. Those assumptions include, but are not limited to, matters such as ground conditions at the properties, structural condition of the properties, prevailing market yields and comparable market transactions, inflation rate, tenure and tenancy details for the properties. These assumptions are market standard: however, if any assumptions made by the property appraiser prove to be false, this may mean that the value of the Group's properties differs from their valuation, which could have a material effect on the Group's financial condition.

Provision for guarantees and other off-balance sheet commitments

The accounting estimates and judgments related to the provision for off-balance sheet commitments is an area of significant management judgment because the underlying assumptions used for both the individually and collectively assessed impairment can change from period to period and may significantly affect the Group's results of operations.

During the reporting period the Bank changed the methodology of estimation of provisions for guarantees and other off-balance sheet commitments. Currently to determine the value of provision for guarantee and other off-balance sheet commitments the Group performs the analysis of historical trends based on collected statistical information. Based on the statistics on actual loss incurred by the Group during previous periods the calculation of estimated future losses is performed.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

Fair value estimates

Certain of the Group's financial instruments are carried at fair value with changes in fair value recognized in income statement.

Fair value is defined as the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, willing parties, other than in a forced or liquidation sale.

In reaching estimates of fair value management judgment needs to be exercised. The areas requiring significant management judgment are identified, documented and reported to senior management as part of the valuation control framework and the standard monthly reporting cycle.

The level of management judgment required in establishing fair value of financial instruments for which there is a quoted price in an active market is minimal. Similarly there is little subjectivity or judgment required for instruments valued using valuation models that are standard across the industry and where all parameter inputs are quoted in active markets.

The level of subjectivity and degree of management judgment required is more significant for those instruments valued using specialized and sophisticated models and those where some or all of the parameter inputs are not observable. Management judgment is required in the selection and application of appropriate parameters, assumptions and modelling techniques. In particular, where data are obtained from infrequent market transactions extrapolation and interpolation techniques must be applied. In addition, where no market data are available parameter inputs are determined by assessing other relevant sources of information such as historical data, fundamental analysis of the economics of the transaction and proxy information from similar transactions with appropriate adjustments to reflect the terms of the actual instrument being valued and current market conditions. Where different valuation techniques indicate a range of possible fair values for an instrument, management has to establish what point within the range of estimates best represents fair value.

Adoption of new and revised standards

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the IASB and IFRIC of the IASB that are relevant to its operations and mandatorily effective for annual reporting periods beginning on or after 1 January 2010.

The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the amounts reported for the current or prior years except where, if applicable, referred to in the notes or statements described above.

Amendments to IFRS 5

Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to IFRSs issued in 2009)

The amendments to IFRS 5 clarify that the disclosure requirements in IFRSs other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those IFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5 and the disclosures are not already provided in the consolidated financial statements.

Amendments to IAS 7

Statement of Cash Flows (as part of Improvements to IFRSs issued in 2009)

The amendments to IAS 7 specify that only expenditures that result in a recognized asset in the statement of financial position can be classified as investing activities in the statement of cash flows.

Amendments to IFRS 7

Financial Instruments: Disclosures (as part of Improvements to IFRSs issued in 2010)

The amendments to IFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans (annual periods beginning on or after January 1, 2011).

Amendments to IAS 1 Presentation

of Financial Statements (as part of Improvements to IFRSs issued in 2010)

The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements (annual periods beginning on or after January 1, 2011).

IFRS 3 (as revised in 2008) Business Combinations

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

IFRS 3(2008) has been applied in the current year prospectively to business combinations for which the acquisition date is on or after January 1, 2010 in accordance with the relevant transitional provisions. Its adoption has affected the accounting for business combinations in the current year.

The impact of the application of IFRS 3(2008) is as follows.

- IFRS 3(2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree.
- IFRS 3(2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of the acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the date of acquisition. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.
- IFRS 3(2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.
- IFRS 3(2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.
- IFRS 3 (2008) requires the acquirer not to recognize a separate valuation allowances of the acquisition date for assets acquired in a business combination that are measured at their acquisition date fair values.

Results in future periods may be affected by future impairment losses relating to the increased goodwill, and by changes in the fair value of contingent consideration recognised as a financial liability.

IAS 27 (as revised in 2008) Consolidated and Separate Financial Statements

The application of IAS 27(2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under IAS 27(2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

These changes in accounting policies have been applied prospectively from January 1, 2010 in accordance with the relevant transitional provisions.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

Standards and interpretations issued and not yet adopted

At the date of authorization of these condensed interim consolidated financial statements, other than the Standards and Interpretations adopted by the Group in advance of their effective dates, the following Interpretations were in issue but not yet effective.

Improvements to IFRS 2010—In May 2010, the IASB issued amendments to IFRS, which resulted from the IASB's annual improvement project. They comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The Group is currently evaluating the potential impact that the adoption of the amendments will have on its consolidated financial statements.

IAS 24—In November 2009, the IASB issued a revised version of IAS 24, "Related Party Disclosures" ("IAS 24 R"). IAS 24 R provides a partial exemption from the disclosure requirements for government-related entities and clarifies the definition of a related party. The revised standard is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The Group is currently evaluating the potential impact that the adoption of IAS 24 R will have on its consolidated financial statements.

IFRS 9 *Financial Instruments* issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The directors anticipate that IFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2013 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

Reclassifications

Pursuant to the Group's initiative to enhance the transparency of its financial statements, the Group has tabulated below the following conforming reclassification and disaggregation of line items to the consolidated financial statements as at 31 December 2009 and 2008 to bring them in line with the 2010 presentation:

<u>Nature of reclassification</u>	<u>Amount for the year ended 31 December 2009</u>	<u>Amount for the year ended 31 December 2008</u>	<u>Statement of financial position, income statement line as per the previous report</u>	<u>Statement of financial position, income statement line as per current report</u>
Reclassification of provision for investments held to maturity	(499,183)	(184,758)	Provision and impairment on other operations	Provision for impairment losses on interest bearing assets
Disaggregation of minimum reserve deposits with the Central Bank of the Russian Federation from Cash and balances with the Central Bank of the Russian Federation into a separate line	1,192,375	237,976	Cash and balances with the Central Bank of the Russian Federation	Minimum reserve deposits with the Central Bank of the Russian Federation

4. ACQUISITIONS AND DISPOSALS

Acquisitions and disposal during the year ended 31 December 2010

In November 2010 the Group acquired 100% share in LLC "IST-Capital" which owns 19.98% of OJSC "Khanty-Mansiysk Bank".

As at 16 December 2010 the Group completed an acquisition of the controlling 51.29% stake in Khanty-Mansiysky Bank Group (further—"BKM Group") by buying additional 31.33 % of BKM Group of RUB 12,121,535 thousand. The consideration was paid in cash.

The estimated revenue amount and net profit since the date of acquisition is immaterial to disclose.

The BKM Group comprises the Khanty-Mansiysk Bank, Open Joint Stock Company, and its subsidiaries—BKM Finance Limited, LLC "Yugra-Leasing", LLC "GPF", OJSC "Novosibirsk Municipal Bank". The Khanty-Mansiysk Bank, Open Joint Stock Company (Khanty-Mansiysk Bank OAO) is an open joint-stock company, which was incorporated in the Russian Federation in 1992. The Bank's primary business consists of corporate, small business and retail banking primarily in the Khanty-Mansiysk Autonomous District and Tyumen region. As at 31 December 2010 the Bank had 17 branches in the Russian Federation, 1 representative office in the Russian Federation and 1 representative office abroad, and 150 additional offices, operating offices and operating cash desks.

The format of this transaction does not mean a merger of its participants. OJSC "Nomos-Bank" and OJSC "Khanty-Mansiysk Bank" will continue to operate as separate legal entities and will operate under their original brands.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

The fair value of the net assets of the companies as of the acquisition date is presented below:

	LLC «IST-Capital» and BKM Group
Assets	
Cash and balances with the Central Bank of the Russian Federation	8,518,950
Minimum reserve deposits with the Central Bank of the Russian Federation	951,257
Precious metals	15,923
Financial assets at fair value through profit or loss	2,732,652
Loans and advances to banks	22,233,454
Loans to customers	100,752,725
Investments available-for-sale	24,460,940
Property, plant and equipment	4,880,540
Intangible assets	2,506,028
Other assets	3,348,040
Total assets	170,400,509
Financial liabilities at fair value through profit or loss	529,955
Deposits from banks	14,955,581
Customer accounts	102,569,855
Bonds and Eurobonds	6,132,259
Promissory notes	17,522,015
Deferred income tax liabilities	390,162
Other liabilities	841,176
Subordinated debt	4,991,417
Total liabilities	147,932,420
Net assets	22,468,089
Parent company's ownership interest (%)	51.29%
Consideration paid	12,121,535
Plus: non-controlling interest	10,944,206
Less: Net assets	22,468,089
Goodwill	597,652

The goodwill is primarily attributable to the profitability of the acquired business of BKM Group, the synergies from revenues and from cost savings expected to arise from the integration of the BKM Group into Nomos Bank.

The management of the Group assessed the amount of the revaluation of the equity interest previously held immediately before the acquisition date and considers this amount to be immaterial.

The fair values of assets and liabilities acquired are based on discounted cash flow models and other valuation techniques and were determined by an independent appraiser. Non-controlling interest was measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The following table presented the cash flow from this acquisition:

Consideration paid	12,121,535
Less: cash and cash equivalents acquired	(14,675,833)
Total	(2,554,298)

Had these business combinations been effected as at 1 January 2010, the revenue of the Group from continuing operations would have been RUB 30,845,174 thousand, and the profit for the year from continuing operations would have been RUB 10,444,580 thousand, the financial result relating to comprehensive loss would have amounted to RUB 76,234 thousand. The management considers these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualized basis and to provide a reference point for comparison in future periods.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

The following table represents the fair value and the uncollectable amount of acquired receivables as well as the gross contractual amount of receivables:

	<u>Fair value</u>	<u>Gross contractual amounts receivable</u>	<u>Amount not expected to be received</u>
ASSETS:			
Correspondent accounts with the Central Bank of the Russian Federation	2,966,536	2,966,536	—
Loans and advances to banks and other financial institutions	22,233,455	22,222,157	664
Loans to customers	100,752,725	107,044,856	6,211,864
Other assets	3,348,652	3,546,534	235,113
	<u>129,301,368</u>	<u>135,780,083</u>	<u>6,447,641</u>

In December 2010 Group acquired 100% share in LLC “KN-Estate”. The company’s principal activity is office building ownership. The cash outflow relating to the acquisition of shares amounted to RUB 250,050 thousand. The fair value of the net assets of the company as of the acquisition date is presented below:

	<u>LLC “KN-Estate”</u>
Assets	
Loans and advances to banks	74,184
Property, plant and equipment	248,563
Intangible assets	95
Other assets	48,036
Total assets	<u>370,878</u>
Customer accounts	120,020
Other liabilities	808
Total liabilities	<u>120,828</u>
Net assets	<u>250,050</u>
Parent company’s ownership interest (%)	100%
Parent company’s ownership interest	250,050
Consideration paid	<u>250,050</u>
Goodwill	<u>—</u>

In November 2010 the management of LLC “Inbank” had made the decision of expansion of capital stock and decrease its share from 99.00% as at 31 December 2009 to 74.15% as at 31 December 2010 (See note 5). The cash inflow relating to the disposal of shares amounted to RUB 37,500 thousand.

In April 2010 the Group has sold shares to non-controlling shareholders of OJSC “NOMOS-Regiobank” and decreased its share from 98.04% as at 31 December 2009 to 88.03% as at 30 June 2010. The cash inflow relating to the disposal of shares amounted to RUB 97,313 thousand.

In August 2010 the Group has purchased shares from non-controlling shareholders of OJSC “NOMOS-Regiobank” and increased its share from 88.03% as at 30 June 2010 to 98.39% as at 30 September 2010. The cash outflow relating to the acquisition of shares amounted to RUB 111,309 thousand.

In December 2010 the Group has purchased shares from non-controlling shareholders of OJSC “NOMOS-Regiobank” and increased its share from 98.39% as at 30 September 2010 to 100 % as at 31 December 2010 (See Note 5). The cash outflow relating to the acquisition of shares amounted to RUB 17,533 thousand.

In May 2010 the Group has sold shares to non-controlling shareholders of OJSC “NOMOS Siberia” and decreased its share from 100% as at 31 December 2009 to 87.99% as at 30 September 2010. The cash inflow relating to the disposal of shares amounted to RUB 96,000 thousand.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

In November 2010 the Group has purchased shares from non-controlling shareholders of OJSC “NOMOS Siberia” and increased its share from 87.99% as at 30 September 2010 to 100% as at 31 December 2010 (See Note 5). The cash outflow relating to the acquisition of shares amounted to RUB 99,190 thousand.

The effect of these acquisitions and disposals are reflected in the statement of changes in equity.

In February 2010 the Group obtained control over LLC “Upravlyashaya kompania NOMOS BANK” through enlargement of share capital of the company. As at 31 December 2010 the Group’s share amounts to 100.00%.

Acquisitions and disposal during the year ended 31 December 2009

In December 2009 the Group obtained control over ZPIFRE “Universal—Real estate fund”. The principal activity of the entity is investment management. The fair value of the net assets of the entity as of the acquisition date was equal to consideration paid and consisted of cash.

In December 2009 the Group acquired LLC “Baltaktiv” with a share of 100% which owned 99.0% of LLC “Inbank”. The companies’ principal activities are wholesale commerce and banking activity, respectively. The total goodwill of RUB 134,737 thousand was written-off to the consolidated income statement for the year ended 31 December 2009 as it was considered insignificant. The fair value of the net assets of the companies as of the acquisition date is presented below:

	LLC “Baltaktiv”	LLC “Inbank”	Total
Assets			
Cash and balances with the Central Bank of the Russian Federation	—	100,405	100,405
Financial assets at fair value through profit or loss	—	735,103	735,103
Loans and advances to banks	4	30,392	30,396
Loans to customers	—	80,596	80,596
Investments available-for-sale	7,920	—	7,920
Investments held to maturity	—	24,980	24,980
Property, plant and equipment	—	11,026	11,026
Other assets	112	13,276	13,388
Total assets	8,036	995,778	1,003,814
Customer accounts	—	626,728	626,728
Deferred income tax liabilities	—	3,789	3,789
Other liabilities	3,282	3,212	6,494
Total liabilities	3,282	633,729	637,011
Net assets	4,754	362,049	366,803
Parent company’s ownership interest (%)	100%	99%	
Share in net assets	4,754	358,429	363,183
Consideration paid	490,000	7,920	497,920
(Goodwill)/Excess of fair value of assets acquired/liabilities assumed over consideration paid	(485,246)	350,509	(134,737)

In April 2009 the CBR by its order entrusted the Deposit Insurance Agency (“DIA”) to act as provisional administration to manage the distressed bank “VEFK Siberia” for a term of six months. Simultaneously with the appointment as administrator, according to the CBR decision the Group took control over the “VEFK Siberia”, the authorized capital of “VEFK Siberia” was decreased to RUB 1 and an additional share issue of “VEFK Siberia” in the amount of RUB 800,000 thousand was placed. The additional issue was purchased by a NOMOS-BANK’s subsidiary—LLC “Promgazkomplekt”. Additional issue amount was eliminated on the consolidated level in these consolidated financial statements as equity of a subsidiary. The difference between consideration paid of RUB 1 and net assets received was insignificant and was written off to the consolidated income statement. In August 2009 CJSC “VEFK Siberia” was renamed into CJSC “NOMOS Siberia”. The main strategy of the Group in its management of CJSC “NOMOS Siberia” is an expansion of its customer base in the region and developing its share in small and medium business segment. The expansion will be reached by the combination of resources using the experience of the Bank in the banking industry.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

The fair value of the net assets of the company as of the acquisition date is presented below:

	CJSC “NOMOS Siberia” 30 April 2009 (RUB thousand)
Assets	
Cash and balances with the Central Bank of the Russian Federation	282,259
Financial assets at fair value through profit or loss	347,713
Loans and advances to banks	399,971
Loans to customers	2,088,507
Investments available-for-sale	388
Property, plant and equipment	623,331
Other assets	81,266
Total assets	<u>3,823,435</u>
Liabilities	
Due to banks	304,506
Customer accounts	3,362,999
Deferred income tax liabilities	84,089
Other liabilities	71,421
Total liabilities	<u>3,823,015</u>
Net assets	<u>420</u>

In February 2009 and July 2009 the Group has purchased additional shares from minority shareholders of OJSC “NOMOS-REGIOBANK”. The cash outflow relating to the acquisition of shares amounted to RUB 22,956 thousand (See Note 5).

In September 2009 the Group sold CJSC “Upravlyaushaya kompania “Universal” to the third party. The gain of the company from 1 January 2009 through the disposal date were RUB 1,190 thousand. No gain or loss was recorded on the disposition.

Acquisitions and disposal during the year ended 31 December 2008

In June 2008 the Group sold OJSC “Nomos-Leasing” and OJSC “NM-Trust” to third parties. The resulting gain on disposals of RUB 107,332 thousand and RUB 26,250 thousand, respectively, was recognized in the Group’s consolidated income statement. The aggregated gain of the companies as of the disposal date is RUB 103,506 thousand.

In December 2008 the Group sold Nomos Investment (Cyprus) Limited to a third party. The resulting gain on disposal of RUB 3,480 thousand was recognised in the Group’s consolidated income statement. The gain of the company as of the disposal date is RUB 15,922 thousand.

In February 2008 the Group acquired 100% share in CJSC “Upravlyaushaya kompania “Universal”. The company’s principal activity is asset management. The gain of the company at the date of the acquisition is RUB 237 thousand. The management had made the decision to write off goodwill as a result of impairment on the date of acquisition.

In October 2008 the Group acquired 100% share LLC “BFK-Invest”. The company’s principal activity is investment management. The gain of the company from the beginning of the year to the date of the acquisition was RUB 1,972 thousand. The excess of fair value of assets acquired/liabilities assumed over consideration paid of RUB 705 thousand was written-off to consolidated income statement for the year ended 31 December 2008.

In May 2008, August 2008 and October 2008 the Group has purchased additional shares of OJSC “NOMOS-Regiobank” from minority shareholders (See Note 5). The cash outflows relating to the acquisition of shares amounted to RUB 23,450 thousand.

In March 2008 the Group founded LLC “NM-Garant”. Share of the Group in the capital of LLC “NM-Garant” is 99.9%. The company’s principal activity is investment management. Cash outflows relating to the foundation of the company amounted to RUB 100 thousand.

In October 2008 the Group founded LLC “Leasing-Project”. Share of the Group in the capital in LLC “Leasing-Project” is 100%. The company’s principal activity is finance lease of equipment. The cash outflows relating to the foundation of the company amounted to RUB 5,000 thousand.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

5. NON-CONTROLLING INTEREST

Non-controlling interest comprises:

	OJSC “NOMOS- REGIOBANK”	OJSC “NOMOS Siberia”	LLC “Inbank”	OJSC “KHANTY- MANSIYSK BANK”	OJSC “NM- Trust”	Total
31 December 2007	90,740	—	—	—	28,012	118,752
Profit /(loss) attributable to non-controlling interest . . .	19,361	—	—	—	(1,873)	17,488
Disposal of subsidiaries	—	—	—	—	(26,139)	(26,139)
Effect of increase in share of subsidiaries purchased from non-controlling interest	(35,875)	—	—	—	—	(35,875)
31 December 2008	74,226	—	—	—	—	74,226
Effect of increase in share of subsidiaries purchased from non-controlling interest	(41,036)	—	—	—	—	(41,036)
Profit attributable to non-controlling interest . . .	7,535	—	—	—	—	7,535
31 December 2009	40,725	—	—	—	—	40,725
Effect of (increase)/decrease in share of subsidiaries (purchased from)/sold to non-controlling interest . . .	(63,021)	(18,589)	107,380	—	—	25,770
Acquisition of subsidiary	—	—	—	10,944,206	—	10,944,206
Profit attributable to non-controlling interest . . .	22,296	18,589	—	—	—	40,885
31 December 2010	—	—	107,380	10,944,206	—	11,051,586

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

6. NET INTEREST INCOME

Net interest income comprises:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Interest income comprises:			
Interest income on assets recorded at amortized cost	24,702,016	29,236,644	23,232,117
Interest income on investments available-for-sale	122,575	613,448	4,416
Interest income on assets at fair value through profit or loss	4,525,766	6,574,655	3,095,291
Total interest income	29,350,357	36,424,747	26,331,824
Interest income on assets recorded at amortized cost:			
Interest income on loans to customers	22,069,096	26,344,082	21,979,278
Interest income on reverse repurchase transactions	2,100,909	1,457,804	549,533
Interest income on loans and advances to banks and other financial institutions	425,114	865,577	611,472
Interest on investments held to maturity	106,897	569,181	91,834
Total interest income on assets recorded at amortized cost	24,702,016	29,236,644	23,232,117
Interest income on assets at fair value through profit or loss:			
Interest income on financial assets at fair value through profit or loss held-for-trading	4,525,766	6,574,655	3,095,291
Total interest income on assets at fair value through profit or loss	4,525,766	6,574,655	3,095,291
Interest income on investments available-for-sale	122,575	613,448	4,416
Total interest income on investments available-for-sale	122,575	613,448	4,416
Interest expense comprises:			
Interest expense on liabilities recorded at amortized cost	14,988,622	18,905,058	13,136,565
Total interest expense	14,988,622	18,905,058	13,136,565
Interest expense on liabilities recorded at amortized cost comprise:			
Interest expense on customer accounts	8,603,454	9,019,082	5,607,015
Interest expense on subordinated debt	2,212,717	1,841,397	492,520
Interest expense on Bonds and Eurobonds issued	1,949,269	2,174,331	1,553,261
Interest expense on due to banks and the Central Bank of the Russian Federation	1,271,233	4,525,106	3,438,613
Interest expense on promissory notes issued	825,188	702,858	1,497,826
Interest expense on repurchase transactions	126,761	642,284	547,330
Total interest expense on financial liabilities recorded at amortized cost	14,988,622	18,905,058	13,136,565
Net interest income before provision for impairment losses on interest bearing assets	14,361,735	17,519,689	13,195,259

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

7. NET GAIN/(LOSS) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain/(loss) on financial assets and liabilities at fair value through profit or loss comprises:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Net gain /(loss) on operations with financial assets and liabilities at fair value through profit or loss comprise:			
Realized gain/(loss) on operations with securities at fair value through profit or loss	1,215,887	4,371,781	(793,674)
Realized gain/(loss) on operations with derivative financial instruments	261,310	212,374	(398,824)
Unrealized gain/(loss) with financial assets and liabilities at fair value through profit or loss	510,844	(847,804)	620,715
Total net gain / (loss) on financial assets and liabilities at fair value through profit or loss	<u>1,988,041</u>	<u>3,736,351</u>	<u>(571,783)</u>

8. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Dealing, net	433,810	1,393,417	1,740,933
Translation differences, net	190,959	(110,102)	(1,067,511)
Total net gain on foreign exchange operations	<u>624,769</u>	<u>1,283,315</u>	<u>673,422</u>

9. NET GAIN ON OPERATIONS WITH PRECIOUS METALS

Net gain on operations with precious metals comprises:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Dealing, net	84,871	(394,191)	(101,543)
Translation differences, net	159,939	461,727	387,995
Total net gain on operations with precious metals	<u>244,810</u>	<u>67,536</u>	<u>286,452</u>

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

10. NET FEE AND COMMISSION INCOME

Net fee and commission income comprise:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Fee and commission income:			
Settlements	907,532	711,739	653,225
Documentary operations	820,214	611,530	572,007
Cash operations	496,271	405,587	193,155
Operations with precious metals	120,375	143,205	46,379
Brokerage operations	23,037	39,153	121,041
Depository services	5,624	13,310	3,541
Operations related to underwriting	12,125	18,129	193,732
Other	99,508	136,939	104,227
Total fee and commission income	<u>2,484,686</u>	<u>2,079,592</u>	<u>1,887,307</u>
Fee and commission expense:			
Settlements	184,544	145,492	124,122
Cash operations	65,179	67,669	55,777
Documentary operations	44,864	60,203	33,584
Securities operations	19,521	23,389	22,135
Depository services	15,168	13,966	10,495
Other	39,107	16,071	34,827
Total fee and commission expense	<u>368,383</u>	<u>326,790</u>	<u>280,940</u>
Net fee and commission income	<u>2,116,303</u>	<u>1,752,802</u>	<u>1,606,367</u>

11. OTHER INCOME

Other income comprises:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Income on recovery on written-off loans to customers	395,116	—	—
Penalties received	108,588	253,501	110,123
Income on early deposits withdrawal	108,592	67,667	—
Rental income	48,274	30,735	9,193
Dividends received	35,485	922	9,785
Gain on disposal of property, plant and equipment	29,195	4,914	42,459
Income on debt securities issued pre-term redeemed	21,454	10,091	48,730
Other	74,859	67,753	48,887
Total other income	<u>821,563</u>	<u>435,583</u>	<u>269,177</u>

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

12. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Payroll and bonuses	4,439,964	3,120,286	2,793,228
Unified social tax	513,932	448,189	385,786
Depreciation of property, plant and equipment	435,046	394,773	269,936
Rent expenses	341,529	402,574	468,997
Taxes other than income tax	324,898	325,306	275,902
Professional services	318,352	158,082	149,164
Property, plant and equipment maintenance	300,919	265,133	249,966
Security expenses	204,167	189,102	78,209
Payments to the Deposit Insurance Fund	209,739	174,928	138,402
Telecommunications	162,151	155,914	107,602
Stationery and other office expenses	115,780	131,171	163,521
Advertising expenses	144,198	167,105	190,932
Amortization of intangible assets	83,042	59,721	32,145
Representation expenses	73,543	50,595	66,818
Insurance expenses	24,111	15,758	20,486
Goodwill written off on acquisition of subsidiaries (Note 5)	—	134,317	—
Other expenses	326,415	175,946	88,935
Total operating expenses	<u>8,017,786</u>	<u>6,368,900</u>	<u>5,480,029</u>

13. INCOME TAX

The Group provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the statutory tax regulations, which may differ from International Financial Reporting Standards.

The Group is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2010, 2009 and 2008 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets and liabilities.

During November 2008 the Government of the Russian Federation announced that the income tax rate will change from 24% to 20% effective from the 1 January 2009.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

Temporary differences as at 31 December 2010, 2009 and 2008 comprise:

	31 December 2010	Tax amount at 20%	31 December 2009	Tax amount at 20%	31 December 2008	Tax amount at 20%
Deductible temporary differences:						
Other liabilities	1,458,414	291,683	—	—	870,087	174,017
Customer accounts	1,379,088	275,818	72,558	14,512	—	—
Investments held to maturity	1,055,766	211,153	548,407	109,681	92,924	18,585
Financial liabilities at fair value						
through profit or loss	969,673	193,935	212,460	42,492	2,688,050	537,610
Other assets	493,925	98,785	418,937	83,787	63,672	12,734
Precious metals	3,937	787	—	—	15,386	3,077
Investments available-for-sale						
(related to Income Statement)	—	—	538,094	107,619	33,977	6,795
Loans from banks	—	—	467,713	93,543	—	—
Bonds and Eurobonds	—	—	—	—	36,421	7,284
Subordinated debt	—	—	—	—	13,417	2,685
Investments available-for-sale						
(related to Equity)	—	—	—	—	2,250	450
Total deductible temporary differences	5,360,803	1,072,161	2,258,169	451,634	3,816,184	763,237
Taxable temporary differences:						
Property, plant and equipment						
(related to Income Statement)	4,524,853	904,971	641,368	128,274	368,170	73,634
Loans to customers	2,546,427	509,285	4,195,368	839,074	694,864	138,973
Financial assets at fair value through						
profit or loss	1,099,870	219,974	1,650,179	330,036	3,164,561	632,912
Investments available-for-sale						
(related to Income Statement)	718,039	143,608	—	—	—	—
Property, plant and equipment						
(related to Equity)	896,164	179,233	740,410	148,082	912,958	182,592
Loans from banks	299,856	59,971	—	—	98,341	19,668
Subordinated debt	328,998	65,800	16,806	3,361	—	—
Promissory notes issued	240,266	48,053	13,428	2,686	14,124	2,825
Bonds and Eurobonds	88,858	17,772	29,853	5,971	—	—
Loans and advances to banks	21,868	4,373	63,255	12,651	17,203	3,441
Investments available-for-sale						
(related to Equity)	7,140	1,428	7,139	1,428	—	—
Other liabilities	—	—	51,807	10,361	—	—
Precious metals	—	—	37,059	7,410	—	—
Customer accounts	—	—	—	—	7,776	1,554
Total taxable temporary differences	10,772,339	2,154,468	7,446,672	1,489,334	5,277,997	1,055,599
Net taxable temporary differences	(5,411,536)	—	(5,188,503)	—	(1,461,813)	—
Tax loss carried-forward	361,072	72,214	1,014,632	202,926	—	—
Recognized net deferred liabilities	(5,050,464)	—	(4,173,871)	—	(1,461,813)	—
Net deferred tax liabilities at the						
statutory rate effective from						
1 January 2009 (20%)	(1,010,093)	(1,010,093)	(834,774)	(834,774)	(292,363)	(292,363)
Deferred tax asset not recognized	(158,400)	—	(57,118)	—	(78,200)	—
Net deferred tax liabilities (after offset)	(1,182,284)	—	(911,200)	—	(370,563)	—
Net deferred tax assets (after offset) (Note 25)	13,791	—	19,308	—	—	—

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

The effective tax rate reconciliation for the years ended December 31, 2010 and 2009 is explained as follows:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Profit before income tax	9,210,604	5,539,615	4,187,984
Statutory tax rate	20%	20%	24%
Tax at the statutory tax rate	1,842,121	1,107,923	1,005,116
Tax effect due to different tax rates	(31,817)	(42,050)	(33,827)
Change in unrecognized deferred tax assets	101,282	(21,082)	15,114
Tax effect due to change in tax rates	—	—	(63,401)
Additional tax charge related to 2008 loss carried-forward	— (202,926)	18,580 —	— —
Non-deductible costs, non-taxable income and taxable income not recognized in accounting income	76,239	215,321	34,445
Income tax expense	1,784,899	1,278,692	957,447

The corporate income tax expense for the years ended 31 December 2010, 2009 and 2008 comprises:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Current income tax expense	1,905,086	812,609	1,220,504
Deferred tax (income)/expense	(120,187)	466,083	(263,057)
Income tax expense	1,784,899	1,278,692	957,447

Movements in deferred tax liabilities for the years ended 31 December 2010, 2009 and 2008 comprise:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Deferred income tax liabilities			
At the beginning of the period	911,200	370,563	746,156
Deferred income tax liabilities of acquired subsidiaries	390,162	87,878	—
Deferred income tax liabilities of disposed subsidiaries	—	—	(22,741)
Change in deferred income tax liabilities recorded in equity other comprehensive income	20,416	(32,632)	(89,795)
Increase / (decrease) in deferred income tax liability for the period	(139,494)	485,391	(263,057)
At the end of the period	1,182,284	911,200	370,563

Movement in deferred tax assets for the years ended 31 December 2010, 2009 and 2008 comprises:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Deferred income tax assets			
At the beginning of the period	19,308	—	—
Deferred income tax assets of acquired subsidiaries at the date of acquisition	13,791	—	—
(Decrease) / increase in deferred income tax asset for the period	(19,308)	19,308	—
At the end of the period	13,791	19,308	—

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

Movement in the tax loss carried-forward for the years ended 31 December 2010, 2009 and 2008 comprises

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Tax loss carried-forward			
Tax loss at the beginning of the period	1,014,632	—	—
Increase of tax loss for the period	—	1,014,632	—
Tax loss used in the current period	(653,560)	—	—
Tax loss at the end of the period	<u>361,072</u>	<u>1,014,632</u>	<u>—</u>

There were no losses expiring in the current year. The tax loss expires in 2019.

14. EARNINGS PER SHARE

Earnings per share are presented as follows:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Earnings per share related to continuing and discontinued operations:			
Profit:			
Net profit for the year	7,425,705	4,260,923	3,487,027
Less:			
Loss on redemption of preference shares	(147,908)	—	—
Non-controlling interest	(40,885)	(7,535)	(17,488)
Net profit less non-controlling interest	<u>7,236,912</u>	<u>4,253,388</u>	<u>3,469,539</u>
Weighted average number of ordinary shares for basic and diluted earnings per share	82,677,403	81,984,861	78,827,985
Earnings per share from continuing and discontinued operations—basic and diluted (RUB)	<u>87.53</u>	<u>51.88</u>	<u>44.01</u>

Earnings per share related to continuing operations:

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Profit:			
Net profit attributable to equity holders of the parent	7,236,912	4,253,388	3,469,539
Less:			
Income from discontinued operations	—	—	(256,490)
Net profit attributable to equity holders of the parent	<u>7,236,912</u>	<u>4,253,388</u>	<u>3,213,049</u>
Weighted average number of ordinary shares for basic and diluted earnings per share	82,677,403	81,984,861	78,827,985
Earnings per share from continuing operations—basic and diluted (RUB)	<u>87.53</u>	<u>51.88</u>	<u>40.76</u>

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

Earnings per share related to discontinued operations:

	Year ended 31 December 2008
Profit:	
Profit for the year from discontinued operations	256,490
Weighted average number of ordinary shares for basic and diluted earnings per share	78,827,985
Earnings per share from discontinued operations—basic and diluted (RUB)	3.25

15. CASH AND BALANCES WITH THE CENTRAL BANK OF THE RUSSIAN FEDERATION

Cash and balances with the Central Bank of the Russian Federation are presented as follows:

	31 December 2010	31 December 2009	31 December 2008
Cash on hand	11,078,464	4,909,737	3,848,719
Balances with the Central Bank of the Russian Federation	29,410,287	9,165,642	7,172,654
Total cash and balances with the Central Bank of the Russian Federation	40,488,751	14,075,379	11,021,373

For the purpose of cash flow statement preparation cash and cash equivalents comprise of the following components:

	31 December 2010	31 December 2009	31 December 2008
Cash and balances with the Central Bank of the Russian Federation	40,488,751	14,075,379	11,021,373
Correspondent accounts with banks (Note 19)	14,771,097	13,376,922	7,298,890
Total cash and cash equivalents	55,259,848	27,452,301	18,320,263

16. PRECIOUS METALS

Precious metals are presented as follows:

	31 December 2010	31 December 2009	31 December 2008
Gold in vault	3,565,404	4,091,612	3,158,452
Gold in transit	623,537	211,409	—
Silver in transit	145,864	284,709	99,137
Silver in vault	192,484	22,477	46,416
Other precious metals in vault	149,215	4,888	5,418
Other precious metals in transit	—	102	45
Total precious metals	4,676,504	4,615,197	3,309,468

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss are presented as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Financial assets held-for-trading:			
Equity securities	1,973,397	2,335,297	185,796
Debt securities	50,334,834	54,824,849	31,991,829
Total financial assets held-for-trading	<u>52,308,231</u>	<u>57,160,146</u>	<u>32,177,625</u>
First to default credit linked notes	<u>1,816,972</u>	<u>—</u>	<u>—</u>
Total derivative financial instruments (Note 18)	<u>1,396,837</u>	<u>506,138</u>	<u>2,772,285</u>
Total financial assets at fair value through profit or loss	<u>55,522,040</u>	<u>57,666,284</u>	<u>34,949,910</u>

Financial assets held-for-trading comprise:

	<u>Interest rate to nominal</u>	<u>31 December 2010</u>	<u>Interest rate to nominal</u>	<u>31 December 2009</u>	<u>Interest rate to nominal</u>	<u>31 December 2008</u>
Bonds and Eurobonds issued by						
banks	4.25-12.0%	21,454,634	1.48-17.5%	17,257,972	7.1-12.5%	14,096,048
Corporate bonds and						
Eurobonds	5.09-18.5%	13,596,140	6.13-19.0%	22,547,339	7.5-16.0%	7,269,512
Promissory notes	—	7,038,015	—	—	—	—
RF Government Eurobonds	7.5%	5,299,899	7.5%	1,605,589	12.75%	6,426,520
Municipal bonds	8.0-19.1%	2,893,865	7.25-16.0%	3,269,567	7.8-14%	2,746,909
Corporate shares	—	1,973,397	—	2,335,297	—	185,796
OFZ bonds	6.90-7.0%	52,281	6.10-13.0%	10,144,382	6.1-10.0%	1,452,840
Total financial assets						
held-for-trading		<u>52,308,231</u>		<u>57,160,146</u>		<u>32,177,625</u>

Bonds and Eurobonds issued by banks represent bonds and Eurobonds issued by Russian banks. As at 31 December 2010, 2009 and 2008 the bonds issued by banks have maturities from January 2011 to June 2035, January 2010 to November 2019 and from July 2009 to June 2018, respectively. As at 31 December 2010, 2009 and 2008 these securities amounting to RUB 4,004,710 thousand, RUB 839,885 thousand and RUB 3,762,790 thousand respectively, were pledged as security under overdraft and overnight credit agreements with the Central Bank of the Russian Federation. As at 31 December 2010, 2009 and 2008 the facilities were not used. As at 31 December 2008 bonds issued by banks totalling RUB 1,495,371 thousand were pledged under repurchase agreements with other banks (see Note 26).

Corporate bonds and Eurobonds are issued by Russian companies. As at 31 December 2010, 2009 and 2008 corporate bonds held by the Group have maturities from March 2011 to June 2035, February 2010 to February 2020 and January 2009 to November 2018. As at 31 December 2010 and 2009 these securities amounting to RUB 914,369 thousand and RUB 1,623,007 thousand, respectively, were pledged as security under overdraft and overnight credit agreements with Central Bank of Russian Federation. As at 31 December 2010 and 2009 the facilities were not used. As at 31 December 2009 and 2008 corporate bonds totalling RUB 855,653 thousand and RUB 1,063,873 thousand were pledged under repurchase agreements with other banks (see Note 24). As at 31 December 2008 corporate bonds totalling RUB 870,074 thousand were pledged under repurchase agreements with customers (see Note 27).

Promissory notes purchased represented by promissory notes issued by Russian banks. As 31 December 2010 the promissory notes purchased held by the Group have maturities from April 2011 to October 2011.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

RF Government Eurobonds are securities issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. As at 31 December 2010 and 2009 the Group portfolio consisted of 1 tranche maturing at March 2030. As at 31 December 2008 the Group portfolio consisted of 1 tranche maturing at June 2028. The interest on these bonds is payable semi-annually. As at 31 December 2010 and 31 December 2008 RF Government Eurobonds with fair value totalling RUB 927,283 thousand and RUB 5,209,734 thousand, respectively, were pledged under repurchase agreements with banks (see Note 26).

Municipal bonds are bonds issued by local authorities of the Russian Federation. As at 31 December 2010, 2009 and 2008 municipal bonds held by the Group have maturities from April 2011 to October 2015, from March 2010 to July 2014 and April 2009 to April 2014. As at 31 December 2010 and 2009 these securities amounting to RUB 157,596 thousand and RUB 1,150,615 thousand, respectively, were pledged as security under overdraft and overnight credit agreements with the Central Bank of the Russian Federation. As at 31 December 2010 and 2009 the facilities were not used.

Corporate shares are mainly represented by shares of Russian companies. As at 31 December 2010 corporate shares totalling RUB 2,200,857 thousand were pledged under repurchase agreements with banks (see Note 26). As at 31 December 2010 and 2009 corporate shares totalling RUB 1,786,205 thousand and RUB 1,139,083 thousand, respectively, were pledged under repurchase agreements with customers (see Note 27).

Russian State Bonds (OFZ bonds) are Rouble-denominated government securities issued at discount to face value and guaranteed by the Ministry of Finance of the Russian Federation. As at 31 December 2010, 2009 and 2008 OFZ bonds held by the Group have maturity ranging from October 2018 to February 2036, January 2010 to February 2036 and January 2010 to October 2018. As at 31 December 2009 and 31 December 2008 these securities amounting to RUB 623,289 thousand and RUB 286,525 thousand were pledged as security under overdraft and overnight credit agreements with the Central Bank of the Russian Federation, respectively. As at 31 December 2009 and 2008 the facilities were not used. As at 31 December 2009 OFZ bonds totalling RUB 535,736 thousand were pledged under repurchase agreements with banks (see Note 26).

Following the adopted amendments to IAS 39 and IFRS 7 the management of the Bank has made the decision dated 31 October 2008 to reclassify certain debt securities from financial assets at fair value through profit or loss to investments held to maturity starting from 1 July 2008. The reclassified securities amounted to RUB 2,054,190 thousand at the date of reclassification. If the reclassification had not been made, the Group's income statement for the periods ended 31 December 2010, 2009 and 2008 would have included unrealized fair value losses on the reclassified debt securities of RUB 721,952 thousand, RUB 571,358 and RUB 668,085 thousand respectively.

First to default credit-linked notes are USD denominated floating coupon notes issued by major international financial institutions, repayment of which is dependent on certain corporate bonds being repaid by their issuers in full (the "reference bonds"). In case of default of any of the reference bonds, the major international financial institutions have the right to transfer to the Group defaulted bonds with a nominal amount equal to the nominal amount of first to default credit-linked notes held by the Group without any further payments to the Group for these notes.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

As at 31 December 2010 first to default credit-linked notes were as follows:

Nominal amount and margin calls		Maturity date	Coupon rate	Reference bonds	31 December 2010 Carrying amount
Nominal currency	Rouble equivalent				
USD 20 million	609,538	March 20, 2011	LIBOR+ 12.75% per annum	OAO Bank VTB OAO Vypelkom OAO Severstal OAO Gazprom OAO Severstal OAO Evrazholding OAO Mobile Telecommunication Systems	676,655
USD 20 million	609,538	December 20, 2011	6 month LIBOR+ 6.6% per annum	OAO Vypelkom AK Alrosa OAO TNK-BP OAO Evrazholding OAO Mobile Telecommunication Systems	574,913
USD 10 million	304,769	November 20, 2012	LIBOR+ 12.5% per annum	OAO Rosneft AK Alrosa OAO TNK-BP OAO Severstal	278,964
USD 10 million	304,769	December 20, 2011	6 month LIBOR+ 9.25% per annum	OAO Alfa-Bank OAO Vypelkom	286,440
					<u>1,816,972</u>

18. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are presented as follows:

The following table provides information on derivative financial instruments as at 31 December 2010:

	31 December 2010		
	Nominal amount	Fair value	
		Asset	Liability
Derivative financial instruments:			
Foreign currency contracts			
Forwards	(182,151,659)	1,172,987	(750,517)
Options	—	34,684	(34,684)
Precious metals contracts			
Forwards	(6,615,722)	57,708	(12,727)
Dealing security contracts			
Forwards	(154,827)	1,374	—
Futures contracts	—	9,954	—
Other derivative instruments			
Swaps	—	120,130	(207,143)
Total derivative financial instruments		1,396,837	(1,005,071)

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

The following table provides information on derivative financial instruments as at 31 December 2009:

	31 December 2009		
	Nominal amount	Fair value	
		Asset	Liability
Derivative financial instruments:			
Foreign currency contracts			
Forwards	(34,537,875)	469,578	(411,127)
Options	—	9,690	(2,746)
Precious metals contracts			
Forwards	(7,028,319)	26,870	(29,435)
Other derivative instruments			
Swaps	—	—	(60,569)
Total derivative financial instruments		506,138	(503,877)

The following table provides information on derivative financial instruments as at 31 December 2008:

	31 December 2008		
	Nominal amount	Fair value	
		Asset	Liability
Derivative financial instruments:			
Foreign currency contracts			
Forwards	(71,635,385)	2,715,881	(2,652,364)
Precious metals contracts			
Forwards	(3,953,866)	56,404	(35,686)
Total derivative financial instruments		2,772,285	(2,688,050)

Forwards and futures

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. The Group has credit exposure to the counterparties of forward contracts. Forward contracts also result in market risk exposure.

Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. The main differences in the risk associated with forward and futures contracts are credit risk and liquidity risk.

The Group has credit exposure to the counterparties of forward contracts. The credit risk related to future contracts is considered minimal because the cash margin requirements of the exchange help ensure that these contracts are always honored.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Group with other financial institutions in which the bank either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually net, with the difference being paid by one party to the other.

Interest rate swaps are used for interest rate risks management and presented as the exchange of interest payments for nominal amount, amortized during the time and nominated in RUB, EUR and USD. The Group uses interest rate swaps for exchange of fixed interest rate for floating interest rate and vice versa. The floating interest rate is tied to basic interest rate LIBOR on the different terms basis.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group purchases and sells options through regulated exchanges and in the over-the-counter markets.

Options purchased by the bank provide the Group with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

19. LOANS AND ADVANCES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Loans and advances to banks and other financial institutions comprise:

	31 December 2010	31 December 2009	31 December 2008
Loans to banks	24,546,449	13,137,317	9,486,501
Correspondent accounts with banks	14,771,097	13,376,922	7,298,890
Loans under reverse repurchase agreements	2,259,952	300,499	5,486,387
Total loans and advances to banks and other financial institutions	<u>41,577,498</u>	<u>26,814,738</u>	<u>22,271,778</u>

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as at 31 December 2010, 2009 and 2008 are presented as follows:

	31 December 2010		31 December 2009		31 December 2008	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
OFZ bonds	1,176,117	1,274,640	101,647	113,145	105,369	153,961
Bonds issued by banks	345,060	420,716	—	—	—	—
Bonds of Russian companies	333,335	409,248	147,200	199,498	2,008,332	2,064,985
Corporate shares	305,429	491,820	—	—	—	—
Municipal bonds	100,011	117,609	51,652	51,502	—	—
RF Government Eurobonds	—	—	—	—	3,372,686	3,511,065
Total	<u>2,259,952</u>	<u>2,714,033</u>	<u>300,499</u>	<u>364,145</u>	<u>5,486,387</u>	<u>5,730,011</u>

As at 31 December 2010, 2009 and 2008 included in loans and advances to banks and other financial institutions are guarantee deposits placed by the Group for its operations with the plastic cards in the amount of RUB 550,882 thousand, RUB 178,614 thousand and RUB 146,335 thousand, respectively.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

20. LOANS TO CUSTOMERS

Loans to customers comprise:

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Loans to legal entities			
Corporate loans	251,460,707	138,827,700	172,162,326
Loans under reverse repurchase agreements	43,470,872	17,381,357	2,131,331
Small business loans to corporates	19,973,372	6,761,223	7,786,570
Net investments in finance lease	2,144,927	1,046,176	—
Lease contracts to individual entrepreneurs	138,997	—	—
Total loans to legal entities	317,188,875	164,016,456	182,080,227
Loans to individuals			
Mortgage loans	21,979,249	10,130,067	11,216,692
Consumer loans	13,194,382	4,234,655	4,481,866
Car loans	2,201,590	825,514	1,118,838
Loans to individual entrepreneurs	265,394	—	—
Other	30,116	470,000	520,000
Total loans to individuals	37,670,731	15,660,236	17,337,396
Gross loans to customers	354,859,606	179,676,692	199,417,623
Less—Allowance for impairment losses	(15,557,694)	(17,026,959)	(11,696,307)
Total loans to customers	339,301,912	162,649,733	187,721,316

The credit quality of loans to customers can be defined based on the Group internal credit quality assessment system which reflects the probability of default of an obligor, i.e. the likelihood that counterparty fails to pay interest, principal and other financial obligations to the Group.

As at 31 December 2010, 2009 and 2008 interest income on impaired loans to customers, including loans impaired collectively, amounted to RUB 15,179,152 thousand, RUB 17,616,106 thousand and RUB 13,829,019 thousand, respectively.

As at 31 December 2010, 2009 and 2008 interest income on collectively impaired loans to customers, amounted to RUB 9,712,074 thousand, RUB 11,138,687 thousand and RUB 5,806,162 thousand, respectively.

The Group has an internal classification of the loans without the individual indicators of impairment. The loans are classified as:

- Standard loans, representing loans without any indicators of impairment and thus representing the best level of credit quality;
- Watch list loans, representing loans with some minor indicators of deterioration in credit quality not yet resulting in the impairment of the loan. Such indicators may include minor breaches of loan covenants, some factors of deterioration of financial position of the borrower etc., not yet affecting the ability of the borrower to repay the amounts in due course. Watch list loans are subject to stricter monitoring of financial position, collateral and other enhanced credit risk management tools.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

The following tables provide an analysis of the credit quality and distribution of loans granted to legal entities by the Group's internal credit quality categories, as at 31 December 2010:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans, %
Corporate loans				
Loans without individual indicators of impairment:				
—standard loans not overdue	269,454,614	5,114,591	264,340,023	1.90%
—watch list loans	13,723,032	478,865	13,244,167	3.49%
Total loans without individual indicators of impairment	283,177,646	5,593,456	277,584,190	1.98%
Loans with individual indicators of impairment:				
—not past due	4,426,941	1,549,996	2,876,945	35.01%
—overdue less than 90 days	2,565,381	889,055	1,676,326	34.66%
—overdue more than 90 days and less than 1 year	1,769,022	1,410,194	358,828	79.72%
—overdue more than 1 year	5,137,516	3,993,697	1,143,819	77.74%
Total loans with individual indicators of impairment	13,898,860	7,842,942	6,055,918	56.43%
Total corporate loans	297,076,506	13,436,398	283,640,108	4.52%
Small business loans to corporates				
Loans without individual indicators of impairment:				
—standard loans not overdue	18,161,278	230,102	17,931,176	1.27%
—watch list loans	759,973	18,583	741,390	2.45%
Total loans without individual indicators of impairment	18,921,251	248,685	18,672,566	1.31%
Loans with individual indicators of impairment:				
—not past due	329,260	167,308	161,952	50.81%
—overdue less than 90 days	68,896	51,591	17,305	74.88%
—overdue more than 90 days and less than 1 year	107,387	103,420	3,967	96.31%
—overdue more than 1 year	685,575	677,336	8,239	98.80%
Total loans with individual indicators of impairment	1,191,118	999,655	191,463	83.93%
Total small business loans to corporates	20,112,369	1,248,340	18,864,029	6.21%
Total loans to legal entities	317,188,875	14,684,738	302,504,137	4.63%

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

The following tables provide an analysis of the credit quality and distribution of loans granted to legal entities by the Group's internal credit quality categories, as at 31 December 2009:

	<u>Gross loans</u>	<u>Impairment allowance</u>	<u>Net loans</u>	<u>Impairment allowance to gross loans, %</u>
Corporate loans				
Loans without individual indicators of impairment:				
—standard loans not overdue	133,821,123	4,887,222	128,933,901	3.65%
—watch list loans	11,064,578	692,908	10,371,670	6.26%
Total loans without individual indicators of impairment	144,885,701	5,580,130	139,305,571	3.85%
Loans with individual indicators of impairment:				
—not past due	2,445,137	1,317,440	1,127,697	53.88%
—overdue less than 90 days	408,896	243,100	165,796	59.45%
—overdue more than 90 days and less than 1 year	8,407,737	6,453,464	1,954,273	76.76%
—overdue more than 1 year	1,107,762	1,070,957	36,805	96.68%
Total loans with individual indicators of impairment	12,369,532	9,084,961	3,284,571	73.45%
Total corporate loans	157,255,233	14,665,091	142,590,142	9.33%
Small business loans to corporates				
Loans without individual indicators of impairment:				
—standard loans not overdue	4,921,778	119,817	4,801,961	2.43%
—watch list loans	432,204	9,489	422,715	2.20%
Total loans without individual indicators of impairment	5,353,982	129,306	5,224,676	2.42%
Loans with individual indicators of impairment:				
—not past due	313,806	207,528	106,278	66.13%
—overdue less than 90 days	142,968	140,145	2,823	98.03%
—overdue more than 90 days and less than 1 year	758,404	758,404	—	100.00%
—overdue more than 1 year	192,063	192,063	—	100.00%
Total loans with individual indicators of impairment	1,407,241	1,298,140	109,101	92.25%
Total small business loans to corporates	6,761,223	1,427,446	5,333,777	21.11%
Total loans to legal entities	164,016,456	16,092,537	147,923,919	9.81%

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

The following tables provide an analysis of the credit quality and distribution of loans granted to legal entities by the Group's internal credit quality categories, as at 31 December 2008:

	<u>Gross loans</u>	<u>Impairment allowance</u>	<u>Net loans</u>	<u>Impairment allowance to gross loans, %</u>
Corporate loans				
Loans without individual indicators of impairment:				
—standard loans not overdue	156,845,408	6,116,569	150,728,839	3.90%
—watch list loans	7,744,633	475,715	7,268,918	6.14%
Total loans without individual indicators of impairment	164,590,041	6,592,284	157,997,757	4.01%
Loans with individual indicators of impairment:				
—not past due	6,023,074	1,883,622	4,139,452	31.27%
—overdue less than 90 days	660,251	442,988	217,263	67.09%
—overdue more than 90 days and less than 1 year	2,908,710	1,625,799	1,282,911	55.89%
—overdue more than 1 year	111,581	104,072	7,509	93.27%
Total loans with individual indicators of impairment	9,703,616	4,056,481	5,647,135	41.80%
Total corporate loans	174,293,657	10,648,765	163,644,892	6.11%
Small business loans to corporates				
Loans without individual indicators of impairment:				
—standard loans not overdue	7,306,144	340,356	6,965,788	4.66%
—watch list loans	363,386	35,031	328,355	9.64%
Total loans without individual indicators of impairment	7,669,530	375,387	7,294,143	4.89%
Loans with individual indicators of impairment:				
—not past due	—	—	—	0.00%
—overdue less than 90 days	2,235	2,235	—	100.00%
—overdue more than 90 days and less than 1 year	61,256	61,256	—	100.00%
—overdue more than 1 year	53,549	53,549	—	100.00%
Total loans with individual indicators of impairment	117,040	117,040	—	100.00%
Total small business loans to corporates	7,786,570	492,427	7,294,143	6.32%
Total loans to legal entities	182,080,227	11,141,192	170,939,035	6.12%

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

The following table provides information on loans to individuals as at 31 December 2010:

	<u>Gross Loans</u>	<u>Impairment allowance</u>	<u>Net Loans</u>	<u>Impairment allowance to gross loans, %</u>
Mortgage Loans				
—Not past due	20,968,152	45,304	20,922,848	0.22%
—Overdue less than 30 days	94,999	223	94,776	0.23%
—Overdue 30-90 days	147,060	28,750	118,310	19.55%
—Overdue 91-180 days	83,236	38,314	44,922	46.03%
—Overdue 181-365 days	191,867	190,892	975	99.49%
—Overdue more than 365 days	493,935	493,935	—	100.00%
Total mortgage loans	21,979,249	797,418	21,181,831	3.63%
Consumer Loans				
—Not past due	12,987,984	24,461	12,963,523	0.19%
—Overdue less than 30 days	104,421	862	103,559	0.83%
—Overdue 30-90 days	50,472	2,437	48,035	4.83%
—Overdue 91-180 days	48,922	33,152	15,770	67.77%
—Overdue 181-365 days	2,583	1	2,582	0.04%
—Overdue more than 365 days	—	—	—	0.00%
Total consumer loans	13,194,382	60,913	13,133,469	0.46%
Car Loans				
—Not past due	2,124,829	2,507	2,122,322	0.12%
—Overdue less than 30 days	34,068	826	33,242	2.42%
—Overdue 30-90 days	28,730	3,132	25,598	10.90%
—Overdue 91-180 days	13,666	7,500	6,166	54.88%
—Overdue 181-365 days	297	—	297	0.00%
—Overdue more than 365 days	—	—	—	0.00%
Total car loans	2,201,590	13,965	2,187,625	0.63%
Loans to individual entrepreneurs				
—Not past due	265,394	660	264,734	0.25%
—Overdue less than 30 days	—	—	—	0.00%
—Overdue 30-90 days	—	—	—	0.00%
—Overdue 91-180 days	—	—	—	0.00%
—Overdue 181-365 days	—	—	—	0.00%
—Overdue more than 365 days	—	—	—	0.00%
Total loans to individual entrepreneurs	265,394	660	264,734	0.25%
Other				
—Not past due	30,116	—	30,116	0.00%
—Overdue less than 30 days	—	—	—	0.00%
—Overdue 30-90 days	—	—	—	0.00%
—Overdue 91-180 days	—	—	—	0.00%
—Overdue 181-365 days	—	—	—	0.00%
—Overdue more than 365 days	—	—	—	0.00%
Total other loans to individuals	30,116	—	30,116	0.00%
Total loans to individuals	37,670,731	872,956	36,797,775	2.32%

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

The following table provides information on loans to individuals as at 31 December 2009:

	<u>Gross Loans</u>	<u>Impairment allowance</u>	<u>Net Loans</u>	<u>Impairment allowance to gross loans, %</u>
Mortgage Loans				
—Not past due	9,739,203	395,487	9,343,716	4.06%
—Overdue less than 30 days	10,496	2,136	8,360	20.35%
—Overdue 30-90 days	25,056	6,839	18,217	27.29%
—Overdue 91-180 days	1,620	501	1,119	30.92%
—Overdue 181-365 days	59,777	22,187	37,590	37.12%
—Overdue more than 365 days	293,915	84,471	209,444	28.74%
Total mortgage loans	10,130,067	511,621	9,618,446	5.05%
Consumer Loans				
—Not past due	3,953,131	180,886	3,772,245	4.58%
—Overdue less than 30 days	51,457	20,523	30,934	39.88%
—Overdue 30-90 days	9,121	2,181	6,940	23.91%
—Overdue 91-180 days	14,270	4,415	9,855	30.94%
—Overdue 181-365 days	80,900	35,825	45,075	44.28%
—Overdue more than 365 days	125,776	50,735	75,041	40.34%
Total consumer loans	4,234,655	294,565	3,940,090	6.96%
Car Loans				
—Not past due	748,666	98,846	649,820	13.20%
—Overdue less than 30 days	712	82	630	11.51%
—Overdue 30-90 days	1,298	223	1,075	17.15%
—Overdue 91-180 days	3,917	534	3,383	13.63%
—Overdue 181-365 days	23,810	8,356	15,454	35.09%
—Overdue more than 365 days	47,111	17,674	29,437	37.51%
Total car loans	825,514	125,715	699,799	15.23%
Other				
—Not past due	470,000	2,521	467,479	0.54%
—Overdue less than 30 days	—	—	—	0.00%
—Overdue 30-90 days	—	—	—	0.00%
—Overdue 91-180 days	—	—	—	0.00%
—Overdue 181-365 days	—	—	—	0.00%
—Overdue more than 365 days	—	—	—	0.00%
Total other loans to individuals	470,000	2,521	467,479	0.54%
Total loans to individuals	15,660,236	934,422	14,725,814	5.97%

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

The following table provides information on loans to individuals as at 31 December 2008:

	<u>Gross Loans</u>	<u>Impairment allowance</u>	<u>Net Loans</u>	<u>Impairment allowance to gross loans, %</u>
Mortgage Loans				
—Not past due	11,207,842	357,186	10,850,656	3.19%
—Overdue less than 30 days	1,020	33	987	3.24%
—Overdue 30-90 days	4,884	159	4,725	3.25%
—Overdue 91-180 days	169	6	163	3.55%
—Overdue 181-365 days	2,777	91	2,686	3.28%
—Overdue more than 365 days	—	—	—	0.00%
Total mortgage loans	11,216,692	357,475	10,859,217	3.19%
Consumer Loans				
—Not past due	4,408,114	139,438	4,268,676	3.16%
—Overdue less than 30 days	32,338	1,052	31,286	3.25%
—Overdue 30-90 days	32,399	1,054	31,345	3.25%
—Overdue 91-180 days	621	8	613	1.29%
—Overdue 181-365 days	2,707	38	2,669	1.40%
—Overdue more than 365 days	5,687	114	5,573	2.0%
Total consumer loans	4,481,866	141,704	4,340,162	3.17%
Car Loans				
—Not past due	1,105,127	38,600	1,066,527	3.49%
—Overdue less than 30 days	652	19	633	2.91%
—Overdue 30-90 days	10,586	342	10,244	3.23%
—Overdue 91-180 days	1,073	14	1,059	1.31%
—Overdue 181-365 days	1,175	16	1,159	1.36%
—Overdue more than 365 days	225	3	222	1.33%
Total car loans	1,118,838	38,994	1,079,844	3.49%
Other				
—Not past due	520,000	16,942	503,058	3.30%
—Overdue less than 30 days	—	—	—	0.00%
—Overdue 30-90 days	—	—	—	0.00%
—Overdue 91-180 days	—	—	—	0.00%
—Overdue 181-365 days	—	—	—	0.00%
—Overdue more than 365 days	—	—	—	0.00%
Total other loans to individuals	520,000	16,942	503,058	3.30%
Total loans to individuals	17,337,396	555,115	16,782,281	3.20%

Movements in allowances for impairment losses for the years ended 31 December 2010, 2009 and 2008 were as follows.

	<u>For the years ended 31 December</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
As of 1 January	17,026,959	11,696,307	6,635,240
Provision charge/release	3,703,034	11,548,899	5,090,075
Disposal of loans	(3,287,075)	(4,998,424)	—
Bad debt written-off	(1,885,224)	(3,370,648)	(6,793)
Acquisition/(disposal) of subsidiaries	—	2,150,825	(22,215)
As of 31 December	15,557,694	17,026,959	11,696,307

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

Loans are made principally within Russia in the following industry sectors:

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Analysis by industry sector:			
Industrial manufacturing	52,555,857	21,070,617	36,582,494
Investment and asset management companies	51,014,173	23,797,059	13,693,064
Brokerage and dealing in securities	42,788,580	17,281,322	2,131,331
Wholesale trade	40,947,274	21,725,764	39,148,105
Individuals	37,670,731	15,660,236	17,337,396
Leasing	17,889,008	19,312,509	16,141,383
Services	16,451,291	3,430,750	4,823,013
Construction of industrial real estate	15,163,485	5,175,997	12,462,880
Housing construction	14,193,633	13,682,015	8,914,460
Retail trade	12,527,909	13,197,899	14,928,380
Construction of commercial real estate	11,495,086	4,687,061	3,070,242
Operations with real estate	9,847,203	9,687,295	11,451,880
Transport and communication	9,481,513	3,045,392	4,478,836
Energy	3,852,621	2,050,267	3,854,250
Agriculture	3,230,338	330,596	2,257,383
Government finance	1,987,041	—	—
Precious metals extraction	1,010,815	1,799,849	6,453,339
Other	12,753,048	3,742,064	1,689,187
Gross loans to customers	354,859,606	179,676,692	199,417,623
Less—Allowance for impairment losses	(15,557,694)	(17,026,959)	(11,696,307)
Total loans to customers	<u>339,301,912</u>	<u>162,649,733</u>	<u>187,721,316</u>

Impaired loans were collateralised by pledge of property, contract proceeds and securities amounting to RUB 218,602,665 thousand, RUB 103,079,485 thousand and RUB 108,177,989 thousand as at 31 December 2010, 2009 and 2008 respectively.

The table below summarizes the amount of loans to corporate customers secured by collateral, rather than the fair value of the collateral itself:

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Loans collateralized by guarantees of enterprises and banks	95,021,473	31,781,947	39,065,814
Loans collateralized by pledge of securities	66,212,185	29,332,370	14,664,848
Loans collateralized by pledge of real estate	50,660,459	35,328,779	46,327,616
Loans collateralized by pledge of contract proceeds	30,327,481	6,937,571	16,197,584
Loans collateralized by pledge of property	21,120,562	22,460,061	27,292,019
Loans collateralized by pledge of the Bank's own securities	101,598	3,118,602	6,360,881
Loans collateralized by pledge of rights to purchase precious metals	—	239,943	914,652
Unsecured loans	53,745,117	34,817,183	31,256,813
Gross loans to corporate customers	317,188,875	164,016,456	182,080,227
Less—Allowance for impairment losses	(14,684,738)	(16,092,537)	(11,141,192)
Total loans to corporate customers	<u>302,504,137</u>	<u>147,923,919</u>	<u>170,939,035</u>

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

The table below summarizes the amount of loans to individuals secured by collateral, rather than the fair value of the collateral itself:

	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Loans collateralized by pledge of real estate	18,381,851	9,649,935	9,398,202
Loans collateralized by guarantees of enterprises	10,269,916	2,417,521	3,813,229
Loans collateralized by pledge of vehicles and other property	2,074,665	909,929	1,259,985
Loans collateralized by pledge of securities	1,586,885	315,000	525,018
Loans collateralized by pledge of contract proceeds	471,082	967,689	1,625,623
Loans collateralized by pledge of the Bank's own securities	5,506	159,711	7,567
Unsecured loans	4,880,826	1,240,451	707,772
Gross loans to individuals	37,670,731	15,660,236	17,337,396
Less—Allowance for impairment losses	(872,956)	(934,422)	(555,115)
Total loans to individuals	<u>36,797,775</u>	<u>14,725,814</u>	<u>16,782,281</u>

As at 31 December 2010 and 2009 the Group had property with carrying amount of RUB 219,198 thousand and RUB 95,551 thousand, respectively received by taking possession of collateral it held as security for loans to customers. This property is disclosed in Note 25.

As at 31 December 2010, 2009 and 2008 the Group granted loans to seven, eight and two borrowers totaling to RUB 59,010,895 thousand, RUB 44,563,447 thousand and RUB 7,792,068 thousand, respectively, which exposure individually exceeded 10% of the Group's equity. Borrowers, individually exceeding 10% of the Group equity have good credit history and the loans provided to them are in good book.

As at 31 December 2010 seven largest borrowers were classified to the corporate standard loans credit quality category in the amount of RUB 59,010,895 thousand. As at 31 December 2009 eight largest borrowers were classified to the corporate standard loans credit quality category in the amount of RUB 44,563,447 thousand. As at 31 December 2008 two largest borrowers were classified to the corporate standard loans credit quality category in the amount of RUB 7,792,068 thousand.

As at 31 December 2010, 2009 and 2008 renegotiated loans were amounted to RUB 5,512,046 thousand, RUB 3,838,879 thousand and RUB 762,292 thousand respectively, which would be past due or impaired if not renegotiated. Renegotiated loans are mainly involved extending of the payment arrangements of the loan agreements, rather than interest rate modification or other enhancements in favour of the borrower.

As at 31 December 2010, 2009 and 2008 the loans under reverse repurchase agreements to customers have contractual maturities from January 2011 to December 2011, October 2010 to December 2010 and from December 2009 to January 2009, respectively.

Carrying value of loans under reverse repurchase agreements and fair value of assets pledged as at 31 December 2010, 2009 and 2008 are presented as follows:

	<u>31 December 2010</u>		<u>31 December 2009</u>		<u>31 December 2008</u>	
	<u>Carrying value of loans</u>	<u>Fair value of collateral</u>	<u>Carrying value of loans</u>	<u>Fair value of collateral</u>	<u>Carrying value of loans</u>	<u>Fair value of collateral</u>
Shares of Russian companies . . .	33,786,577	42,380,957	12,683,197	14,244,039	—	—
Bonds of Russian banks	7,045,099	7,618,678	3,194,223	3,452,951	1,239,908	1,267,102
Corporate Eurobonds	842,229	832,493	—	—	—	—
Promissory notes	832,332	840,130	—	—	—	—
Bonds of Russian companies . . .	792,740	999,628	526,291	575,475	369,872	442,881
Eurobonds of banks	171,895	172,614	—	—	—	—
Municipal bonds	—	—	977,646	1,154,378	521,551	615,317
Total	<u>43,470,872</u>	<u>52,844,500</u>	<u>17,381,357</u>	<u>19,426,843</u>	<u>2,131,331</u>	<u>2,325,300</u>

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

The components of net investment in finance lease as at 31 December 2010, 2009 and 2008 are as follows:

	31 December 2010	31 December 2009	31 December 2008
Less than one year	1,181,187	302,656	—
From one year to five years	1,914,453	1,138,510	—
More than five years	22,265	—	—
Minimum lease payments	3,117,905	1,441,166	—
Less: unearned finance income	(833,981)	(394,990)	—
Net investment in finance lease	<u>2,283,924</u>	<u>1,046,176</u>	<u>—</u>
Current portion	803,735	188,386	—
Long-term portion	1,480,189	857,790	—
Net investment in finance lease	<u>2,283,924</u>	<u>1,046,176</u>	<u>—</u>

As at 31 December 2010 and 2009 the Group provided loans to customers in the amount of RUB thousand 6,450,938 and RUB 5,171,171 thousand which were secured by deposits made by the Deposit Insurance Agency (“DIA”) the amount of RUB 6,363,179 thousand and RUB 6,465,574 thousand, respectively (see Note 27).

During the years ended 31 December 2010 and 2009 the Bank sold certain loans to third parties at a discount to nominal value with no recourse and without any service obligations associated with the loans.

Net gain / (loss) on disposal of loans is represented by:

	Year ended 31 December 2010	Year ended 31 December 2009
Fair value of the consideration received	8,922,217	6,109,759
Carrying amount net of provisions	(7,726,372)	(6,281,658)
Net gain/(loss) on disposal of loans	<u>1,195,845</u>	<u>(171,899)</u>

21. INVESTMENTS AVAILABLE-FOR-SALE

Investments available-for-sale comprise:

	Interest rate to nominal	31 December 2010	Interest rate to nominal	31 December 2009	Interest rate to nominal	31 December 2008
Promissory notes of credit institutions	11.3-12.0%	10,902,634	—	—	—	—
Units of investment funds	—	5,235,056	—	—	—	—
Corporate bonds and Eurobonds	5.9-13.5%	4,725,143	10.7-17%	116,654	—	—
RF Government Eurobonds	7.5%	1,215,060	—	—	—	—
Promissory notes of companies	8.0%	1,171,076	—	—	—	—
Bonds of foreign countries	8.8%	856,152	—	—	—	—
Bonds and Eurobonds issued by banks	7.5-14.9%	858,833	—	—	—	—
Corporate shares	—	417,285	—	57,153	—	59,535
OFZ bonds	6.9-8.0%	209,059	—	—	—	—
Municipal bonds	8.0%	151,369	—	—	—	—
Municipal Eurobonds	6.5%	21,030	—	—	—	—
Share participation in limited liability companies	—	597	—	—	—	31,545
Total investments available-for-sale		<u>25,763,294</u>		<u>173,807</u>		<u>91,080</u>

Promissory notes of credit institutions include interest-bearing and discount-bearing securities of large Russian banks with maturities from January 2011 to December 2011.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

Units of investment funds included in financial assets available-for-sale as at 31 December 2010 are presented below:

	31 December 2010
ZPIF Rusnedra	5,226,364
OPIF of shares “Troika-Dialog—Dobrynya Nikitich”	8,692
Total units of investment funds	<u>5,235,056</u>

Closed unit investment fund of private equity investments ZPIF Rusnedra is managed by OOO Managing Company Fleming Family & Partners and created with the purpose of investing into shares (units) of companies engaged in the production and exploration and holding oil and gas production licenses.

Corporate bonds and Eurobonds include bonds of Russian companies. As at 31 December 2010 and 2009 contractual maturities of corporate bonds held by the Group were from June 2011 to December 2036. As at 31 December 2010 corporate bonds with a carrying amount of RUB 3,658,720 thousand, were pledged under repurchase agreements with banks (see Note 26).

RF Government Eurobonds are bonds nominated in foreign currency with maturity in March 2030. As at 31 December 2010 include Eurobonds of the Russian Federation with a carrying amount of RUB 1,215,060 thousand were pledged under repurchase agreements with banks (see Note 26).

Promissory notes of companies include interest-bearing securities of large Russian companies with maturities from June 2011 to May 2015.

Bonds of foreign countries include bonds of the Republic of Belarus with maturity in August 2015. As at 31 December 2010 bonds totaling RUB 646,152 thousand were pledged under repurchase agreements with banks (see Note 26).

As at 31 December 2010 bonds and Eurobonds issued by banks include bonds of Russian banks and the Republic of Kazakhstan with maturities from October 2011 to October 2016, of which RUB 216,805 thousand were pledged under repurchase agreements (Note 26).

Corporate shares include quoted shares of Russian companies and other investments in unquoted equity instruments.

As at 31 December 2010 OFZ bonds are government securities issued by the Russian Ministry of Finance denominated in the currency of the RF and maturities from November 2021 to February 2036.

Municipal bonds of the Russian Federation include bonds of the Moscow Region Government with maturity in April 2014.

Municipal Eurobonds include bonds of the Moscow Region Government nominated in foreign currency with maturity in October 2011.

For the years ended 31 December 2010, 2009 and 2008 impairment loss on investments available-for-sale amounting to RUB 2,309 thousand, RUB 115,738 thousand and RUB 1,803 thousand, respectively, was recognised.

Pursuant to the amendments to IAS 39 and IFRS 7 on 1 July 2008, the Management of BKM Group reclassified certain trading securities to investments available-for-sale. The Group identified securities eligible under the amendments, for which it had changed its intent such that it no longer held these securities for the purpose of selling in the short term. For those trading securities identified for reclassification, the Group determined that the deterioration of the financial markets during the third quarter of 2008 constituted rare circumstances that permit reclassification out of the trading category.

Under IAS 39 as amended, the reclassifications of securities were made with effect from 1 July 2008 at fair value at that date.

The table below sets out the trading securities reclassified and their carrying and fair values.

	31 December 31 2010	
	<u>Carrying value</u>	<u>Fair value</u>
Trading securities reclassified to investments available-for-sale	<u>494,546</u>	<u>494,546</u>

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

22. INVESTMENTS HELD TO MATURITY

Investments held to maturity are presented as follows:

	Interest rate to nominal	31 December 2010	Interest rate to nominal	31 December 2009	Interest rate to nominal	31 December 2008
Corporate bonds	7.75-17.0%	1,311,245	7.8-14.5%	1,295,171	7.8-14.5%	3,170,543
Municipal bonds	9.0%	644,812	9.0%	726,334	9.0%	807,839
OFZ bonds	6.9%	25,012	10.0%	24,954	10.0%	22,099
Total investments held to maturity before allowance for impairment losses		1,981,069		2,046,459		4,000,481
Less—Allowance for impairment losses		(1,129,362)		(683,941)		(184,758)
Total investments held to maturity ...		851,707		1,362,518		3,815,723

Following the adopted amendments to IAS 39 and IFRS 7 the management of the Bank has made the decision dated 31 October 2008 to reclassify certain debt securities from financial assets at fair value through profit or loss to investments held to maturity starting from the first of July 2008. The reclassified securities amounted to RUB 2,054,190 thousand at the date of reclassification. If the reclassification had not been made, the Group's income statement for the periods ended 31 December 2010, 2009 and 2008 would have included unrealized fair value losses on the reclassified debt securities of RUB 721,952 thousand, RUB 571,358 thousand and RUB 668,085 thousand respectively.

As at 31 December 2010, 2009 and 2008 interest income on impaired investments held to maturity, amounted to RUB 47,334 thousand, RUB 318,281 thousand and RUB 114,730 thousand, respectively.

Movements in allowances for impairment losses for the years ended 31 December 2010, 2009 and 2008 were as follows.

	For the years ended 31 December		
	2010	2009	2008
As of 1 January	683,941	184,758	—
Provision charge/release	445,421	499,183	184,758
As of 31 December	1,129,362	683,941	184,758

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

23. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprise:

	Land	Buildings and constructions	Furniture and equipment	Other	Fixed assets purchased for transfer to lease	Total
At initial/indexed/revalued cost						
31 December 2007	6,031	2,133,393	803,630	406,255	1,511,467	4,860,776
Acquisition of subsidiaries	—	134,177	—	281	—	134,458
Revaluation recorded in equity to the extent of availability	—	(141,219)	—	—	—	(141,219)
Impairment losses recorded in income statement	—	(78,422)	—	—	—	(78,422)
Movement in cost related to revaluation	—	(14,132)	—	—	—	(14,132)
Additions	26,006	2,161,267	279,191	326,381	1,297,498	4,090,343
Disposals	—	—	(47,003)	(105,845)	(1,630,420)	(1,783,268)
Disposals of subsidiaries	—	—	(10,609)	(542)	(1,178,545)	(1,189,696)
31 December 2008	32,037	4,195,064	1,025,209	626,530	—	5,878,840
Acquisition of subsidiaries	124,921	491,287	156,859	44,451	—	817,518
Revaluation recorded in equity to the extent of availability	65,134	(237,682)	—	—	—	(172,548)
Impairment losses recorded in income statement	(1,772)	(984,891)	—	—	—	(986,663)
Movement in cost related to revaluation	—	(209,404)	—	—	—	(209,404)
Transfer from other assets	—	1,178,498	—	—	—	1,178,498
Additions	3,415	169,242	333,253	127,553	—	633,463
Disposals	(7)	(28,330)	(45,599)	(135,263)	—	(209,199)
31 December 2009	223,728	4,573,784	1,469,722	663,271	—	6,930,505
Acquisition of subsidiaries	172,134	3,933,057	579,716	444,196	—	5,129,103
Revaluation recorded in equity to the extent of availability	17,967	84,115	—	—	—	102,082
Impairment losses recorded in income statement	(57,912)	(58,061)	—	—	—	(115,973)
Movement in cost related to revaluation	—	(104,520)	—	—	—	(104,520)
Additions	9,681	130,855	159,910	148,674	—	449,120
Disposals	—	(23,880)	(53,652)	(75,801)	—	(153,333)
31 December 2010	365,598	8,535,350	2,155,696	1,180,340	—	12,236,984
Accumulated depreciation 31 December 2007	—	37,547	337,496	131,777	—	506,820
Acquisition of subsidiaries	—	295	—	9	—	304
Movement in cost related to revaluation	—	(14,132)	—	—	—	(14,132)
Charge for the period	—	65,505	138,298	66,133	—	269,936
Write-off on disposal	—	—	(20,782)	(23,087)	—	(43,869)
Write-off on disposal of subsidiaries	—	—	(3,744)	(67)	—	(3,811)
31 December 2008	—	89,215	451,268	174,765	—	715,248
Acquisition of subsidiaries	—	28,021	127,159	27,981	—	183,161
Movement in cost related to revaluation	—	(209,404)	—	—	—	(209,404)
Charge for the period	—	120,784	192,285	81,704	—	394,773
Write-off on disposal	—	(28,332)	(42,515)	(17,970)	—	(88,817)
31 December 2009	—	284	728,197	266,480	—	994,961
Charge for the period	—	104,866	237,925	92,255	—	435,046
Movement in cost related to revaluation	—	(104,520)	—	—	—	(104,520)
Write-off on disposal	—	(237)	(51,947)	(12,324)	—	(64,508)
31 December 2010	—	393	914,175	346,411	—	1,260,979
Net book value						
31 December 2008	32,037	4,105,849	573,941	451,765	—	5,163,592
31 December 2009	223,728	4,573,500	741,525	396,791	—	5,935,544
31 December 2010	365,598	8,534,957	1,241,521	833,929	—	10,976,005

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

As at 31 December 2010, 2009 and 2008 land, buildings and constructions owned by the Group were revalued to market prices according to the report of an independent appraiser as described below. As a result, carrying value of these land, buildings and constructions amounted to RUB 8,900,555 thousand, RUB 4,797,228 thousand and RUB 4,137,886 thousand, respectively. If buildings and constructions were accounted at historical cost restated according to inflation indices less accumulated depreciation and impairment losses, their carrying value would have been RUB 8,563,830 thousand, RUB 4,516,767 thousand and RUB 3,303,422 thousand, respectively.

Land and buildings and constructions owned by the Group were revalued by independent appraisers as at 31 December 2010, 2009 and 2008. The following methods were used for the estimation of their fair value: discounted cash flow method (income approach), integrated cost estimation method (cost based method), method of sales comparison (comparative approach). For the estimation of the final value, certain weights were assigned to the results obtained using different approaches, depending on the degree to which the estimates met the following characteristics: reliability and completeness of the information, specifies the estimated property and other.

During the year ended 31 December 2010 and 2009 the Group carried out a review of the recoverable amount of its land and buildings and constructions. The review led to the recognition of an impairment loss of RUB 115,973 thousand for the year ended 31 December 2010, RUB 986,663 thousand for the year ended 31 December 2009 and RUB 78,422 thousand for the year ended 31 December 2008 due to decline in market prices, which has been recognised in consolidated income statement. The recoverable amount of the relevant assets has been determined on the basis of their fair value. The impairment losses have been presented in the separate line in the consolidated income statement.

As at 31 December 2010, 2009 and 2008 included in property, plant and equipment were fully depreciated assets amounted to RUB 452,145 thousand, RUB 399,077 thousand and RUB 259,642 thousand, respectively.

24. INTANGIBLE ASSETS

Intangible assets are presented as follows:

	31 December 2010	31 December 2009	31 December 2008
Customer-related intangible assets	1,129,953	—	—
Software	800,578	84,657	34,384
Trademark	346,956	—	—
Licences	323,434	—	—
Other	592	435	129
Total intangible assets	<u>2,601,513</u>	<u>85,092</u>	<u>34,513</u>

Customer related intangible assets include core deposit intangible in the amount of RUB 456,195 thousand and client relationship in the amount of RUB 673,757 thousand.

Movement in intangible assets is presented in the table below:

	Intangible assets
Net book value as at 31 December 2007	<u>33,651</u>
Additions	33,007
Amortization for the year	(32,145)
Net book value as at 31 December 2008	<u>34,513</u>
Additions	110,300
Amortization for the year	(59,721)
Net book value as at 31 December 2009	<u>85,092</u>
Aquisitions of subsidiaries	2,506,123
Additions	93,340
Amortization for the year	(83,042)
Net book value as at 31 December 2010	<u>2,601,513</u>

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

25. OTHER ASSETS

Other assets are presented as follows:

	31 December 2010	31 December 2009	31 December 2008
Other financial assets:			
Debtors on operations with securities	1,168,265	138,555	5,346,826
Accounts receivable	734,662	488,006	329,167
Receivables on operations with coins	25,528	62,854	13,765
Prepayments on operations with precious metals	5,376	8,141	173,157
Debtors on spot deals with currency and precious metals	4,558	8,875	12,218
Settlements on transfer of financial assets	756	122,356	77,127
Total other financial assets before allowance for impairment losses	1,939,145	828,787	5,952,260
Less—Allowance for impairment losses	(234,754)	(180,892)	—
	1,704,391	647,895	5,952,260
Other non-financial assets:			
Investment property	922,062	—	—
Rights on claims against property	757,723	—	—
Prepayments of capital investments under shared construction agreements	465,830	—	—
Non-current assets held for sale (Note 20)	219,198	95,551	—
Stationery and inventory	136,796	25,996	78,955
Taxes other than income tax recoverable	128,558	160,016	25,892
Settlements on receipt of property	109,137	1,274,757	2,453,255
Current income tax assets	71,869	141,009	640,787
Property for finance lease	41,889	—	—
Deferred tax assets (Note 13)	13,791	19,308	—
Other	635,417	278,453	83,529
Total other non-financial assets, before allowance for impairment losses	3,502,270	1,995,090	3,282,418
Less—Allowance for impairment losses	(164,096)	(102,508)	(56,209)
	3,338,174	1,892,582	3,226,209
Total other assets	5,042,565	2,540,477	9,178,469

Investment property is presented as follows:

	31 December 2010
Fair value of investment property as at 1 January	—
Acquisition	1,016,533
Loss from revaluation of investment property	(94,471)
Fair value of investment property as at 31 December	922,062

As at 31 December 2010 the Group made an assessment of carrying value of investment property. This assessment resulted in recognition of impairment loss in the consolidated income statement amounting to RUB 94,471 thousand due to decline in market prices. Decrease of the carrying value of buildings and other real estate is recognized in the income statement.

The fair value of the Group's investment property as at 31 December 2010 has been arrived at on the basis of a valuation carried out at that date by independent appraisers that are not related to the Group. The Group has determined the fair value of the investment property at on the basis of a valuation carried out at that date by independent appraisers on the basis of market data at the price of transactions with similar real estate objects.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

As at 31 December 2010 and 2009 non-current assets held for sale were included in other assets in the amount of RUB 219,198 thousand and RUB 95,551 thousand, respectively. Non-current assets held for sale include property, which the Group received by taking possession of collateral held as security for loans, which had been defaulted by borrowers. The carrying amount of non-current assets held for sale will be recovered through a sale transaction. In 2009 the management of the Group approved the sale plan for these assets and during the year the Group carried out an active buyer search program to sell these assets. The assets were actively promoted in the market at the value similar to its fair value; however due to a drop in demand the Group was unable to sell the assets. The management of the Group is firmly committed to implement the current plan of disposal of these assets.

Movements in allowances for impairment losses of other assets for the years ended 31 December 2010, 2009 and 2008 were as follows.

	For the years ended 31 December		
	2010	2009	2008
As of 1 January	283,400	56,209	—
Provision charge/release	324,172	227,191	56,209
Bad debt written-off	(208,722)	—	—
As of 31 December	398,850	283,400	56,209

26. DUE TO BANKS AND THE CENTRAL BANK OF THE RUSSIAN FEDERATION

Due to banks and the Central Bank of the Russian Federation comprises:

	31 December 2010	31 December 2009	31 December 2008
Deposits from banks	41,167,267	22,366,722	31,681,472
Correspondent accounts of other banks	8,801,695	10,952,308	2,329,873
Loans under repurchase agreements	6,856,332	1,357,747	6,990,652
Syndicated loans	3,013,412	—	6,944,777
Deposits from Central Bank of the Russian Federation	—	13,720,093	20,350,000
Total due to banks and the Central Bank of the Russian Federation	59,838,706	48,396,870	68,296,774

As at 31 December 2010 carrying value of syndicated loans received by the Group comprised RUB 3,013,412 thousand from Russian, OECD and non-OECD banks. The contractual maturity of syndicated loan is August 2011, and the interest rate is tied to six-month LIBOR plus 2.5% margin.

As at 31 December 2008 carrying value of syndicated loans received by the Group comprised RUB 6,944,777 thousand from Russian, OECD and non-OECD banks. The contractual maturity of syndicated loans were from May to September 2009.

As at 31 December 2010, 2009 and 2008 the Group had deposits from one bank amounted to RUB 13,202,396 thousand, from three banks amounted RUB 28,451,677 thousand and from two banks amounted RUB 26,204,991 thousand, respectively, which individually and in aggregate exceeded 10% of the Group's equity.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

Carrying value of loans under repurchase agreements and fair value of assets pledged as at 31 December 2010, 2009 and 2008 are presented as follows:

	31 December 2010		31 December 2009		31 December 2008	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
OFZ bonds	—	—	503,803	535,736	—	—
Corporate bonds and Eurobonds ...	3,018,306	3,658,720	853,944	855,653	723,470	1,063,873
Corporate shares	1,479,383	2,200,857	—	—	—	—
Bonds and Eurobonds issued						
banks	189,778	216,805	—	—	1,100,115	1,495,371
Bonds of foreign countries	484,735	646,152	—	—	—	—
RF Government Eurobonds	1,684,130	2,142,343	—	—	5,167,067	5,209,734
Total	<u>6,856,332</u>	<u>8,864,877</u>	<u>1,357,747</u>	<u>1,391,389</u>	<u>6,990,652</u>	<u>7,768,978</u>

27. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2010	31 December 2009	31 December 2008
Term deposits	222,144,383	100,948,418	72,586,028
Current accounts	83,752,640	25,743,990	32,544,239
Term deposits from Deposit Insurance Agency	6,363,179	6,465,574	10,403,694
Loans under repurchase agreements	1,116,139	1,045,902	536,629
Total customer accounts	<u>313,376,341</u>	<u>134,203,884</u>	<u>116,070,590</u>

As at 31 December 2010, 2009 and 2008 the Group received funds from three customers amounting to RUB 27,160,473 thousand, from five customers amounting to RUB 35,370,463 thousand and from four customers amounting to RUB 31,706,751 thousand, respectively, which individually and aggregate exceeded 10% of the Group's equity.

As at 31 December 2010, 2009 and 2008 demand deposits denominated in units of precious metal which have the alternative to be settled in cash or in precious metals were included in customer accounts. The breakdown is presented below:

	31 December 2010	31 December 2009	31 December 2008
Gold	3,338,366	2,303,397	985,436
Silver	406,122	135,196	162,636
Palladium	38,493	21,189	9,798
Platinum	6,305	8,575	5,181
Total customer accounts denominated in precious metals	<u>3,789,286</u>	<u>2,468,357</u>	<u>1,163,051</u>

As at 31 December 2010, 2009 and 2008 customer accounts amounting to RUB 1,222,513 thousand, RUB 1,017,595 thousand and RUB 1,098,799 thousand, respectively, were held as security against other financial transactions with by the Group (see Note 33).

As at 31 December 2010 and 2009 the Group provided loans to customers in the amount of RUB 6,450,938 thousand and RUB 5,171,171 thousand which were secured by deposits made by the Deposit Insurance Agency ("DIA") in the amount of RUB 6,363,179 thousand and RUB 6,465,574 thousand, respectively (see Note 20).

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

Analysis of customer accounts by economic sector is presented below:

	31 December 2010	31 December 2009	31 December 2008
Individuals	118,629,123	49,979,129	42,919,654
Investment and asset management companies	38,350,739	20,501,383	29,936,765
Regional and local budgets funds	27,320,319	13,000	500,000
Industrial manufacturing	19,922,449	7,969,383	6,650,837
Services	16,633,074	7,432,874	5,049,436
Construction of industrial real estate	14,285,477	4,980,136	4,184,811
Wholesale trade	13,313,784	9,801,982	7,495,878
Transport and communication	12,577,284	15,710,147	614,113
Insurance	9,248,614	6,128,140	4,230,883
Energy	9,141,349	356,579	6,010,747
Science	6,458,682	2,504,104	2,514,318
Precious metals extraction	5,766,789	2,429,619	959,353
Operations on real estate	4,540,067	1,550,127	962,629
Retail trade	3,886,882	1,210,954	1,096,763
Construction of commercial real estate	3,182,756	191,843	1,232
Leasing	2,902,836	1,066,887	827,009
Brokerage and dealing in securities	1,116,139	1,045,922	536,629
Agriculture	383,536	75,415	49,491
Housing construction	108,174	25,989	66,083
Other	5,608,268	1,230,271	1,463,959
Total customer accounts	<u>313,376,341</u>	<u>134,203,884</u>	<u>116,070,590</u>

As at 31 December 2010, 2009 and 2008 the Group included in customer accounts loans under repurchase agreements with maturity of less than one month from the reporting date of RUB 13,427 thousand, RUB 1,045,902 thousand and RUB 536,629 thousand, respectively.

Carrying value of loans under reverse repurchase agreements and fair value of assets pledged as at 31 December 2010, 2009 and 2008 are presented as follows:

	31 December 2010		31 December 2009		31 December 2008	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Corporate shares	1,116,139	1,786,205	1,045,902	1,139,083	—	—
Corporate bonds	—	—	—	—	536,629	870,074
Total	<u>1,116,139</u>	<u>1,786,205</u>	<u>1,045,902</u>	<u>1,139,083</u>	<u>536,629</u>	<u>870,074</u>

28. BONDS AND EUROBONDS

Bonds and Eurobonds comprise:

	31 December 2010	31 December 2009	31 December 2008
Bonds issued in local market	16,678,145	12,838,876	11,125,520
Eurobonds due in 2013	12,167,237	—	—
Eurobonds due in 2012	5,566,310	6,033,468	—
Eurobonds due in 2010	—	6,077,199	6,063,776
Eurobonds due in 2009	—	—	4,452,501
Total bonds and Eurobonds issued	<u>34,411,692</u>	<u>24,949,543</u>	<u>21,641,797</u>

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

Bonds and Eurobonds as at 31 December 2010 comprise:

	<u>Currency</u>	<u>Start date (year)</u>	<u>Maturity date (year)</u>	<u>Nominal interest rate %</u>	<u>31 December 2010</u>
Bonds issued					
12th issue	Roubles	2010	2017	8.50%	4,853,731
9th issue	Roubles	2008	2013	7.00%	3,770,316
2nd issue	Roubles	2010	2013	7.85%	2,379,064
11th issue	Roubles	2009	2014	7.40%	2,315,446
8th issue	Roubles	2008	2011	9.50%	1,692,575
1st issue	Roubles	2008	2011	7.00%	1,667,013
Total bonds issued					16,678,145
Eurobonds					
Eurobonds due in 2013	U.S. Dollars	2010	2013	6.50%	12,167,237
Eurobonds due in 2012	U.S. Dollars	2009	2012	9.25%	5,566,310
Total Eurobonds issued					17,733,547
Total bonds and Eurobonds issued					34,411,692

Bonds and Eurobonds as at 31 December 2009 comprise:

	<u>Currency</u>	<u>Start date (year)</u>	<u>Maturity date (year)</u>	<u>Nominal interest rate %</u>	<u>31 December 2009</u>
Bonds issued					
11th issue	Roubles	2009	2014	15.00%	5,360,310
9th issue	Roubles	2008	2013	15.00%	4,313,356
8th issue	Roubles	2008	2011	15.00%	3,165,210
Total bonds issued					12,838,876
Eurobonds					
Eurobonds due in 2010	U.S. Dollars	2007	2010	8.19%	6,077,199
Eurobonds due in 2012	U.S. Dollars	2009	2012	9.25%	6,033,468
Total Eurobonds issued					12,110,667
Total bonds and Eurobonds issued					24,949,543

Bonds and Eurobonds as at 31 December 2008 comprise:

	<u>Currency</u>	<u>Start date (year)</u>	<u>Maturity date (year)</u>	<u>Nominal interest rate %</u>	<u>31 December 2008</u>
Bonds issued					
9th issue	Roubles	2008	2013	9.75%	5,013,785
8th issue	Roubles	2008	2011	9.33%	3,100,335
7th issue	Roubles	2006	2009	9.25%	3,011,400
Total bonds issued					11,125,520
Eurobonds					
Eurobonds due in 2010	U.S. Dollars	2007	2010	8.19%	6,063,776
Eurobonds due in 2009	U.S. Dollars	2006	2009	8.25%	4,452,501
Total Eurobonds issued					10,516,277
Total bonds and Eurobonds issued					21,641,797

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

The Group is obliged to comply with financial covenants in relation to Eurobonds due in 2010 and 2012.

In accordance with the terms of covenants the Group should not permit its consolidated total capital ratio as calculated in accordance with the recommendations of the Basle Committee on Banking Regulations and Supervisory Practices (as of the date hereof) to fall below 10%. These recommendations were provided in Committee's paper entitled "International Convergence of Capital Measurement and Capital Standards" dated July 1988, as amended in November 1991, and together with any further amendments, guidelines or clarifications up to the date hereof. This calculation should be made by reference to the latest annual consolidated audited accounts of the Group prepared in accordance with IFRS. The Group should also comply with the minimum capital adequacy ratio established by the Central Bank of Russian Federation. The Group has not breached any of these covenants during the periods ended 31 December 2010, 2009 and 2008.

29. PROMISSORY NOTES ISSUED

Promissory notes issued comprise:

	31 December 2010	31 December 2009	31 December 2008
Discount bearing promissory notes	28,464,937	3,712,072	13,272,666
Settlement promissory notes	2,479,202	2,129,896	2,128,316
Interest bearing promissory notes	2,152,528	1,659,205	9,571,253
Certificates of deposit	71,430	—	330,452
Total debt securities issued	<u>33,168,097</u>	<u>7,501,173</u>	<u>25,302,687</u>

Settlement promissory notes are promissory notes sold at face value.

30. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2010	31 December 2009	31 December 2008
Other financial liabilities:			
Payable to employees and accrued bonuses	968,021	264,997	250,527
Accrued expenses	229,104	325,779	166,360
Creditors on sale of precious metals	46,744	19,347	—
Payables on spot operations with currency, precious metals and securities	8,408	4,761	26,649
Total other financial liabilities	<u>1,252,277</u>	<u>614,884</u>	<u>443,536</u>
Other non-financial liabilities:			
Provisions for guarantees and other off-balance sheet commitments	324,213	591,430	585,157
Taxes payable, other than income tax	187,143	98,067	93,187
Unamortized commissions	131,538	—	—
Current income tax liabilities	103,914	37,176	10,070
Other liabilities	210,220	26,721	28,705
Total other non-financial liabilities	<u>957,028</u>	<u>753,394</u>	<u>717,119</u>
Total other liabilities	<u>2,209,305</u>	<u>1,368,278</u>	<u>1,160,655</u>

Movements in provisions for guarantees and other off-balance sheet commitments for the years ended 31 December 2010, 2009 and 2008 were as follows.

	For the years ended 31 December		
	2010	2009	2008
As of 1 January	<u>591,430</u>	<u>585,157</u>	<u>195,758</u>
Provision (release)/ charge	(567,456)	6,273	389,399
Acquisition of subsidiaries	300,239	—	—
As of 31 December	<u>324,213</u>	<u>591,430</u>	<u>585,157</u>

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

31. SUBORDINATED DEBT

Subordinated debt is presented as follows:

The following table provides information on subordinated debt as at 31 December 2010:

	<u>Currency</u>	<u>Start date (year)</u>	<u>Maturity date (year)</u>	<u>Nominal interest rate %</u>	<u>31 December 2010</u>
Subordinated bonds	U.S. Dollars	2010	2015	8.75%	10,749,612
Subordinated loan	Roubles	2009	2019	8.00%	4,900,000
Subordinated bonds	U.S. Dollars	2006	2016	9.75%	3,863,439
Subordinated bonds	U.S. Dollars	2007	2018	11.00%	3,262,534
Subordinated loan	Roubles	2009	2019	6.50%	1,492,625
Subordinated loan	Roubles	2010	2021	9.25%	1,500,000
Subordinated loan	Roubles	2007	2015	7.85%	650,000
Subordinated loan	Roubles	2008	2015	7.75%	436,115
Subordinated loan	Roubles	2010	2016	6.00%	61,083
Subordinated loan	Roubles	2006	2013	10.00%	44,854
Subordinated loan	Roubles	2006	2013	10.00%	39,227
Subordinated loan	Roubles	2010	2016	8.00%	37,864
Subordinated loan	Roubles	2009	2016	11.30%	33,787
Subordinated loan	Roubles	2007	2014	10.00%	19,443
					<u>27,090,583</u>

The following table provides information on subordinated debt as at 31 December 2009:

	<u>Currency</u>	<u>Start date (year)</u>	<u>Maturity date (year)</u>	<u>Nominal interest rate %</u>	<u>31 December 2009</u>
Subordinated loan	U.S. Dollars	2009	2020	12%	7,863,492
Subordinated loan	Roubles	2008	2020	11%	5,000,000
Subordinated loan	Roubles	2009	2019	8%	4,900,000
Subordinated bonds	U.S. Dollars	2006	2016	9.75%	3,835,391
Subordinated loan	Roubles	2005	2015	10.1%	650,000
Subordinated loan	Roubles	1999	2015	10.5%	415,233
					<u>22,664,116</u>

The following table provides information on subordinated debt as at 31 December 2008:

	<u>Currency</u>	<u>Start date (year)</u>	<u>Maturity date (year)</u>	<u>Nominal interest rate %</u>	<u>31 December 2008</u>
Subordinated loan	Roubles	2008	2020	11.0%	5,000,000
Subordinated bonds	U.S. Dollars	2006	2016	9.75%	3,723,658
Subordinated loan	Roubles	2005	2015	13.1%	650,000
Subordinated loan	Roubles	1999	2015	11.0%	385,661
					<u>9,759,319</u>

In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinated to the repayments of the Group's liabilities to all other creditors.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

32. SHARE CAPITAL AND SHARE PREMIUM

The table below provides a breakdown of the Bank's issued and fully paid ordinary and preference shares:

	Ordinary shares (Number)	Nominal amount	Preference shares (Number)	Nominal amount
Issued and fully paid				
31 December 2008	81,984,861	4,099,243	12,100,000	605,000
31 December 2009	81,984,861	4,099,243	12,100,000	605,000
Issued	4,861,112	243,056	—	—
Reacquired	—	—	(9,680,000)	(484,000)
31 December 2010	86,845,973	4,342,299	2,420,000	121,000

There are no issued ordinary and preference shares that have not been fully paid. Par value per ordinary and preference share is RUB 50 each.

Each ordinary share entitles the holder to cast one vote on all matters within its competence stipulated by the Charter of the Group, to receive non-fixed rate dividend income and to receive property belonging to the Group in the event of liquidation. When shares are issued, each holder of shares shall have pre-emptive right, in proportion to the aggregate amount of their shares.

In the event of the dissolution and liquidation of the Bank, the assets remaining after payment of all debts will be distributed to the holders of ordinary shares on a pro-rata basis.

The table below provides a breakdown of the Bank's authorized ordinary and preference shares:

	Ordinary shares (Number)	Nominal amount	Preference shares (Number)	Nominal amount
Authorized				
31 December 2008	184,342,917	9,217,146	48,100,000	2,405,000
31 December 2009	184,342,917	9,217,146	48,100,000	2,405,000
31 December 2010	184,342,917	9,217,146	48,100,000	2,405,000

Holders of preference shares with non-fixed rate dividend income are entitled to: participate in the General Meeting of shareholders with voting rights addressing issues of reorganization and liquidation of the Bank and addressing issues on introducing amendments and additions to the Charter restricting the rights of holders of preferred shares. Each preference share entitles the holder to receive dividends on an equal basis with holders of ordinary shares.

In December 2010 the 100% owned subsidiary company of the Group, LLC "Promgazkomplekt" has repurchased 9,680,000 of the Group's preference shares. The financial result from the deal is recognized in consolidated statement of changes in equity. The deal was performed in terms of the Group's organization structure optimization. The Group has no intension to sell back these shares in foreseeable future.

Dividends on ordinary shares and preference shares classified as equity are recognized, as a distribution of equity in the period in which they are approved by shareholders.

Share premium represents the excess of contributions received over the nominal value of shares issued or sold. Ordinary shares were distributed or sold with a premium of RUB 15,859,498 thousand as at 31 December 2010 and of RUB 12,602,553 thousand as at 31 December 2009 and 2008.

The Group's distributable among shareholders reserves are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

33. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The Group's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

As at 31 December 2010, 2009 and 2008 allowances for guarantees and other off-balance sheet commitments were RUB 324,213 thousand, RUB 591,430 thousand and RUB 585,157 thousand, respectively (see Note 30). The risk-weighted amount is obtained by applying credit conversion factor and counterparty risk weightings according to the principles employed by the Basle Committee on Banking Supervision (Basel I).

As at 31 December 2010, 2009 and 2008 the nominal or contract amounts and risk-weighted amounts were:

	31 December 2010		31 December 2009		31 December 2008	
	Nominal amount	Risk-weighted amount	Nominal amount	Risk-weighted amount	Nominal amount	Risk-weighted amount
Contingent liabilities and credit commitments						
Commitments on loans and unused credit lines	74,330,453	18,404,652	19,719,747	8,459,145	18,866,512	7,494,064
Guarantees issued and similar commitments	73,608,719	73,284,506	25,192,196	24,600,766	26,526,384	26,240,878
Letters of credit and other contingent commitments related to settlement operations	7,626,051	3,201,769	7,196,091	6,178,496	10,065,945	8,662,317
Total contingent liabilities and credit commitments	155,565,223	94,890,927	52,108,034	39,238,407	55,458,841	42,397,259

As at 31 December 2010, 2009 and 2008 letters of credit of RUB 1,222,513 thousand, RUB 1,017,595 thousand and RUB 1,098,799 thousand, respectively, were secured by cash deposited in customer accounts (see Note 27).

Operating leases—The Group's future minimum rental payments under non-cancellable operating leases of office premises in effect as at 31 December 2010, 2009 and 2008 are presented in the table below.

	31 December 2010	31 December 2009	31 December 2008
Not later than 1 year	404,645	321,868	323,778
Later than 1 year and not later than 5 years	816,803	463,955	538,112
Later than 5 years	205,468	49,154	36,856
Total operating lease	1,426,916	834,977	898,746

Fiduciary activities—The Group provides depositary services to its customers. As at 31 December 2010, 2009 and 2008 the Group had customers' securities of 2,413,913,716,332 items, 5,571,412,379 items and 10,426,268,538 items, respectively, in its nominal holder's accounts.

As at 31 December 2010, 2009 and 2008 the Group kept in its vault 2,580 kg of gold bullion, 6,413 kg of silver bullion, 29 kg of palladium bullion, 75 kg of platinum bullion, 1,938 kg of gold bullion, 3,167 kg of silver bullion, 3 kg of palladium bullion, 35 kg of platinum bullion and 3,866 kg of gold bullion, 4,554 kg of silver bullion, 3 kg of palladium bullion, 18 kg of platinum bullion respectively, owned by the Group's customers.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

As at 31 December 2010, 2009 and 2008 Group has obligation to provide funding for operations on precious metals extraction in the amount of RUB 32,905,216 thousand, RUB 18,986,646 thousand and RUB 18,410,643 thousand, respectively, which are not recognized in the consolidated statement of financial position as the conditions of extraction and customer delivery have not yet occurred.

Legal proceedings—From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxation—Commercial legislation of the RF and countries where the Group operates, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

Operating environment—The Group's principal business activities are within the RF. Laws and regulations affecting the business environment in the RF are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

Pensions and retirement plans—Employees receive pension benefits according to the laws and regulations of the Russian Federation. The Group provides its employees with post-employment benefits in the form of defined contribution plans. The Group makes monthly payments to a non-government pension fund for its employees, who in turn will receive a future benefit from the fund. The contributions to the defined contribution plan are included in staff costs on an accrual basis. During the years ended 31 December 2010, 2009 and 2008 the Group made payments to the non-government pension fund of RUB 2,167 thousand, RUB 1,882 thousand and RUB 18,230 thousand, respectively. Once the payments to the pension fund are made the Group has no further obligations.

Operating Environment—Emerging markets such as the Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in the Russian Federation and the Russian Federation economy in general.

Laws and regulations affecting businesses in the Russian Federation continue to change rapidly. Tax, currency and customs legislation within the Russian Federation are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

The global financial turmoil that has negatively affected the Russian Federation financial and capital markets in 2008 and 2009 has receded and the Russian Federation economy returned to growth in 2010. However significant economic uncertainties remain. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment could slow or disrupt the Russian Federation economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

The Russian Federation is facing a relatively high level of inflation (according to the government's statistical data consumer price inflation for the years ended 31 December 2010, 2009 and 2008 was 8.8%, 8.8% and 13.3%, respectively).

Because the Russian Federation produces and exports large volumes of oil and gas, the Russian Federation economy is particularly sensitive to the price of oil and gas on the world market that fluctuated significantly during 2010 and 2009.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

34. SEGMENT REPORTING

The Group has restated the segments as at 31 December 2009 and 2008 and for the years than ended to align with the following segments description in line with the information provided to the Chief Operating Decision Maker.

The reportable segments comprise of:

- Corporate banking—full range of banking services provided to large and medium-sized corporate customers, including, among others, direct debt facilities, current accounts, deposits, overdrafts, loan and other credit facilities and a variety of settlement and transactional services.
- Small business—banking services provided to small businesses and individual entrepreneurs, including direct debt facilities, current accounts, deposits, overdrafts, loan and other credit facilities and settlement and transaction services.
- Investment banking—representing trading of fixed income and equity products, foreign exchange, precious metals and derivatives on such products, money market operations, repo, brokerage services and asset management and other investment banking services.
- Retail banking (including private banking)—full range of banking services to mass, affluent and wealthy individuals, including customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Treasury and asset-liability unit—treasury, which lends and borrows funds of money market, undertakes the Group's funding through issue of debt securities and attraction of subordinated facilities and conducts foreign exchange operations for internal hedging purposes. This segment is also responsible for accumulation and further redistribution of all funds attracted by other segments.
- Unallocated—balances and/or income and expense items not allocated to any of the Group's business segments in the internal management reporting systems, as they are not initiated by any of the business units and represent part of the Group's routine headquarter activities

The President of the Bank is the chief operating decision maker. Operating results are reviewed regularly by the entity's chief operating decision maker to consider the way resources to be allocated to the segment and assess its performance.

Internal charges and transfer pricing adjustments have been reflected in the performance of each segment. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

Segment information about these businesses is presented below:

	Corporate banking	Small business	Retail banking	Investment banking	Treasury and asset-liability management unit	Unallocated	Year ended 31 December 2010
External interest income	19,804,453	1,478,156	1,641,999	5,322,417	1,103,332	—	29,350,357
External interest expense	(3,692,242)	(115,650)	(4,692,777)	(2,562,819)	(3,925,134)	—	(14,988,622)
Internal funding costs/ revenues from Central treasury	(8,752,256)	(159,793)	5,418,294	179,770	3,302,344	11,641	—
Net interest income	7,359,955	1,202,713	2,367,516	2,939,368	480,542	11,641	14,361,735
Impairment of interest- bearing assets	(2,324,204)	12,271	(1,350,405)	(467,722)	(4,602)	(13,793)	(4,148,455)
Net interest income after provision	5,035,751	1,214,984	1,017,111	2,471,646	475,940	(2,152)	10,213,280
Fee and commission income	1,312,847	584,858	477,084	94,233	7,878	7,786	2,484,686
Fee and commission expense	(97 842)	(24,608)	(136,065)	(50,125)	(59,387)	(356)	(368,383)
Trading and foreign exchange results	625,201	33,362	72,407	2,328,953	(211,725)	(1)	2,848,197
Other operating income . .	1,691,970	38,724	88,152	76,802	42,652	79,108	2,017,408
Net result from other segments*	(124,022)	4,245	1,483	241,499	(123,205)	—	—
Total operating income before impairment losses and provision . .	8,443,905	1,851,565	1,520,172	5,163,008	132,153	84,385	17,195,188
Impairment losses of investments available for sale and investment property and provisions on other transactions . .	523,552	(24,934)	(10,816)	(368,280)	—	29,653	149,175
Operating expense	(2,377,264)	(1,451,198)	(2,240,838)	(523,881)	(84,662)	(1,455,916)	(8,133,759)
Profit before taxation . . .	6,590,193	375,433	(731,482)	4,270,847	47,491	(1,341,878)	9,210,604
Income tax	—	—	—	—	—	(1,784,899)	(1,784,899)
Profit for the period	6,590,193	375,433	(731,482)	4,270,847	47,491	(3,126,777)	7,425,705
Depreciation and amortization expense	(172,776)	(116,609)	(173,705)	(38,892)	(14,139)	(1,969)	(518,090)
Capital expenditures	164,682	100,036	141,914	31,493	10,982	13	449,120

* Represents results from revenue sharing agreements between segments used to allocate certain external revenues between business segments jointly participating in revenue generating activities

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

	<u>Corporate banking</u>	<u>Small business</u>	<u>Retail banking</u>	<u>Investment banking</u>	<u>Treasury and asset-liability management unit</u>	<u>Unallocated</u>	<u>31 December 2010 Total</u>
ASSETS							
Cash and balances with the Central Bank of the Russian Federation	88	—	10,075,808	12,898,132	17,511,390	3,333	40,488,751
Minimum reserve deposits with CBR	342,072	70,985	385,321	254,756	1,764,172	—	2,817,306
Precious metals	4,660,581	—	15,923	—	—	—	4,676,504
Financial assets at fair value through profit or loss	54,058	—	—	55,467,982	—	—	55,522,040
Loans and advances to banks and other financial institutions	109,669	—	1,077,650	34,151,592	5,891,492	347,095	41,577,498
Loans to customers . . .	248,580,343	19,128,642	36,533,042	35,050,839	—	9,046	339,301,912
Investments available-for-sale . . .	5,226,364	—	—	20,006,453	3,315	527,162	25,763,294
Investments held to maturity	—	—	—	851,707	—	—	851,707
Property, plant and equipment	3,296,440	1,644,100	3,801,683	1,186,624	169,193	877,965	10,976,005
Intangible assets	548,842	146,763	962,619	389,721	105,634	447,934	2,601,513
Goodwill	—	—	—	—	—	597,652	597,652
Other assets	1,672,934	133,914	121,116	1,596,580	7	1,518,014	5,042,565
TOTAL ASSETS . . .	<u>264,491,391</u>	<u>21,124,404</u>	<u>52,973,162</u>	<u>161,854,386</u>	<u>25,445,203</u>	<u>4,328,201</u>	<u>530,216,747</u>
LIABILITIES							
Financial liabilities at fair value through profit or loss	9,268	—	—	995,803	—	—	1,005,071
Due to banks and the Central Bank of the Russian Federation	9,820,600	2,500,000	578,365	43,926,329	3,013,412	—	59,838,706
Customer accounts . . .	146,652,893	21,989,406	120,088,487	2,683,973	21,949,062	12,520	313,376,341
Bonds and Eurobonds	—	—	—	16,678,145	17,733,547	—	34,411,692
Promissory notes issued	12,970,531	76,850	41,354	20,079,362	—	—	33,168,097
Deferred income tax liabilities	—	—	—	—	—	1,182,284	1,182,284
Other liabilities	764,322	64,119	169,197	22,903	2,099	1,186,665	2,209,305
Subordinated debt . . .	—	—	—	—	27,090,583	—	27,090,583
TOTAL LIABILITIES . . .	<u>170,217,614</u>	<u>24,630,375</u>	<u>120,877,403</u>	<u>84,386,515</u>	<u>69,788,703</u>	<u>2,381,469</u>	<u>472,282,079</u>

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

	Corporate banking	Small business	Retail banking	Investment banking	Treasury and asset-liability management unit	Unallocated	Year ended 31 December 2009
External interest income	24,232,933	1,054,006	2,150,097	6,820,041	2,167,670	—	36,424,747
External interest expense	(4,001,568)	(59,673)	(4,213,226)	(3,009,259)	(7,621,332)	—	(18,905,058)
Internal funding costs/ revenues from Central treasury	(11,785,486)	(301,697)	3,735,512	188,815	8,138,055	24,801	—
Net interest income	8,445,879	692,636	1,672,383	3,999,597	2,684,393	24,801	17,519,689
Impairment of interest- bearing assets	(9,621,070)	(1,044,905)	(452,626)	(499,274)	(430,223)	16	(12,048,082)
Net interest income after provision	(1,175,191)	(352,269)	1,219,757	3,500,323	2,254,170	24,817	5,471,607
Fee and commission income	1,365,887	224,250	408,063	76,735	70	4,587	2,079,592
Fee and commission expense	(94,187)	(2)	(105,066)	(62,258)	(64,808)	(469)	(326,790)
Trading and foreign exchange results	1,021,323	45,353	49,226	5,443,178	(783,368)	(19,425)	5,756,287
Other operating income	27,216	16,915	60,045	58,999	1,240	99,269	263,684
Net result from other segments *	(102,232)	—	(11,636)	266,908	(153,040)	—	—
Total operating income before impairment losses and provision	1,042,816	(65,753)	1,620,389	9,283,885	1,254,264	108,779	13,244,380
Impairment losses of investments available for sale and investment property and provisions on other transactions	(64,402)	(8,006)	6,415	(254,682)	—	(28,527)	(349,202)
Operating expenses and Impairment of buildings and constructions	(2,613,106)	(862,895)	(2,081,305)	(316,709)	(71,880)	(1,409,668)	(7,355,563)
Profit before taxation	(1,634,692)	(936,654)	(454,501)	8,712,494	1,182,384	(1,329,416)	5,539,615
Income tax	—	—	—	—	—	(1,278,692)	(1,278,692)
Profit for the period . . .	(1,634,692)	(936,654)	(454,501)	8,712,494	1,182,384	(2,608,108)	4,260,923
Depreciation and amortization expense	(205,809)	(33,123)	(181,352)	(30,803)	(3,407)	—	(454,494)
Capital expenditures	775,589	176,976	723,010	122,805	13,581	—	1,811,961

* Represents results from revenue sharing agreements between segments used to allocate certain external revenues between business segments jointly participating in revenue generating activities

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

	Corporate banking	Small business	Retail banking	Investment banking	Treasury and asset-liability management unit	Unallocated	31 December 2009 Total
ASSETS							
Cash and balances with the Central Bank of the Russian Federation . . .	325	—	3,999,174	1,359,002	8,716,878	—	14,075,379
Minimum reserve deposits with CBR . . .	—	—	—	—	1,192,375	—	1,192,375
Precious metals	4,615,197	—	—	—	—	—	4,615,197
Financial assets at fair value through profit or loss	26,869	—	—	54,466,884	3,172,531	—	57,666,284
Loans and advances to banks and other financial institutions	42,102	—	868,907	17,069,007	8,834,722	—	26,814,738
Loans to customers	132,314,974	5,333,777	14,725,243	1,529,033	8,746,706	—	162,649,733
Investments available-for-sale	—	—	—	159,859	13,948	—	173,807
Investments held to maturity	—	—	—	1,362,518	—	—	1,362,518
Property, plant and equipment	2,847,978	328,427	2,293,749	428,898	36,492	—	5,935,544
Intangible assets	85,092	—	—	—	—	—	85,092
Other assets	577,423	—	130,210	209,096	16,327	1,607,421	2,540,477
TOTAL ASSETS	140,509,960	5,662,204	22,017,283	76,584,297	30,729,979	1,607,421	277,111,144
LIABILITIES							
Financial liabilities at fair value through profit or loss	29,434	—	—	474,443	—	—	503,877
Due to banks and the Central Bank of the Russian Federation . . .	7,479,245	—	1,466,875	14,684,760	24,765,990	—	48,396,870
Customer accounts	64,233,111	4,699,057	50,056,875	1,439,666	13,775,175	—	134,203,884
Bonds and Eurobonds . . .	—	—	—	12,838,876	12,110,667	—	24,949,543
Promissory notes issued	4,026,612	108,240	180,562	3,185,759	—	—	7,501,173
Deferred income tax liabilities	—	—	—	—	—	911,200	911,200
Other liabilities	916,485	960	22,230	9,527	—	419,076	1,368,278
Subordinated debt	—	—	—	—	22,664,116	—	22,664,116
TOTAL							
LIABILITIES	76,684,887	4,808,257	51,726,542	32,633,031	73,315,948	1,330,276	240,498,941

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

	<u>Corporate banking</u>	<u>Small business</u>	<u>Retail banking</u>	<u>Investment banking</u>	<u>Treasury and asset-liability management unit</u>	<u>Unallocated</u>	<u>Year ended 31 December 2008</u>
External interest income ..	18,822,167	1,061,837	1,892,066	4,132,892	422,862	—	26,331,824
External interest expense	(4,337,487)	(50,508)	(2,163,721)	(5,236,550)	(1,348,299)	—	(13,136,565)
Internal funding costs/ revenues from Central treasury	(6,289,009)	(339,657)	1,865,944	1,595,937	3,166,785	—	—
Net interest income	<u>8,195,671</u>	<u>671,672</u>	<u>1,594,289</u>	<u>492,279</u>	<u>2,241,348</u>	<u>—</u>	<u>13,195,259</u>
Impairment of interest- bearing assets	(4,887,432)	(226,490)	(230,459)	69,548	—	—	(5,274,833)
Net interest income after provision	<u>3,308,239</u>	<u>445,182</u>	<u>1,363,830</u>	<u>561,827</u>	<u>2,241,348</u>	<u>—</u>	<u>7,920,426</u>
Fee and commission income	1,006,736	169,965	320,902	381,706	7,998	—	1,887,307
Fee and commission expense	(29,483)	—	(83,479)	(123,679)	(44,299)	—	(280,940)
Trading and foreign exchange results	185,853	38,513	58,140	(456,578)	571,948	—	397,876
Other operating income ...	126,217	6,432	20,058	85,908	—	30,562	269,177
Total operating income before impairment losses and provision ...	<u>4,597,562</u>	<u>660,092</u>	<u>1,679,451</u>	<u>449,184</u>	<u>2,776,995</u>	<u>30,562</u>	<u>10,193,846</u>
Impairment losses of investments available for sale and investment property and provisions on other transactions ...	(431,160)	(9)	(2)	(16,240)	—	—	(447,411)
Operating expenses and Impairment of buildings and constructions	(2,240,491)	(322,291)	(1,765,224)	(215,205)	(30,202)	(985,038)	(5,558,451)
Profit before taxation ...	<u>1,925,911</u>	<u>337,792</u>	<u>(85,775)</u>	<u>217,739</u>	<u>2,746,793</u>	<u>(954,476)</u>	<u>4,187,984</u>
Income tax	—	—	—	—	—	(957,447)	(957,447)
Realised net gain/(loss) on discontinued operations	—	—	—	256,490	—	—	256,490
Profit for the period	<u>1,925,911</u>	<u>337,792</u>	<u>(85,775)</u>	<u>474,229</u>	<u>2,746,793</u>	<u>(1,911,923)</u>	<u>3,487,027</u>
Depreciation and amortization expense ...	(165,098)	—	(128,920)	(8,063)	—	—	(302,081)
Capital expenditures	2,254,685	—	1,718,820	116,838	—	—	4,090,343

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

	Corporate banking	Small business	Retail banking	Investment banking	Treasury and asset-liability management unit	Unallocated	31 December 2008 Total
ASSETS							
Cash and balances with the Central Bank of the Russian Federation	93	—	3,285,416	778,804	6,957,060	—	11,021,373
Minimum reserve deposits with CBR	—	—	—	—	237,976	—	237,976
Precious metals	3,309,468	—	—	—	—	—	3,309,468
Financial assets at fair value through profit or loss	56,404	—	—	25,336,927	9,556,579	—	34,949,910
Loans and advances to banks and other financial institutions . . .	—	—	—	22,271,778	—	—	22,271,778
Loans to customers	158,077,448	7,294,143	16,718,865	5,630,860	—	—	187,721,316
Investments available-for-sale	—	—	—	91,080	—	—	91,080
Investments held to maturity	—	—	—	3,815,723	—	—	3,815,723
Property, plant and equipment	2,808,988	—	2,172,170	182,434	—	—	5,163,592
Intangible assets	34,513	—	—	—	—	—	34,513
Other assets	177,575	—	4,082	5,549,410	—	3,447,402	9,178,469
TOTAL ASSETS	164,464,489	7,294,143	22,180,533	63,657,016	16,751,615	3,447,402	277,795,198
LIABILITIES							
Financial liabilities at fair value through profit or loss	—	—	—	2,688,050	—	—	2,688,050
Due to banks and the Central Bank of the Russian Federation	9,135,880	—	—	38,646,555	20,514,339	—	68,296,774
Customer accounts	68,174,168	3,905,852	42,924,601	1,034,273	—	31,696	116,070,590
Bonds and Eurobonds	—	—	—	21,641,797	—	—	21,641,797
Promissory notes issued . .	12,994,180	12,985	16,756	12,278,766	—	—	25,302,687
Deferred income tax liabilities	—	—	—	—	—	370,563	370,563
Other liabilities	693,817	—	47,290	60,222	—	359,326	1,160,655
Subordinated debt	—	—	—	—	9,759,319	—	9,759,319
TOTAL LIABILITIES	90,998,045	3,918,837	42,988,647	76,349,663	30,273,658	761,585	245,290,435

SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

Valuation techniques

The Group uses a number of methodologies to determine the fair values of financial instruments for which observable prices in active markets for identical instruments are not available. These techniques include: relative value methodologies based on observable prices for similar instruments; present value approaches where future cash flows from the asset or liability are estimated and then discounted using a risk-adjusted interest rate.

The principal inputs to these valuation techniques are listed below. Values between and beyond available data points are obtained by interpolation and extrapolation. When utilising valuation techniques, the fair value can be significantly affected by the choice of valuation model and by underlying assumptions concerning factors such as the amounts and timing of cash flows, discount rates and credit risk.

- **Bond prices**—quoted prices are generally available for government bonds, certain corporate securities and some mortgage-related products.
- **Interest rates**—these are principally benchmark interest rates or internal Bank rates effective as at reporting date and quoted interest rates in the swap, bond and futures markets.
- **Foreign currency exchange rates**—there are observable markets both for spot and forward contracts and futures in the world's major currencies.
- **Equity and equity index prices**—quoted prices are generally readily available for equity shares listed on the world's major stock exchanges and for major indices on such shares.
- **Commodity prices**—many commodities are actively traded in spot and forward contracts and futures on exchanges in London, New York and other commercial centres.

In order to determine a reliable fair value, where appropriate, management applies valuation adjustments to the pricing information gathered from the above sources. Furthermore, on an ongoing basis, the Group assesses the appropriateness of any model used.

Financial assets and liabilities

The following methods and significant assumptions have been applied to estimate the fair values of following financial instruments:

- Cash and balances with the CBR and minimum reserve deposit with the CBR, due to the short-term environment and availability restrictions of these types of assets, the carrying amount is assumed to be reasonable estimate of their fair value.
- The estimated fair value of quoted trading securities and derivative financial instruments, comprising financial assets at fair value through profit or loss category, is determined based on quoted active market prices at the reporting date.
- The fair value of loans and advanced to banks and loans to customers for loans provided during the period of one month to the reporting date is assumed to be fair value amount for them. The fair value of the other loans is estimated by application of market interest rates when the loans were originated with the year-end market rates offered on similar deposits with the deduction of the allowances for credit losses from the calculated fair value amounts
- The estimated fair value of promissory notes and bonds comprising investments available-for-sale category is determined based on the quoted market prices. Investments in equity instruments, which do not have quoted market prices in an active market are measured at cost, as their fair value can not be measured reliably.
- The fair value of units of investment funds, which have quoted prices on the active market, is determined based on the quoted market prices. For shares in investment funds, which have no quoted prices on the active market the Group uses an independent appraiser's valuation for determining the fair value of such shares in the investment funds. The fair value of the assets of the investment funds is determined by the use of different approaches (income approach, comparative approach and cost approach) and methods (income capitalization method, company-analogue method, discounted cash flows method, liquidation value method).

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

- Investments held to maturity is determined based on quoted active market prices at the reporting date.
- Other financial assets and liabilities is mainly represented by short-term receivables and payables, therefore the carrying amount is assumed to be reasonable estimate of their fair value.
- The fair value of term deposits (included in customer accounts and deposits from banks) for term deposits placed during the period of one month to the reporting date is assumed to be fair value amount for them. The fair value of the other term deposits is estimated by application of market interest rates when the deposits were placed with the year-end market rates offered on similar deposits. The carrying amount of current customer accounts is assumed to be reasonable estimate of their fair value due to the short-term environment and availability requirements of these types of liability.
- The fair value of issued bonds, Eurobonds, promissory notes and subordinated liabilities is based on quoted prices. Where these are not available, fair value is based on expected cash flows discounted using market interest rates for similar securities or funds whose market rates are quoted.

The valuation techniques have been consistently applied by the Group across the years.

The following table compares the carrying amount of financial assets and liabilities to their estimated fair values:

	31 December 2010		31 December 2009		31 December 2008	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
<i>Financial assets</i>						
Cash and balances with the Central Bank of the Russian Federation	40,488,751	40,488,751	14,075,379	14,075,379	11,021,373	11,021,373
Minimum reserve deposits with the Central Bank of the Russian Federation	2,817,306	2,817,306	1,192,375	1,192,375	237,976	237,976
Financial assets at fair value through profit or loss	55,522,040	55,522,040	57,666,284	57,666,284	34,949,910	34,949,910
Loans and advances to banks and other financial institutions	41,577,498	41,507,265	26,814,738	26,853,001	22,271,778	21,637,098
Loans to customers	339,301,912	335,305,263	162,649,733	159,957,213	187,721,316	183,695,771
Investments available-for-sale	25,763,294	25,763,294	173,807	173,807	91,080	91,080
Investments held to maturity	851,707	1,259,118	1,362,518	1,475,102	3,815,722	4,657,387
Other financial assets	1,704,391	1,704,391	647,895	647,895	5,952,260	5,952,260
<i>Financial liabilities</i>						
Financial liabilities at fair value through profit or loss	1,005,071	1,005,071	503,877	503,877	2,688,050	2,688,050
Due to banks and the Central Bank of the Russian Federation	59,838,706	59,852,210	48,396,870	46,849,762	68,296,774	67,704,105
Customer accounts	313,376,341	312,644,307	134,203,884	134,027,082	116,070,590	116,611,494
Bonds and Eurobonds	34,411,692	35,084,580	24,949,543	25,369,337	21,641,797	17,782,467
Promissory notes issued	33,168,097	33,608,426	7,501,173	6,555,462	25,302,687	24,729,861
Other financial liabilities	1,252,277	1,252,277	614,884	614,884	443,536	443,536
Subordinated debt	27,090,583	27,455,422	22,664,116	23,321,126	9,759,319	7,509,432

Valuation hierarchy

The tables below show the financial instruments carried at fair value by hierarchy—level 1, level 2 and level 3. The valuation techniques, main assumptions used in the valuation of these instruments and reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions for level 3 financial instruments are set out below.

Quoted prices in an active market (Level 1): Valuations based on quoted prices in active markets that the Group has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to these financial instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuations of these products does not entail a significant amount of judgment.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

Valuation techniques using observable inputs (Level 2)—Valuations based on inputs for which all significant inputs are observable, either directly or indirectly and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active.

Valuation techniques incorporating information other than observable market data (Level 3)—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

There were no significant transfers to or from Level 1, Level 2 or Level 3 of the fair value hierarchy during the period.

The Group's valuation approach and fair value hierarchy categorisation for certain significant classes of financial instruments recognised at fair value is as follows:

31 December 2010				
	Quoted prices in active market (Level 1)	Valuation techniques based on observable market data (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)	Total
Financial assets at fair value through profit or loss	44,662,715	10,859,325	—	55,522,040
Investments available-for-sale	8,049,638	12,073,710	5,226,364	25,349,712
	<u>52,712,353</u>	<u>22,933,035</u>	<u>5,226,364</u>	<u>80,871,752</u>
Financial liabilities at fair value through profit or loss	<u>(343,440)</u>	<u>(661,631)</u>	<u>—</u>	<u>(1,005,071)</u>
31 December 2009				
	Quoted prices in active market (Level 1)	Valuation techniques based on observable market data (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)	Total
Financial assets at fair value through profit or loss	57,656,324	9,960	—	57,666,284
Investments available-for-sale	116,654	—	—	116,654
	<u>57,772,978</u>	<u>9,960</u>	<u>—</u>	<u>57,782,938</u>
Financial liabilities at fair value through profit or loss	<u>(440,562)</u>	<u>(63,315)</u>	<u>—</u>	<u>(503,877)</u>
31 December 2008				
	Quoted prices in active market (Level 1)	Valuation techniques based on observable market data (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)	Total
Financial assets at fair value through profit or loss	34,949,910	—	—	34,949,910
	<u>34,949,910</u>	<u>—</u>	<u>—</u>	<u>34,949,910</u>
Financial liabilities at fair value through profit or loss	<u>(2,668,050)</u>	<u>—</u>	<u>—</u>	<u>(2,668,050)</u>

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

Excluded from the table above were investments in equity securities of unlisted entities classified as available for sale securities. The fair value of such securities is not readily measurable accordingly such investments are carried at the acquisition cost.

As at 31 December 2010, 2009 and 2008 the value of such investments amounted RUB 413,582 thousand, RUB 57,153 thousand and RUB 91,080 thousand, respectively.

The Group invests in certain investment funds where as a result of general market conditions and illiquidity of the bond markets the valuation is based upon inputs other than those readily observable in the market place (Level 3). The following table provides a detail of the activity with respect to the fair value measurement during the period ending 31 December 2010.

	Shares and units of investment funds
1 January 2010	—
Purchases through acquisition of subsidiary	5,018,346
Gains or losses in other comprehensive income	208,017
31 December 2010	<u>5,226,364</u>

36. CAPITAL MANAGEMENT

For Basel I ratio calculation purposes, two tiers of capital are distinguished:

Tier I capital is “core” bank capital and includes paid share capital (less the carrying value of treasury shares), minority interests in the equity of subsidiaries and retained earnings (including their allocations to reserves), less certain deductions, such as goodwill.

Tier II capital is “supplementary” bank capital that includes subordinated debt, hybrid instruments with characteristics of both capital and certain revaluation reserves, such as unrealized gains on the revaluation of financial instruments classified as available-for-sale and property revaluation surplus.

The table below presents the composition of capital complying with Basel and discloses the capital-adequacy ratio for the reporting periods ended 31 December 2010, 2009 and 2008:

	31 December 2010	31 December 2009	31 December 2008
Tier 1 capital	56,614,373	36,014,164	31,776,197
Tier 2 capital	26,659,824	23,031,445	10,487,885
Total regulatory capital	<u>83,274,197</u>	<u>59,045,609</u>	<u>42,264,082</u>
Risk-weighted assets:			
Credit risks	478,827,315	200,366,597	234,909,059
Market risks	54,499,650	61,346,179	49,358,641
Total risk-weighted assets	<u>533,326,965</u>	<u>261,712,776</u>	<u>284,267,700</u>
Basel ratio	15.61%	22.56%	14.87%
Tier 1	10.62%	13.76%	11.18%

As of 31 December 2010, 2009 and 2008 the Group included the subordinated debt received in the computation of total capital, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Group repayment of these loans is subordinate to the repayment of the Group’s liabilities to all other creditors.

The capital adequacy ratios exceeded the minimum ratio of 8% recommended by the Basel Accord 1988. As at 31 December 2010, 2009 and 2008, the Bank and its individual banking subsidiaries complied with Basel capital requirements.

The Bank’s overall capital management policy is aimed at the dynamic optimization of capital required for the Bank’s expansion and maintenance of sufficient capital adequacy to protect the Bank from unfavourable changes in market conditions and minimize liquidity risk. The capital management policy supports the shareholders’ vision and strategy of long-term Bank development.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

37. RISK MANAGEMENT POLICY

Risk management system

Management of risks is fundamental to the Group's business. The risk management functions include:

- Organizational structure of risk management—a structure of the Group's bodies and departments involved in risk management activities;
- Structure of risk identification and assessment;
- Risk monitoring and minimizing system;
- Internal control structure.

In the Group the Supervisory Board, Management Board, Financial Committee, credit committee, Risk management department, Treasury department and Operating risk department of the Group are responsible for managing the risks.

The Supervisory Board is responsible for general control over the risk management system and determines the strategy of its development. The Management Board is responsible for development of risk management policy including tactical issues. The Financial Committee performs current monitoring of liquidity and market risks. Operating monitoring of credit risk level is performed by a system of credit committees. Direct risk management including assessment and reporting, is performed by:

- Risk management department—in relation to credit risks;
- Treasury department—in relation to the liquidity, interest rate, currency and price risks;
- Operating risk department—in relation to operating risks.

The Group's priority in reducing its exposure to risks is the collective decision making. Strict segregation of duties between departments and officials of the Group, accurately specified instructions and procedures, and determination of competences and authorities of the bodies and their leaders are also essential areas for risk limitation. Appropriate methodologies are used to assess the risk level. Instructions, procedures and methodologies are revised by the Group on a regular basis and updated reflecting the changed market conditions, influence of new products and services proposed by the Group, and improvement of risk managements methods used in banking practice.

Risk monitoring structure includes:

- Setting the limits for risk acceptance on the basis of assessment of acceptance of the respective risk level;
- Control over the Group's exposure to the risks by:
- Following the limits;
- Assessment of the Group's exposure to risks on a regular basis;
- Compliance control;
- Meeting the requirements of the Central Bank of the Russian Federation in regard of covering the risks with sufficient equity;
- Internal audit of risk management systems.

The main risks inherent to the Group's operations are those related to:

- Credit risk;
- Operational risk;
- Liquidity risk;
- Market risk;

There have been no significant changes to the Group's risk management policies from those disclosed in the consolidated financial statements for the year ended 31 December 2010. The Group presents the following information in relation to its risk management policies as at 31 December 2010.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Credit Committee approves new loans and changes and amendments to loan agreements. The Credit Department performs current monitoring.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss because any other party to a financial instrument fails to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligation as it does for on balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Maximum Exposure

The Groups maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

	31 December 2010			
	Maximum exposure	Offset	Net exposure after offset	Collateral pledged
Balances with the Central Bank of the Russian Federation	29,410,287	—	29,410,287	—
Minimum reserve deposits with the Central Bank of the Russian Federation	2,817,306	—	2,817,306	—
Financial assets at fair value through profit or loss, excluding equity securities	53,548,643	—	53,548,643	—
Loans and advances to banks and other financial institutions	41,577,498	—	41,577,498	2,259,952
Loans to customers	339,301,912	107,104	339,194,808	296,126,559
Investments available-for-sale, excluding equity securities and units in investment funds	20,110,356	—	20,110,356	—
Investments held to maturity	851,707	—	851,707	—
Other financial assets	1,704,391	—	1,704,391	—
Commitments on loans and unused credit lines	74,330,453	—	74,330,453	—
Guarantees issued and similar commitments	73,608,719	—	73,608,719	—
Letters of credit and other contingent commitments related to settlement operations	7,626,051	—	7,626,051	1,222,513

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

	31 December 2009			
	Maximum exposure	Offset	Net exposure after offset	Collateral pledged
Balances with the Central Bank of the Russian Federation	9,165,642	—	9,165,642	—
Minimum reserve deposits with the Central Bank of the Russian Federation	1,192,375	—	1,192,375	—
Financial assets at fair value through profit or loss, excluding equity securities	55,330,987	—	55,330,987	—
Loans and advances to banks and other financial institutions	26,814,738	—	26,814,738	300,499
Loans to customers	162,649,733	3,118,917	159,530,816	140,340,745
Investments available-for-sale, excluding equity securities	116,654	—	116,654	—
Investments held to maturity	1,362,518	—	1,362,518	—
Other financial assets	647,895	—	647,895	—
Commitments on loans and unused credit lines	19,719,747	—	19,719,747	—
Guarantees issued and similar commitments	25,192,196	—	25,192,196	—
Letters of credit and other contingent commitments related to settlement operations	7,196,091	—	7,196,091	1,017,595
	31 December 2008			
	Maximum exposure	Offset	Net exposure after offset	Collateral pledged
Balances with the Central Bank of the Russian Federation	7,172,654	—	7,172,654	—
Minimum reserve deposits with the Central Bank of the Russian Federation	237,976	—	237,976	—
Financial assets at fair value through profit or loss, excluding equity securities	34,764,114	—	34,764,114	—
Loans and advances to banks and other financial institutions	22,271,778	—	22,271,778	5,486,387
Loans to customers	187,721,316	6,368,448	181,352,868	161,084,590
Investments held to maturity	3,815,723	—	3,815,723	—
Other financial assets	5,952,260	—	5,952,260	—
Commitments on loans and unused credit lines	18,866,512	—	18,866,512	—
Guarantees issued and similar commitments	26,526,384	—	26,526,384	—
Letters of credit and other contingent commitments related to settlement operations	10,065,945	—	10,065,945	1,098,799

Financial assets are graded according to the current credit rating when available. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

The following table details the credit ratings of unimpaired financial assets, excluding loans to customers, held by the Group. Credit ratings for loans to customers are presented in Note 20.

	AAA	AA	A	BBB	<BBB	Not rated	31 December 2010 Total
Balances with the Central Bank of the Russian Federation	—	—	—	29,410,287	—	—	29,410,287
Minimum reserve deposits with the Central Bank of the Russian Federation	—	—	—	2,817,306	—	—	2,817,306
Financial assets at fair value through profit or loss	103,009	1,042,786	970,030	28,134,546	16,358,453	6,939,819	53,548,643
Loans and advances to banks and other financial institutions	2,528,306	1,627,917	1,445,209	3,090,831	20,327,650	12,557,585	41,577,498
Investments available-for-sale	—	—	—	4,202,631	15,304,590	6,167,615	25,674,836
Investments held to maturity	—	—	—	25,012	644,812	—	669,824
Other financial assets	—	1,345	63,934	—	1,300	1,654,359	1,720,938
	AAA	AA	A	BBB	<BBB	Not rated	31 December 2009 Total
Balances with the Central Bank of the Russian Federation	—	—	—	9,165,642	—	—	9,165,642
Minimum reserve deposits with the Central Bank of the Russian Federation	—	—	—	1,192,375	—	—	1,192,375
Financial assets at fair value through profit or loss	10,706	91,336	55	28,956,103	19,558,233	6,714,554	55,330,987
Loans and advances to banks and other financial institutions	9,613,195	6,310,150	1,183,218	1,249,363	4,616,905	3,841,907	26,814,738
Investments available-for-sale	—	—	—	—	—	48,600	48,600
Investments held to maturity	—	—	—	24,980	726,308	174,342	925,630
Other financial assets	—	—	—	—	3,191	549,101	552,292
	AAA	AA	A	BBB	<BBB	Not rated	31 December 2008 Total
Balances with the Central Bank of the Russian Federation	—	—	—	7,172,654	—	—	7,172,654
Minimum reserve deposits with the Central Bank of the Russian Federation	—	—	—	237,976	—	—	237,976
Financial assets at fair value through profit or loss	—	—	—	9,368,740	18,382,722	7,012,652	34,764,114
Loans and advances to banks and other financial institutions	—	2,521,325	567,986	5,504,217	7,229,603	6,448,647	22,271,778
Investments held to maturity	—	—	—	22,099	807,839	1,059,489	1,889,427
Other financial assets	—	—	—	—	—	5,765,338	5,765,338

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Group is concentrated within the Russian Federation. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

The Group enters into numerous transactions where the counterparties are not rated by international rating agencies. The Group has developed internal models, which allow it to determine the rating of counterparties, which are comparable to rating of international rating agencies.

A methodology to determine credit ratings of borrowers has been developed in the Group to assess corporate borrowers. This method allows for calculation and assignment/confirmation of a borrower's rating and rating of collateral for a loan. The system is based on a rating model depending on key performance indicators of the borrower with the possibility of insignificant expert adjustments in case of insufficient objectivity of the benchmark. The method provides for the rating assignment on the basis of the following criteria groups: market indicators of the borrower, goodwill, credit history, transparency and reliability of information, information on business and business environment, relations of the Group and the borrower, financial situation of the borrower, business activity, and collateral provided. The financial situation and business activity are the most important criteria. Therefore, the rating model provides for overall assessment of the borrower and the loan.

Currently the rating model is applied only for initial credit application assessment. For credit monitoring purposes the bank classifies performing loans into "standard" and "watch-list" categories, based on the range of financial and other quantitative and qualitative indicators of borrowers' performance.

A model of the borrower's scoring assessment has been developed in the Group to assess and decide on loans to small and medium-size businesses. The scoring model is developed relating to standard loan products and includes key performance indicators of borrowers: financial situation, relations with the borrower, management quality, target use, location, credit history, collateral, etc.

The scoring assessment based on the borrower's parameters is one of the main factors for the decision-making process relating to loans.

A methodology of evaluation of borrowers-individuals is based on following criteria: education, occupancy, financial position, credit history, property owned by the borrower. Based on information obtained the maximum limit of a loan is calculated. The loan maximum limit is calculated with the use of the borrower's debt load ratio.

The Group applies internal methodologies to specific corporate loans and groups of retail loans. The scoring methodologies are tailor-made for specific products and are applied at various stages over the life of the loan. As a result, it is not possible to make a cross-product score comparison which would agree to the outstanding balance of loans to customers per the consolidated balance sheet. As such, more detailed information is not being presented.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

Geographical concentration

The geographical concentration of assets and liabilities is set out below:

	<u>Russia</u>	<u>Non-OECD countries</u>	<u>OECD countries</u>	<u>31 December 2010 Total</u>
ASSETS				
Cash and balances with the Central Bank of the Russian Federation	40,488,751	—	—	40,488,751
Minimum reserve deposits with the Central Bank of the Russian Federation	2,817,306	—	—	2,817,306
Financial assets at fair value through profit or loss	52,355,340	921,989	2,244,711	55,522,040
Loans and advances to banks and other financial institutions	18,004,879	17,303,070	6,269,549	41,577,498
Loans to customers	266,402,786	72,893,233	5,893	339,301,912
Investments available-for-sale	24,377,784	1,382,887	2,623	25,763,294
Investments held to maturity	851,707	—	—	851,707
Other financial assets	1,592,941	140	111,310	1,704,391
TOTAL FINANCIAL ASSETS	406,891,494	92,501,319	8,634,086	508,026,899
Precious metals	4,676,504	—	—	4,676,504
Property, plant and equipment	10,976,005	—	—	10,976,005
Goodwill	597,652	—	—	597,652
Intangible assets	2,601,513	—	—	2,601,513
Other non-financial assets	3,333,261	4,082	831	3,338,174
TOTAL NON-FINANCIAL ASSETS	22,184,935	4,082	831	22,189,848
TOTAL ASSETS	429,076,429	92,505,401	8,634,917	530,216,747
LIABILITIES				
Financial liabilities at fair value through profit or loss	164,139	354,768	486,164	1,005,071
Due to banks and the Central Bank of the Russian Federation	30,665,337	3,713,870	25,459,499	59,838,706
Customer accounts	302,488,921	9,686,968	1,200,452	313,376,341
Bonds and Eurobonds	16,678,145	—	17,733,547	34,411,692
Promissory notes issued	32,718,892	—	449,205	33,168,097
Other financial liabilities	1,231,971	7,253	13,053	1,252,277
Subordinated debt	9,214,998	—	17,875,585	27,090,583
TOTAL FINANCIAL LIABILITIES	393,162,403	13,762,859	63,217,505	470,142,767
Deferred income tax liabilities	1,182,284	—	—	1,182,284
Other non-financial liabilities	955,905	558	565	957,028
TOTAL NON-FINANCIAL LIABILITIES	2,138,189	558	565	2,139,312
TOTAL LIABILITIES	395,300,592	13,763,417	63,218,070	472,282,079
OPEN POSITION	33,775,837	78,741,984	(54,583,153)	

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

	<u>Russia</u>	<u>Non-OECD countries</u>	<u>OECD countries</u>	<u>31 December 2009 Total</u>
ASSETS				
Cash and balances with the Central Bank of the Russian Federation	14,075,379	—	—	14,075,379
Minimum reserve deposits the Central Bank of the Russian Federation	1,192,375	—	—	1,192,375
Financial assets at fair value through profit or loss	56,986,309	459,084	220,891	57,666,284
Loans and advances to banks and other financial institutions	6,358,237	3,257,403	17,199,098	26,814,738
Loans to customers	141,818,774	20,825,883	5,076	162,649,733
Investments available-for-sale	171,175	—	2,632	173,807
Investments held to maturity	1,362,518	—	—	1,362,518
Other financial assets	498,822	—	149,073	647,895
TOTAL FINANCIAL ASSETS	222,463,589	24,542,370	17,576,770	264,582,729
Precious metals	4,615,197	—	—	4,615,197
Property, plant and equipment	5,935,544	—	—	5,935,544
Intangible assets	85,092	—	—	85,092
Other non-financial assets	1,892,331	29	222	1,892,582
TOTAL NON-FINANCIAL ASSETS	12,528,164	29	222	12,528,415
TOTAL ASSETS	234,991,753	24,542,399	17,576,992	277,111,144
LIABILITIES				
Financial liabilities at fair value through profit or loss	308,135	65,923	129,819	503,877
Due to banks and the Central Bank of the Russian Federation	30,909,039	2,690,360	14,797,471	48,396,870
Customer accounts	130,606,937	2,901,141	695,806	134,203,884
Bonds and Eurobonds	12,838,876	—	12,110,667	24,949,543
Promissory notes issued	7,499,565	1,512	96	7,501,173
Other financial liabilities	613,080	—	1,804	614,884
Subordinated debt	10,965,233	—	11,698,883	22,664,116
TOTAL FINANCIAL LIABILITIES	193,740,865	5,658,936	39,434,546	238,834,347
Deferred income tax liabilities	911,200	—	—	911,200
Other non-financial liabilities	749,020	—	4,374	753,394
TOTAL NON-FINANCIAL LIABILITIES	1,660,220	—	4,374	1,664,594
TOTAL LIABILITIES	195,401,085	5,658,936	39,438,920	240,498,941
OPEN POSITION	39,590,668	18,883,463	(21,861,928)	

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

	<u>Russia</u>	<u>Non-OECD countries</u>	<u>OECD countries</u>	<u>31 December 2008 Total</u>
ASSETS				
Cash and balances with the Central Bank of the Russian Federation	11,021,373	—	—	11,021,373
Minimum reserve deposits the Central Bank of the Russian Federation	237,976	—	—	237,976
Financial assets at fair value through profit or loss	33,338,581	1,160,184	451,145	34,949,910
Loans and advances to banks and other financial institutions	12,626,281	6,355,027	3,290,470	22,271,778
Loans to customers	186,873,608	842,764	4,944	187,721,316
Investments available-for-sale	88,495	—	2,585	91,080
Investments held to maturity	3,815,723	—	—	3,815,723
Other financial assets	5,912,763	5,196	34,301	5,952,260
TOTAL FINANCIAL ASSETS	253,914,800	8,363,171	3,783,445	266,061,416
Precious metals	3,309,468	—	—	3,309,468
Property, plant and equipment	5,163,592	—	—	5,163,592
Intangible assets	34,513	—	—	34,513
Other non-financial assets	3,161,281	829	64,099	3,226,209
TOTAL NON-FINANCIAL ASSETS	11,668,854	829	64,099	11,733,782
TOTAL ASSETS	265,583,654	8,364,000	3,847,544	277,795,198
LIABILITIES				
Financial liabilities at fair value through profit or loss	764,568	1,240,132	683,350	2,688,050
Due to banks and the Central Bank of the Russian Federation	46,355,089	1,757,072	20,184,613	68,296,774
Customer accounts	114,038,219	1,555,167	477,204	116,070,590
Bonds and Eurobonds	11,125,520	—	10,516,277	21,641,797
Promissory notes issued	18,860,045	6,442,642	—	25,302,687
Other financial liabilities	418,103	861	24,572	443,536
Subordinated debt	1,035,661	—	8,723,658	9,759,319
TOTAL FINANCIAL LIABILITIES	192,597,205	10,995,874	40,609,674	244,202,753
Deferred income tax liabilities	370,563	—	—	370,563
Other non-financial liabilities	717,119	—	—	717,119
TOTAL NON-FINANCIAL LIABILITIES	1,087,682	—	—	1,087,682
TOTAL LIABILITIES	193,684,887	10,995,874	40,609,674	245,290,435
OPEN POSITION	71,898,767	(2,631,874)	(36,762,130)	

Market risk

Market risk is the risk that the fluctuations in market value of securities, foreign exchange rates, value of precious metals or interest rates may cause the changes in transaction returns or value of assets.

Therefore, the market risks include currency, interest and price risks. The Group is exposed to the market risks as a result of open positions on stock-exchange securities, currencies, precious metals and interest rates.

Market risks are managed by the Financial market department, Precious metals department, Treasury department and Financial and Market risk department. The Treasury and Market risk department assesses the Group's exposure to currency and price risks, including in terms of the internal limits. Treasury department assesses interest rate sensitivity and sets guidelines for the interest rate risks. Financial market department manages the open positions within the set limits on a daily basis to increase the Group's profit.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

Value-at-risk methodology adopted by the Group for risk measurement purposes

The Group applies Value-at-Risk (VaR) methodology to assess its exposure to currency and price risk. VaR is the maximum volume of loss for the concerned position of financial instrument/ portfolio/ transaction that may arise during a given period of time with a given probability. The loss value is estimated based on statistical and probabilistic analysis.

The Group assumed the accuracy of assessing the maximum value at risk (confidence level) at 99%.

To exercise control over the adequacy of measuring the above exposures the Group uses backtesting procedure that allows determining the extent to which risk assessment model corresponds to the real market situation.

As part of works to prepare this consolidated financial statements the Treasury Department assessed VaR with regard to the Group's currency position in terms of key currencies and gold and the Group's market (price) risk inherent in the securities portfolio as of 31 December 2010, 2009 and 2008 based on the data in consolidated financial statements.

During the period ended 31 December 2010 the Group applied several changes to the methodology of calculation of the estimated value of VaR.

The Group has changed the method of assessment of fixed income securities price risk from historical to delta-normal.

According to the new method the total value of fixed income securities price risk is decomposed into following risk-factors: the risk of risk-free rate changes and the risk of Z-spread changes. In accordance with this approach the volatility of Z-spread depends only on the issuer default rating.

In the Group's opinion this methodology is proper for the price risk estimation of portfolio of promissory notes. Therefore the total value of fixed income securities price risk includes the price risk of both, portfolios of bonds and Eurobonds and portfolio of promissory notes.

In calculating of VAR in respect to currency and price risk the holding period was changed from 1 day to 10 days in the second half of 2010 year.

The results of VAR measurement with regard to currency and price risk are provided in the attached table.

Total data on the VAR assessment in respect for currency and price risks accepted by the Group as of 31 December 2010, 2009 and 2008 and for the years then ended with the regard to changes in the methodology of calculation described above are the following:

31 December 2010				
RUB thousand	minimum	average	maximum	Year end
Currency risk	14,885	190,942	347,925	55,633
Fixed income securities price risk	278,246	694,227	1,559,041	895,982
Equity securities price risk	48,969	145,203	422,056	94,143
31 December 2009				
RUB thousand	minimum	average	maximum	Year end
Currency risk	90,118	331,777	717,431	507,940
Fixed income securities price risk	838,238	2,053,303	6,872,294	1,200,199
Equity securities price risk	7,824	127,195	401,603	231,510
31 December 2008				
RUB thousand	minimum	average	maximum	Year end
Currency risk	4,798	82,630	482,943	459,548
Fixed income securities price risk	293,795	2,426,096	9,569,377	6,214,697
Equity securities price risk	23,384	245,560	1,278,239	69,950

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

Although VaR is rather efficient as a risk measurement method this efficiency may be limited, especially in the conditions of low liquidity markets:

- Use of historical data to assess future events fails to take into account all the scenarios possible, especially extraordinary ones;
- Use of 99% confidence level disregards losses that may occur outside of this confidence range;
- VaR calculated based on business day results disregards fluctuations that could have taken place throughout the day.

In view of the above, the Group applies other risk measurement methods as well: gap analysis for interest rate risk, and net interest income sensitivity analysis.

Interest rate risk

Fair value interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. Interest rate sensitivity is the relationship between market interest rates and net interest income resulting from the repricing characteristics of assets and liabilities. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

Cash flow interest rate risk arises from the possibility that future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risk, principally as a result of lending at fixed interest rates in amounts and for periods which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Group manages interest risk by balancing interest bearing assets and liabilities, balancing the structure of assets and liabilities, implementing controls over risks of fund withdrawals and loan prepayments prior to maturity and controls over interest rate changes. The tools used by Financial Committee include stress-testing and setting maximum and minimum rates.

The following table presents a breakdown of weighted average effective interest rates in force as at 31 December 2010, 2009 and 2008 and thus the potential of the Group for gain or loss. Effective average interest rates are analyzed by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Group.

	31 December 2010		
	RUB	USD	Other currencies
ASSETS:			
Financial assets at fair value through profit or loss	8.63%	7.25%	4.25%
Loans and advances to banks and other financial institutions	3.70%	5.84%	5.53%
Loans to customers	11.85%	10.28%	9.99%
Investments held to maturity	12.86%	—	—
LIABILITIES:			
Due from banks and the Central Bank of the Russian Federation	4.02%	2.34%	2.67%
Customer accounts	6.09%	6.30%	6.68%
Bonds and Eurobonds	8.11%	6.12%	4.69%
Promissory notes issued	7.35%	6.85%	5.67%
Subordinated debt	7.17%	9.37%	—
	31 December 2009		
	RUB	USD	Other currencies
ASSETS:			
Financial assets at fair value through profit or loss	11.99%	7.60%	12.54%
Loans and advances to banks and other financial institutions	10.24%	6.37%	0.43%
Loans to customers	15.85%	13.35%	11.01%
Investments held to maturity	12.33%	—	—
LIABILITIES:			
Due from banks and the Central Bank of the Russian Federation	9.96%	4.52%	2.67%
Customer accounts	10.59%	8.45%	9.41%
Bonds and Eurobonds	15.00%	8.71%	—
Promissory notes issued	11.13%	6.05%	5.78%
Subordinated debt	9.57%	11.27%	—

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

	31 December 2008		
	RUB	USD	Other currencies
ASSETS:			
Financial assets at fair value through profit or loss	10.17%	7.71%	—
Loans and advances to banks and other financial institutions	15.70%	7.10%	3.00%
Loans to customers	16.17%	14.06%	11.18%
Investments held to maturity	10.92%	—	—
LIABILITIES:			
Due from banks and the Central Bank of the Russian Federation	13.32%	4.19%	4.85%
Customer accounts	9.5%	7.92%	7.39%
Bonds and Eurobonds	9.44%	8.22%	—
Promissory notes issued	9.88%	—	8.70%
Subordinated debt	11.23%	9.75%	—

Interest rate risk is the risk that the interest income of the Group will decrease or it will incur losses in a result of adverse changes in market interest rates.

The following table presents financial assets/liabilities maturity based on projected repricing dates. These repricing dates are determined by management and are contained within the risk reports provided to key management personnel.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Financial assets and liabilities not sensitive to interest rate fluctuations	31 December 2010 Total
ASSETS							
Cash and balances with the Central Bank of the Russian Federation	30,892,021	—	—	—	—	9,596,730	40,488,751
Minimum reserve deposits with the Central Bank of the Russian Federation	—	—	—	—	—	2,817,306	2,817,306
Precious metals	4,676,504	—	—	—	—	—	4,676,504
Financial assets at fair value through profit or loss	415,348	1,876,256	18,046,932	20,334,117	11,600,428	3,248,959	55,522,040
Loans and advances to banks and other financial institutions	24,311,394	3,968,970	6,747,524	2,091,251	—	4,458,359	41,577,498
Loans to customers	54,571,709	28,593,742	106,998,492	123,462,299	25,675,670	—	339,301,912
Investments available-for-sale	1,845,378	7,164,464	4,964,511	4,569,177	1,566,828	5,652,936	25,763,294
Investments held to maturity	—	—	—	826,695	25,012	—	851,707
Property, plant and equipment	—	—	—	—	—	10,976,005	10,976,005
Goodwill	—	—	—	—	—	597,652	597,652
Intangible assets	—	—	—	—	—	2,601,513	2,601,513
Other assets	—	—	—	—	—	5,042,565	5,042,565
TOTAL ASSETS	116,712,354	41,603,432	136,757,459	151,283,539	38,867,938	44,992,025	530,216,747
LIABILITIES							
Financial liabilities at fair value through profit or loss	90,962	6,030	—	110,152	—	797,927	1,005,071
Due to banks and the Central Bank of the Russian Federation	32,611,379	12,894,919	10,386,264	3,447,489	—	498,655	59,838,706
Customer accounts	84,922,948	46,613,916	107,835,260	23,480,126	8,513	50,515,578	313,376,341
Bonds and Eurobonds	80,200	1,835,232	8,002,768	24,493,492	—	—	34,411,692
Promissory notes issued	2,681,455	4,327,092	24,395,126	1,760,952	3,472	—	33,168,097
Deferred income tax liabilities	—	—	—	—	—	1,182,284	1,182,284
Other liabilities	—	—	—	—	—	2,209,305	2,209,305
Subordinated debt	—	—	4,063,486	15,001,736	8,025,361	—	27,090,583
TOTAL LIABILITIES	120,386,944	65,677,189	154,682,904	68,293,947	8,037,346	55,203,749	472,282,079
Interest gap based on projected repricing dates	(3,674,590)	(24,073,757)	(17,925,445)	82,989,592	30,830,592	—	—
Interest based derivative financial instruments based on projected repricing dates	2,615,811	405,674	(201,577)	(2,819,909)	—	—	—
Interest gap, based on projected repricing dates including interest-based derivative financial instruments	(1,058,779)	(23,668,083)	(18,127,022)	80,169,683	30,830,592	—	—

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

	<u>Up to 1 month</u>	<u>1 month to 3 months</u>	<u>3 months to 1 year</u>	<u>1 year to 5 years</u>	<u>Over 5 years</u>	<u>Financial assets and liabilities not sensitive to interest rate fluctuations</u>	<u>31 December 2009 Total</u>
ASSETS							
Cash and balances with the Central Bank of the Russian Federation	10,119,691	—	—	—	—	3,955,688	14,075,379
Minimum reserve deposits with the Central Bank of the Russian Federation	—	—	—	—	—	1,192,375	1,192,375
Precious metals	4,615,197	—	—	—	—	—	4,615,197
Financial assets at fair value through profit or loss	1,631,622	4,680,261	14,399,602	30,841,855	3,271,509	2,841,435	57,666,284
Loans and advances to banks and other financial institutions	24,624,435	331,088	1,101,195	—	—	758,020	26,814,738
Loans to customers	32,011,645	13,694,676	50,522,670	52,337,465	14,083,277	—	162,649,733
Investments available-for-sale	—	—	—	116,654	—	57,153	173,807
Investments held to maturity	611,231	—	—	726,308	24,979	—	1,362,518
Property, plant and equipment	—	—	—	—	—	5,935,544	5,935,544
Intangible assets	—	—	—	—	—	85,092	85,092
Other assets	—	—	—	—	—	2,540,477	2,540,477
TOTAL ASSETS	<u>73,613,821</u>	<u>18,706,025</u>	<u>66,023,467</u>	<u>84,022,282</u>	<u>17,379,765</u>	<u>17,365,784</u>	<u>277,111,144</u>
LIABILITIES							
Financial liabilities at fair value through profit or loss	50,336	10,233	—	—	—	443,308	503,877
Due to banks and the Central Bank of the Russian Federation	18,956,175	9,018,115	19,345,794	781,149	—	295,637	48,396,870
Customer accounts	33,272,079	25,262,529	46,039,511	9,615,510	—	20,014,255	134,203,884
Bonds and Eurobonds	361,652	9,242,409	9,334,548	6,010,934	—	—	24,949,543
Promissory notes issued	376,551	797,825	3,936,961	2,361,028	28,808	—	7,501,173
Deferred income tax liabilities	—	—	—	—	—	911,200	911,200
Other liabilities	—	—	—	—	—	1,368,278	1,368,278
Subordinated debt	75,477	—	—	3,835,392	18,753,247	—	22,664,116
TOTAL LIABILITIES	<u>53,092,270</u>	<u>44,331,111</u>	<u>78,656,814</u>	<u>22,604,013</u>	<u>18,782,055</u>	<u>23,032,678</u>	<u>240,498,941</u>
Interest gap based on projected repricing dates	<u>20,521,551</u>	<u>(25,625,086)</u>	<u>(12,633,347)</u>	<u>61,418,269</u>	<u>(1,402,290)</u>		
Interest based derivative financial instruments based on projected repricing dates	3,513,997	—	—	(3,513,997)	—		
Interest gap, based on projected repricing dates including interest-based derivative financial instruments	<u>24,035,548</u>	<u>(25,625,086)</u>	<u>(12,633,347)</u>	<u>57,904,272</u>	<u>(1,402,290)</u>		

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Financial assets not sensible to interest rate fluctuations	31 December 2008 Total
ASSETS							
Cash and balances with the Central Bank of the Russian Federation . . .	7,825,227	—	—	—	—	3,196,146	11,021,373
Minimum reserve deposits with the Central Bank of the Russian Federation	—	—	—	—	—	237,976	237,976
Precious metals	3,309,468	—	—	—	—	—	3,309,468
Financial assets at fair value through profit or loss	185,135	7,069,202	9,830,256	13,864,995	1,042,241	2,958,081	34,949,910
Loans and advances to banks and other financial institutions	18,171,157	131,600	1,322,118	—	—	2,646,903	22,271,778
Loans to customers	11,196,754	14,216,715	66,885,664	79,375,436	16,046,747	—	187,721,316
Investments available-for-sale	—	—	—	—	—	91,080	91,080
Investments held to maturity	—	511,460	2,093,086	1,211,177	—	—	3,815,723
Property, plant and equipment	—	—	—	—	—	5,163,592	5,163,592
Intangible assets	—	—	—	—	—	34,513	34,513
Other assets	—	—	—	—	—	9,178,469	9,178,469
TOTAL ASSETS	40,687,741	21,928,977	80,131,124	94,451,608	17,088,988	23,506,760	277,795,198
LIABILITIES							
Financial liabilities at fair value through profit or loss	—	—	—	—	—	2,688,050	2,688,050
Due to banks and the Central Bank of the Russian Federation	24,143,660	5,343,390	34,273,799	3,158,691	899,725	477,509	68,296,774
Customer accounts	28,950,352	8,133,856	37,869,823	11,049,683	10,400,000	19,666,876	116,070,590
Bonds and Eurobonds	—	100,334	7,477,687	9,063,776	5,000,000	—	21,641,797
Promissory notes issued	1,037,153	6,786,539	12,383,645	5,091,520	3,829	—	25,302,687
Subordinated debt	—	—	77,611	3,646,047	6,035,661	—	9,759,319
Deferred income tax liabilities	—	—	—	—	—	370,563	370,563
Other liabilities	—	—	—	—	—	1,160,655	1,160,655
TOTAL LIABILITIES	54,131,165	20,364,119	92,082,566	32,009,717	22,339,215	24,363,653	245,290,435
Interest gap based on projected repricing dates	(13,443,425)	1,564,858	(11,951,441)	62,441,891	(5,250,227)		
Interest based derivative financial instruments based on projected repricing dates	—	—	—	—	—		
Interest gap, based on projected repricing dates including interest-based derivative financial instruments	(13,443,425)	1,564,858	(11,951,441)	62,441,891	(5,250,227)		

Sensitivity analysis

The first portion of this calculation is based on the assumption that market interest rates will rise (fall) by two percentage points. The sensitivity analysis applied to the profit and equity as a result of potential changes in the market interest rates as described below is for twelve months ended 31 December 2010, 2009 and 2008.

The calculation refers to the immediate effect on income statement of each scenario for the Group's interest rate positions on floating rate instruments.

The second portion is entitled "changes in value" calculates the equivalent effect for debt securities in the trading and available-for-sale category.

	31 December 2010		31 December 2009		31 December 2008	
	Equity	Net profit	Equity	Net profit	Equity	Net profit
Net interest income for the reporting period						
Increased interest rates	+2%	(135,876)	(135,876)	(150,287)	(150,287)	(195,918)
Decreased interest rates	-2%	135,876	135,876	150,287	150,287	195,918
Change in value						
Market interest rate	+2%	(1,915,951)	(1,621,510)	(1,541,222)	(1,540,041)	(355,298)
Market interest rate	-2%	2,176,661	1,843,458	1,741,536	1,740,311	383,576

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

Foreign currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Group's exposure to foreign currency exchange rate risk as at 31 December 2010 is presented in the table below:

	RUB	USD 1 USD = RUB 30.4769	Euro 1 EUR = RUB 40.3331	Gold 1 ounce = RUB 42,980.05	Other	31 December 2010 Total
ASSETS						
Cash and balances with the Central Bank of the Russian Federation	39,006,374	791,054	681,868	—	9,455	40,488,751
Minimum reserve deposits with the Central Bank of the Russian Federation	2,817,306	—	—	—	—	2,817,306
Financial assets at fair value through profit or loss	32,338,612	22,843,984	280,752	54,266	4,426	55,522,040
Loans and advances to banks and other financial institutions	14,173,898	16,497,282	10,525,876	4,542	375,900	41,577,498
Loans to customers	219,304,467	103,572,854	16,284,599	—	139,992	339,301,912
Investments available-for-sale	21,096,179	4,558,630	108,485	—	—	25,763,294
Investments held to maturity	851,707	—	—	—	—	851,707
Other financial assets	1,577,770	14,711	110,976	—	934	1,704,391
TOTAL FINANCIAL ASSETS	331,166,313	148,278,515	27,992,556	58,808	530,707	508,026,899
Precious metals	—	—	—	4,188,941	487,563	4,676,504
Property, plant and equipment	10,976,005	—	—	—	—	10,976,005
Goodwill	597,652	—	—	—	—	597,652
Intangible assets	2,601,513	—	—	—	—	2,601,513
Other non-financial assets	3,149,711	67,522	22,257	38,980	59,704	3,338,174
TOTAL NON-FINANCIAL ASSETS	17,324,881	67,522	22,257	4,227,922	547,266	22,189,848
TOTAL ASSETS	348,491,194	148,346,037	28,014,813	4,286,730	1,077,973	530,216,747
LIABILITIES						
Financial liabilities at fair value through profit or loss	591,955	270,749	125,520	12,250	4,597	1,005,071
Due to banks and the Central Bank of the Russian Federation	17,820,201	20,892,624	20,484,824	582,440	58,617	59,838,706
Customer accounts	266,836,815	27,959,021	14,576,962	3,338,366	665,177	313,376,341
Bonds and Eurobonds	16,678,145	17,733,547	—	—	—	34,411,692
Promissory notes issued	31,164,021	620,637	1,383,439	—	—	33,168,097
Other financial liabilities	1,239,968	12,282	19	—	8	1,252,277
Subordinated debt	9,214,999	17,875,584	—	—	—	27,090,583
TOTAL FINANCIAL LIABILITIES	343,546,104	85,364,444	36,570,764	3,933,056	728,399	470,142,767
Deferred income tax liabilities	1,182,284	—	—	—	—	1,182,284
Other non-financial liabilities	948,254	1,739	6,990	—	45	957,028
TOTAL NON-FINANCIAL LIABILITIES	2,130,538	1,739	6,990	—	45	2,139,312
TOTAL LIABILITIES	345,676,642	85,366,183	36,577,754	3,933,056	728,444	472,282,079
OPEN BALANCE SHEET POSITION	2,814,552	62,979,854	(8,562,941)	353,674	349,529	
Fair value of derivative financial instruments and spot deals						
Payables under forward deals	(49,984,287)	(119,585,397)	(14,341,119)	(3,326,495)	(1,684,910)	(188,922,208)
Receivables under forward deals	105,200,729	56,570,185	22,477,288	3,099,572	1,574,433	188,922,208
Payables under spot deals	(3,830,098)	(5,022,722)	(243,973)	—	(14,168)	(9,110,960)
Receivables under spot deals	4,944,032	3,909,473	243,287	—	14,168	9,110,960
NET POSITION FOR DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT DEALS	56,330,376	(64,128,461)	8,135,484	(226,922)	(110,477)	
TOTAL OPEN POSITION	59,144,928	(1,148,607)	(427,456)	126,751	239,052	
CREDIT CONTINGENT LIABILITIES	126,024,963	18,772,445	10,531,627	—	236,188	

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

	RUB	USD 1 USD = RUB 30.2442	Euro 1 EUR = RUB 43.3883	Gold 1 ounce = RUB 33,389.60	Other	31 December 2009 Total
ASSETS						
Cash and balances with the Central Bank of the Russian Federation	12,807,792	658,452	599,990	—	9,145	14,075,379
Minimum reserve deposits with the Central Bank of the Russian Federation	1,192,375	—	—	—	—	1,192,375
Financial assets at fair value through profit or loss	47,235,638	9,999,980	179,603	19,505	231,558	57,666,284
Loans and advances to banks and other financial institutions	3,448,135	12,713,886	10,517,970	4,193	130,554	26,814,738
Loans to customers	103,394,300	48,733,719	10,282,490	—	239,224	162,649,733
Investments available-for-sale	171,134	1,932	741	—	—	173,807
Investments held to maturity	1,362,518	—	—	—	—	1,362,518
Other financial assets	489,991	6,065	145,937	5,607	295	647,895
TOTAL FINANCIAL ASSETS	170,101,883	72,114,034	21,726,731	29,305	610,776	264,582,729
Precious metals	—	—	—	4,303,021	312,176	4,615,197
Property, plant and equipment	5,935,544	—	—	—	—	5,935,544
Intangible assets	85,092	—	—	—	—	85,092
Other non-financial assets	1,756,300	47,334	88,948	—	—	1,892,582
TOTAL NON-FINANCIAL ASSETS	7,776,936	47,334	88,948	4,303,021	312,176	12,528,415
TOTAL ASSETS	177,878,819	72,161,368	21,815,679	4,332,326	922,952	277,111,144
LIABILITIES						
Financial liabilities at fair value through profit or loss	289,523	135,483	51,841	26,722	308	503,877
Due to banks and the Central Bank of the Russian Federation	18,609,472	14,094,928	14,968,016	619,426	105,028	48,396,870
Customer accounts	94,154,575	24,580,833	12,683,161	2,303,397	481,918	134,203,884
Bonds and Eurobonds	12,838,876	12,110,667	—	—	—	24,949,543
Promissory notes issued	5,246,372	845,882	1,408,919	—	—	7,501,173
Other financial liabilities	612,605	1,130	1,149	—	—	614,884
Subordinated debt	10,965,233	11,698,883	—	—	—	22,664,116
TOTAL FINANCIAL LIABILITIES	142,716,656	63,467,806	29,113,086	2,949,545	587,254	238,834,347
Deferred income tax liabilities	911,200	—	—	—	—	911,200
Other non-financial liabilities	301,291	9,719	442,384	—	—	753,394
TOTAL NON-FINANCIAL LIABILITIES	1,212,491	9,719	442,384	—	—	1,664,594
TOTAL LIABILITIES	143,929,147	63,477,525	29,555,470	2,949,545	587,254	240,498,941
OPEN BALANCE SHEET POSITION	33,949,672	8,683,843	(7,739,791)	1,382,781	335,698	
Fair value of derivative financial instruments and spot deals						
Payables under forward deals	(6,138,553)	(25,169,782)	(4,445,135)	(4,742,984)	(1,069,740)	(41,566,194)
Receivables under forward deals	14,918,175	13,340,702	10,313,635	2,221,124	772,558	41,566,194
Payables under spot deals	(1,852,568)	(415,814)	(34,674)	(159,768)	(133,114)	(2,595,938)
Receivables under spot deals	450,488	1,543,296	21,694	580,460	—	2,595,938
NET POSITION FOR DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT DEALS						
	7,377,543	(10,701,598)	5,855,520	(2,101,168)	(430,296)	
TOTAL OPEN POSITION	41,327,214	(2,017,755)	(1,884,271)	(718,387)	(94,598)	
CREDIT CONTINGENT LIABILITIES ...	30,670,565	8,316,935	13,120,535	—	—	

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

	RUB	USD 1 USD = RUB 29.3804	Euro 1 EUR = RUB 41.4411	Gold 1 ounce = RUB 25,414.05	Other	31 December 2008 Total
ASSETS						
Cash and balances with the Central Bank of the Russian Federation	10,358,669	340,523	320,568	—	1,613	11,021,373
Minimum reserve deposits with the Central Bank of the Russian Federation	237,976	—	—	—	—	237,976
Financial assets at fair value through profit or loss	25,889,487	8,949,623	35,583	24,430	50,787	34,949,910
Loans and advances to banks and other financial institutions	8,761,836	11,770,570	1,259,261	412,293	67,818	22,271,778
Loans to customers	142,083,076	36,576,473	8,400,216	—	661,551	187,721,316
Investments available-for-sale	88,495	1,877	708	—	—	91,080
Investments held to maturity	3,815,723	—	—	—	—	3,815,723
Other financial assets	5,823,959	12,812	111,764	—	3,725	5,952,260
TOTAL FINANCIAL ASSETS	197,059,221	57,651,878	10,128,100	436,723	785,494	266,061,416
Precious metals	—	—	—	3,158,452	151,016	3,309,468
Property, plant and equipment	5,163,592	—	—	—	—	5,163,592
Intangible assets	34,513	—	—	—	—	34,513
Other non-financial assets	3,226,209	—	—	—	—	3,226,209
TOTAL NON-FINANCIAL ASSETS	8,424,314	—	—	3,158,452	151,016	11,733,782
TOTAL ASSETS	205,483,535	57,651,878	10,128,100	3,595,175	936,510	277,795,198
LIABILITIES						
Financial liabilities at fair value through profit or loss	23,028	2,594,628	34,295	35,449	650	2,688,050
Due to banks and the Central Bank of the Russian Federation	43,139,115	17,023,591	7,349,995	279,252	504,821	68,296,774
Customer accounts	85,791,332	18,700,056	10,390,592	985,436	203,174	116,070,590
Bonds and Eurobonds	11,125,520	10,516,277	—	—	—	21,641,797
Promissory notes issued	12,850,899	12,392,685	59,103	—	—	25,302,687
Other financial liabilities	441,978	280	1,278	—	—	443,536
Subordinated debt	6,035,661	3,723,658	—	—	—	9,759,319
TOTAL FINANCIAL LIABILITIES	159,407,533	64,951,175	17,835,263	1,300,137	708,645	244,202,753
Deferred income tax liabilities	370,563	—	—	—	—	370,563
Other non-financial liabilities	717,119	—	—	—	—	717,119
TOTAL NON-FINANCIAL LIABILITIES ..	1,087,682	—	—	—	—	1,087,682
TOTAL LIABILITIES	160,495,215	64,951,175	17,835,263	1,300,137	708,645	245,290,435
OPEN BALANCE SHEET POSITION	44,988,320	(7,299,297)	(7,707,163)	2,295,038	227,865	
Fair value of derivative financial instruments and spot deals						
Payables under forward deals	(31,016,251)	(28,585,655)	(12,427,018)	(3,187,054)	(373,273)	(75,589,251)
Receivables under forward deals	28,605,027	37,137,392	8,636,573	739,568	470,691	75,589,251
Payables under spot deals	(3,672,550)	(17,991,868)	(8,108,600)	(1,319,624)	(433,217)	(31,525,859)
Receivables under spot deals	—	13,533,991	15,424,663	2,458,809	108,396	31,525,859
NET POSITION FOR DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT DEALS						
(6,083,774)	4,093,860	3,525,618	(1,308,301)	(227,403)		
TOTAL OPEN POSITION	38,904,546	(3,205,437)	(4,181,545)	986,737	462	
CREDIT CONTINGENT LIABILITIES	29,386,448	9,380,731	16,664,948	—	26,714	

The Group's principal cash flows (revenues, operating expenses) are largely generated in Russian Roubles. As a result, future movements in the exchange rate between the Russian Rouble and U.S. dollar/Euro will affect the carrying value of the Group's monetary assets and liabilities. Such changes may also affect the Group's ability to invest in non-monetary assets as measured in U.S. dollars in these financial statements.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»
SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)

Operational risk

Operational risk is defined as the risk of losses resulting from inappropriate management and control procedures, fraud, poor business decisions, system errors relating to employee mistakes and abuse by employees of their positions, technical failures, settlement errors, natural disasters and misuse of the Group's property.

The Management Board also generally oversees the implementation of risk management processes, including relevant internal policies, adopts internal regulations on risk management, determines limits for monitoring operational risks and allocates duties among various bodies responsible for operational risk management.

The Operational Risk Department monitors and controls operational risks and reports to the Supervisory Board. Regular monitoring activities allow to detect in time and to correct deficiencies in the policies and procedures designed to manage operational risk, which can reduce the potential frequency and/or severity of a loss event. In order to minimise operational risk, the Group strives to continuous improvement of its business processes and organisation structure as well as incentivise the staff.

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. The liquidity and cash flow risks arise in the case of maturity gap.

The liquidity risk is defined as a mismatch of asset and liability maturity periods. The liquidity risk is managed by the Financial Committee of the Group.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched due to the variety of Group's lending and funding operations. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates. Currently, a considerable part of customer deposits are repayable on demand. However, the fact that these deposits are diversified by the number and type of customers and the Group's previous experience indicate that these deposits are a relatively stable and long-term source of finance for the Group.

The above data on term deposits of individuals are based on the terms of contracts. However, individuals may withdraw deposits at any time.

Long-term credits and overdraft facilities are generally not available in Russia. However, in the Russian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above.

While financial assets at fair value through profit or loss are shown as less than one month, realizing such assets upon demand is dependent upon financial market conditions.

Substantially all of the Group's interest bearing assets and interest bearing liabilities are at fixed rates of interest.

Interest bearing assets and liabilities generally have relatively short maturities and interest rates are reprised only at maturity.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Finance Committee of the Bank sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

The following table presents an analysis of liquidity risk based on carrying value of assets and liabilities.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2010 Total
ASSETS							
Cash and balances with the Central Bank of the Russian Federation	40,488,751	—	—	—	—	—	40,488,751
Minimum reserve deposits with the Central Bank of the Russian Federation	—	—	—	—	—	2,817,306	2,817,306
Precious metals	4,676,504	—	—	—	—	—	4,676,504
Financial assets at fair value through profit or loss	53,166,305	837,010	1,124,948	393,777	—	—	55,522,040
Loans and advances to banks and other financial institutions	28,736,938	3,968,581	6,780,934	2,091,045	—	—	41,577,498
Loans to customers	48,119,879	28,773,846	107,829,847	126,898,664	27,679,676	—	339,301,912
Investments available-for-sale	1,845,379	6,958,619	3,938,336	9,734,425	3,286,535	—	25,763,294
Investments held to maturity	—	—	—	826,695	25,012	—	851,707
Property, plant and equipment	—	—	—	—	—	10,976,005	10,976,005
Goodwill	—	—	—	—	—	597,652	597,652
Intangible assets	—	—	—	—	—	2,601,513	2,601,513
Other assets	1,792,457	302,565	2,714,235	121,563	97,954	13,791	5,042,565
TOTAL ASSETS	178,826,213	40,840,621	122,388,300	140,066,169	31,089,177	17,006,267	530,216,747
LIABILITIES							
Financial liabilities at fair value through profit or loss	289,056	119,935	422,274	173,806	—	—	1,005,071
Due to banks and the Central Bank of the Russian Federation	25,613,302	7,232,756	15,237,053	8,428,139	3,327,456	—	59,838,706
Customer accounts	135,438,417	46,613,916	109,544,752	21,770,743	8,513	—	313,376,341
Bonds and Eurobonds	80,200	1,835,232	1,873,936	25,911,181	4,711,143	—	34,411,692
Promissory notes issued	2,681,455	4,327,092	24,395,126	1,760,952	3,472	—	33,168,097
Deferred income tax liabilities	—	—	—	—	—	1,182,284	1,182,284
Other liabilities	786,592	258,365	887,853	273,188	3,307	—	2,209,305
Subordinated debt	—	—	272,065	11,748,514	15,070,004	—	27,090,583
TOTAL LIABILITIES	164,889,022	60,387,296	152,633,059	70,066,523	23,123,895	1,182,284	472,282,079
Liquidity gap	13,937,191	(19,546,675)	(30,244,759)	69,999,646	7,965,282	—	—

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2009 Total
ASSETS							
Cash and balances with the Central Bank of the Russian Federation	14,075,379	—	—	—	—	—	14,075,379
Minimum reserve deposits with the Central Bank of the Russian Federation	—	—	—	—	—	1,192,375	1,192,375
Precious metals	4,615,197	—	—	—	—	—	4,615,197
Financial assets at fair value through profit or loss	57,204,961	36,199	425,124	—	—	—	57,666,284
Loans and advances to banks and other financial institutions	25,382,455	331,088	1,101,195	—	—	—	26,814,738
Loans to customers	32,011,645	13,694,676	50,522,670	52,337,465	14,083,277	—	162,649,733
Investments available-for-sale	—	—	—	173,807	—	—	173,807
Investments held to maturity	611,231	—	—	726,308	24,979	—	1,362,518
Property, plant and equipment	—	—	—	—	—	5,935,542	5,935,542
Intangible assets	—	—	—	—	—	85,094	85,094
Other assets	310,461	2,010,697	118,953	685	99,681	—	2,540,477
TOTAL ASSETS	134,211,329	16,072,660	52,167,942	53,238,265	14,207,937	7,213,011	277,111,144
LIABILITIES							
Financial liabilities at fair value through profit or loss	166,285	11,270	287,583	38,739	—	—	503,877
Due to banks and the Central Bank of the Russian Federation	17,628,749	5,945,064	17,090,561	4,393,997	3,338,499	—	48,396,870
Customer accounts	53,286,334	25,262,529	46,039,511	9,615,510	—	—	134,203,884
Bonds and Eurobonds	165,210	6,438,851	22,534	18,322,948	—	—	24,949,543
Promissory notes issued	376,553	797,823	3,936,961	2,361,028	28,808	—	7,501,173
Deferred income tax liabilities	—	—	—	—	—	911,200	911,200
Other liabilities	219,936	211,560	488,776	157,523	290,483	—	1,368,278
Subordinated debt	75,477	—	—	—	22,588,639	—	22,664,116
TOTAL LIABILITIES	71,918,544	38,667,097	67,865,926	34,889,745	26,246,429	911,200	240,498,941
Liquidity gap	62,292,785	(22,594,437)	(15,697,984)	18,348,520	(12,038,492)	—	—

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

	<u>Up to 1 month</u>	<u>1 month to 3 months</u>	<u>3 months to 1 year</u>	<u>1 year to 5 years</u>	<u>Over 5 years</u>	<u>Maturity undefined</u>	<u>31 December 2008 Total</u>
ASSETS							
Cash and balances with the Central Bank of the Russian Federation	11,021,373	—	—	—	—	—	11,021,373
Minimum reserve deposits with the Central Bank of the Russian Federation . . .	—	—	—	—	—	237,976	237,976
Precious metals	3,309,468	—	—	—	—	—	3,309,468
Financial assets at fair value through profit or loss	33,382,013	299,075	1,268,822	—	—	—	34,949,910
Loans and advances to banks and other financial institutions	20,818,060	131,600	1,322,118	—	—	—	22,271,778
Loans to customers	11,196,754	14,216,715	66,885,664	79,375,436	16,046,747	—	187,721,316
Investments available-for-sale	—	—	—	91,080	—	—	91,080
Investments held to maturity	—	511,460	2,093,086	1,211,177	—	—	3,815,723
Property, plant and equipment	—	—	—	—	—	5,163,592	5,163,592
Intangible assets	—	—	—	—	—	34,513	34,513
Other assets	6,198,880	153,666	2,699,820	47,148	—	78,955	9,178,469
TOTAL ASSETS	85,926,548	15,312,516	74,269,510	80,724,841	16,046,747	5,515,036	277,795,198
LIABILITIES							
Financial liabilities at fair value through profit or loss	1,153,828	325,199	1,209,023	—	—	—	2,688,050
Due to banks and the Central Bank of the Russian Federation . . .	24,617,551	5,339,142	34,370,786	3,069,570	899,725	—	68,296,774
Customer accounts	48,515,163	8,135,245	37,886,825	11,133,357	10,400,000	—	116,070,590
Bonds and Eurobonds . .	—	303,552	7,477,687	13,860,558	—	—	21,641,797
Promissory notes issued	1,037,153	6,786,539	12,383,645	5,091,520	3,829	—	25,302,687
Deferred income tax liabilities	—	—	—	—	—	370,563	370,563
Other liabilities	206,087	689,891	264,563	114	—	—	1,160,655
Subordinated debt	—	—	77,611	—	9,681,708	—	9,759,319
TOTAL LIABILITIES	75,529,782	21,579,569	93,670,140	33,155,119	20,985,262	370,563	245,290,435
Liquidity gap	10,396,766	(6,267,053)	(19,400,630)	47,569,722	(4,938,515)	—	—

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

The following tables show undiscounted cash flows (the gross outflow) of the Group's financial liabilities and off-balance sheet commitments on the basis of their earliest possible contractual maturity. The Group's expected cash flows on these financial liabilities and off-balance sheet commitments may vary significantly from this analysis.

The gross undiscounted cash flows of the Group as at 31 December 2010, 2009 and 2008 were as follows:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2010 Total
LIABILITIES							
Financial liabilities at fair value through profit or loss	33,161	3,163	33,686	391,844	—	—	461,854
Due to banks and the Central Bank of the Russian Federation	14,441,553	7,082,639	5,375,984	4,210,767	—	—	31,110,943
Customer accounts	52,030,918	47,600,885	113,042,778	23,278,606	11,753	—	235,964,940
Bonds and Eurobonds	82,478	1,913,432	6,534,566	48,163,984	9,697,286	—	66,391,746
Promissory notes issued	2,657,399	4,349,121	25,404,415	1,962,365	5,014	—	34,378,314
Subordinated debt	16,118	770,236	2,191,309	21,033,271	19,368,464	—	43,379,399
Total interest bearing liabilities at fixed rates	69,261,626	61,719,476	152,582,739	99,040,837	29,082,517	—	411,687,195
Due to banks and the Central Bank of the Russian Federation	231,263	323,126	10,361,746	5,736,385	3,500,472	—	20,152,992
Total interest bearing liabilities at variable rates	231,263	323,126	10,361,746	5,736,385	3,500,472	—	20,152,992
Total interest bearing liabilities	69,492,889	62,042,602	162,944,485	104,777,222	32,582,989	—	431,840,187
Financial liabilities at fair value through profit or loss	223,148	119,963	434,420	—	—	—	777,531
Due to banks and the Central Bank of the Russian Federation	10,986,972	—	—	—	—	—	10,986,972
Customer accounts	83,752,640	—	—	—	—	—	83,752,644
Promissory notes issued	26,918	6,885	2,155,024	290,376	—	—	2,479,203
Other liabilities	341,643	145,546	757,431	1,772	1,998	—	1,248,890
TOTAL FINANCIAL LIABILITIES	164,824,210	62,314,996	166,291,360	105,069,370	32,584,987	—	531,084,922
Contingent liabilities and other commitments	155,565,223	—	—	—	—	—	155,565,223

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2009 Total
LIABILITIES							
Financial liabilities at fair value through profit or loss	21,830	4,293	24,172	146,440	—	—	196,735
Due to banks and the Central Bank of the Russian Federation	7,671,357	7,876,842	19,992,099	855,333	—	—	36,395,631
Customer accounts	28,923,226	25,523,550	53,427,070	13,292,081	—	—	121,165,927
Bonds and Eurobonds	373,950	6,520,835	1,396,460	24,196,442	—	—	32,487,687
Promissory notes issued	364,696	810,810	4,092,616	324,120	43,107	—	5,635,349
Subordinated debt	162,622	325,244	1,859,304	7,580,235	35,327,494	—	45,254,899
Total interest bearing liabilities at fixed rates	37,495,851	41,057,281	80,767,549	46,248,211	35,370,601	—	241,136,228
Due to banks and the Central Bank of the Russian Federation	326,603	258,613	1,725,770	3,941,912	3,503,936	—	9,756,834
Total interest bearing liabilities at variable rates	326,603	258,613	1,725,770	3,941,912	3,503,936	—	9,756,834
Total interest bearing liabilities	37,844,284	41,320,187	82,517,491	50,336,563	38,874,537	—	250,893,062
Financial liabilities at fair value through profit or loss	144,455	11,270	287,583	—	—	—	443,308
Due to banks and the Central Bank of the Russian Federation	10,848,215	—	—	—	—	—	10,848,215
Customer accounts	25,301,446	72,282	370,232	30	—	—	25,743,990
Promissory notes issued	12,930	570	—	2,116,396	—	—	2,129,896
Other liabilities	142,756	105,324	209,286	157,518	—	—	614,884
TOTAL FINANCIAL LIABILITIES	74,294,086	41,509,633	83,384,592	52,610,507	38,874,537	—	290,673,355
Contingent liabilities and other commitments	52,108,034	—	—	—	—	—	52,108,034

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2008 Total (RUB thousand)
LIABILITIES							
Due to banks and the Central Bank of the Russian Federation	22,334,551	5,375,042	26,221,404	956,707	28,896	—	54,916,600
Customer accounts	31,597,627	8,190,756	38,433,726	12,777,351	10,457,414	—	101,456,874
Bonds and Eurobonds	—	380,112	8,431,186	16,719,020	—	—	25,530,318
Promissory notes issued	1,088,701	6,882,684	12,563,016	2,973,789	3,839	—	23,512,028
Subordinated debt	52,204	104,408	836,611	3,034,759	15,506,075	—	19,534,057
Total interest bearing liabilities at fixed rates	55,073,083	20,933,002	86,485,943	36,461,626	25,996,224	—	224,949,878
Due to banks and the Central Bank of the Russian Federation	290,729	420,595	8,534,284	2,690,811	979,237	—	12,915,656
Total interest bearing liabilities at variable rates	290,729	420,595	8,534,284	2,690,811	979,237	—	12,915,656
Total interest bearing liabilities	55,363,812	21,353,597	95,020,227	39,152,437	26,975,461	—	237,865,534
Financial liabilities at fair value through profit or loss	1,153,828	325,199	1,209,023	—	—	—	2,688,050
Due to banks and the Central Bank of the Russian Federation	2,329,873	—	—	—	—	—	2,329,873
Customer accounts	23,028,487	1,389	17,002	83,674	—	—	23,130,552
Promissory notes issued	11,549	31	340	2,116,396	—	—	2,128,316
Other financial liabilities	177,496	1,477	264,563	—	—	—	443,536
TOTAL FINANCIAL LIABILITIES	82,065,045	21,681,693	96,511,155	41,352,507	26,975,461	—	268,585,861
Contingent liabilities and other commitments	55,458,841	—	—	—	—	—	55,458,841

38. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 “Related party disclosures”, represent:

- Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Group (this includes holding companies, subsidiaries and fellow subsidiaries);
- Associates—enterprises in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- Individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group;
- Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group (also non-executive directors and close members of the families of such individuals);
- Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group;
- Parties with joint control over the Group;
- Joint ventures in which the Group is a venture; and
- Post-employment benefit plans for the benefit of employees of the Group, or of any entity that is a related party to the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

The Group had the following transactions outstanding as at 31 December 2010, 2009 and 2008 with related parties:

	31 December 2010			31 December 2009			31 December 2008		
	Related party transactions	Average effective interest %	Total category as per financial statements caption	Related party transactions	Average effective interest %	Total category as per financial statements caption	Related party transactions	Average effective interest %	Total category as per financial statements caption
Financial assets at fair value through profit or loss:	2,902,399		55,522,040	3,407,390		57,666,284	4,941,974		34,949,910
Debt securities									
—companies controlled by shareholders	2,703,217	7.23%		3,042,935	15.61%		4,939,587	11.90%	
Equity securities and derivative financial instruments									
—companies controlled by shareholders	199,182			364,455	—		2,388		
Loans and advances to banks and other financial institutions:	17,209		41,577,498	35,357		26,814,738	4,860,531		22,271,778
Loans to banks and other financial institutions									
—companies controlled by shareholders	—			9,073	0.12%		4,842,274	8.96%	
Correspondent accounts with banks									
—companies controlled by shareholders	17,209			26,284	—		18,257		
Loans to customers, gross:	27,244,404		354,859,606	4,338,480		179,676,692	8,411		199,417,623
—entities under common control	9,521,572	10.30%		—			—		
—companies controlled by shareholders	17,722,833	10.06%		4,338,480	19.16%		8,411	13.83%	
Allowance for impairment of loans to customers	(82,715)		(15,557,694)	(11,228)		(17,026,959)	(491)		(11,696,307)
—companies controlled by shareholders	(82,715)			(11,228)			(491)		
Financial liabilities at fair value through profit or loss	14,705		1,005,071	18,822		503,877	193,797		2,688,050
—companies controlled by shareholders	14,705			18,822			193,797		
Due to banks and the Central Bank of the Russian Federation:	1,690,340		59,838,706	3,249,618		48,396,870	3,617,636		68,296,774
Time deposits from banks									
—companies controlled by shareholders	1,526,622	4.16%		3,242,851	7.72%		3,552,397	6.13%	
Correspondent accounts of other banks									
—companies controlled by shareholders	163,718			6,767			65,238		
Customer accounts:	13,016,022		313,376,341	3,038,327		134,203,884	5,392,095		116,070,590
Time deposits									
—shareholders of the Group	1,226,508	8.21%		505,078	9.39%		4,953,753	9.40%	
—entities under common control	42,779	5.79%		73,045	12.25%				
—companies controlled by shareholders	8,022,248	7.45%		1,094,019	10.32%		10	4.07%	
Repayable on demand									
—shareholders of the Group	15,553			50,530			57,442		
—entities under common control	53,524			10,916			335,216		
—companies controlled by shareholders	3,655,410			1,304,739			45,692		
Other liabilities	34,451		2,209,305	24,145		1,368,278	86		1,160,655
—entities under common control	3			—			—		
—key management personnel	22,457			2,626			—		
—companies controlled by shareholders	11,992			21,518			86		
Subordinated debt	2,586,115		27,090,583	13,928,725		22,664,116	6,035,661		9,759,319
—shareholders of the Group	1,500,000	6.74%		7,863,492	7.94%		5,000,000	7.42%	
—companies controlled by shareholders	1,086,115	6.34%		6,065,233	7.43%		1,035,661	9.52%	
Commitments on loans and unused credit lines	9,004,586		74,330,453	3,683,565		19,719,747	1,589		18,866,512
—shareholders of the Group	300			—			—		
—companies controlled by shareholders	9,004,286			3,683,565			1,589		
Guarantees issued and similar commitments	409,071		73,608,719	371,644		25,192,196	25,741		26,526,384
—companies controlled by shareholders	409,071			371,644			25,741		

OPEN JOINT-STOCK COMPANY «NOMOS-BANK»

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010, 2009 AND 2008
(in thousands of Russian Roubles)**

	Year ended 31 December 2010 (RUB thousand)		Year ended 31 December 2009 (RUB thousand)		Year ended 31 December 2008 (RUB thousand)	
	Key management personnel	Total for the Group	Key management personnel	Total for the Group	Key management personnel	Total for the Group
Key management personnel compensation:						
—salary	84,638		69,524		129,018	
—bonuses	126,730		8,610		98,982	
—contribution to non-government pension fund ...	104		72		240	
	212,806		78,206		228,240	
		4,439,964		3,120,286		2,793,228
	Year ended 31 December 2010 (RUB thousand)		Year ended 31 December 2009 (RUB thousand)		Year ended 31 December 2008 (RUB thousand)	
	Related party transactions	Total for the Group	Related party transactions	Total for the Group	Related party transactions	Total for the Group
Interest income		29,350,357		36,424,747		26,331,824
—shareholders of the Group			—		2,172	
—entities under common control			—		103,143	
—companies controlled by shareholders	1,162,638		1,724,772		595,211	
Interest expense		(14,988,622)		(18,905,058)		(13,136,565)
—shareholders of the Group	(413,745)		(789,672)		(816,946)	
—entities under common control	(6,471)		(805)		(5,240)	
—companies controlled by shareholders	(647,027)		(901,038)		(483,723)	
Provision for impairment losses on interest bearing assets		(4,148,455)		(12,048,082)		(5,274,833)
—entities under common control	—		—		(665)	
—companies controlled by shareholders	(71,487)		(10,737)		265,212	
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss		1,988,041		3,736,351		(571,783)
—shareholders of the Group	—		—		(93,063)	
—entities under common control	—		—		333,784	
—companies controlled by shareholders	325,848		1,077,864		224,679	
Net gain on foreign exchange operations		624,769		1,283,315		673,422
—shareholders of the Group	(84,142)		65,019		(1,038,865)	
—companies controlled by shareholders	258,540		(423,509)		(273,963)	
Fees and commission income		2,484,686		2,079,592		1,887,307
—shareholders of the Group	281		1,204		470	
—entities under common control	344		226		280	
—companies controlled by shareholders	90,808		92,661		109,518	
Fees and commission expense		(368,383)		(326,790)		(280,940)
—entities under common control	(20,400)		—		—	
—companies controlled by shareholders	(16,242)		(79)		(12,855)	
Other income		821,563		435,583		269,177
—shareholders of the Group	—		227		3,711	
—entities under common control	1,721		1,721		17,261	
—companies controlled by shareholders	4,521		—		—	
Operating expenses		(8,017,786)		(6,368,900)		(5,480,029)
—shareholders of the Group			—		(180)	
—entities under common control	(3,163)		(1,647)		(31,898)	
—key management personnel	(212,806)		(78,206)		(228,240)	
—companies controlled by shareholders	(725)		(11)		(769)	

39. SUBSEQUENT EVENTS

In January 2011 the Group subsequently repurchased the remaining 20% of preference shares (2,420,000 items).

In March 2011 the Group acquired a controlling stake of the LLC “Rapida”. The company has been licensed by the Central Bank of the Russian Federation to arrange and perform payments of individuals and legal entities.

**KHANTY-MANSIYSK BANK
OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK)
GROUP**

**Consolidated Financial Statements
For the Year Ended December 31, 2010**

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

TABLE OF CONTENTS

	<u>Page</u>
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010	F-114
INDEPENDENT AUDITORS' REPORT	F-115
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010:	
Consolidated income statement	F-117
Consolidated statement of comprehensive income	F-118
Consolidated statement of financial position	F-119
Consolidated statement of changes in equity	F-120
Consolidated statement of cash flows	F-121-F-122
Notes to the consolidated financial statements	F-123-F-208

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND
APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Management is responsible for the preparation of the consolidated financial statements that presents fairly the financial position of Open Joint Stock Company "Khanty-Mansiysk Bank" (the "Bank") and its subsidiaries (the "Group") as at December 31, 2010 and the consolidated results of its operations, comprehensive income, cash flows and changes in shareholders' equity for the years then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Stating whether IFRS has been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended December 31, 2010 was authorized for issue by the Bank's Management Board on March 15, 2011.

On behalf of the Management Board:



**President, Chairman of the Management Board
D.A. Mizgulin**

March 15, 2011



**Chief Accountant
V.I. Marinina**

March 15, 2011

INDEPENDENT AUDITORS' REPORT

To: Shareholders and the Board of Directors of Open Joint Stock Company "Khanty-Mansiysk Bank" (the "Bank"):

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Khanty-Mansiysk Bank" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2010 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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 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 about whether the financial statements are free from material misstatement.

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

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

Opinion

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

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Other Matter

The consolidated financial statements of the Group for the year ended December 31, 2009, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements dated June 3, 2010.

Deloitte & Touche

20 March 2011

Moscow

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

	Notes	Year ended December 31, 2010	Year ended December 31, 2009
Interest income	7,34	14,670,739	14,193,622
Interest expense	7,34	(8,586,660)	(8,913,860)
NET INTEREST INCOME		6,084,079	5,279,762
Allowance for impairment losses on interest bearing assets	20,21,34	(274,796)	(3,159,585)
NET INTEREST INCOME AFTER ALLOWANCE FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		5,809,283	2,120,177
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss:	8,34	1,057,625	824,035
Securities		136,948	634,556
Precious metals derivatives		1,036,509	559,145
Foreign exchange derivatives		(76,124)	(472,281)
Other derivatives		(39,708)	102,615
Net gain on foreign exchange operations	9,34	646,077	1,105,315
Net loss on precious metals transactions	10	(1,048,838)	(472,607)
Net commission income		1,753,715	1,420,558
Fee and commission income	11,34	2,207,392	1,634,053
Fee and commission expense	11,34	(453,677)	(213,495)
Net gain/(loss) on investments available-for-sale	34	705,309	(82,208)
Loss from an associate	34	(139,901)	(2,422)
Gain from revaluation of interest in an associate	34	18,829	—
Bargain purchase gain recognized	5	176,518	—
Allowance for impairment losses on other assets and credit related commitments	24,30,34	(426,407)	(92,168)
Gain on disposal of loans	21,34	408,940	—
Revaluation of investment property	24	(218,434)	—
Recovery/(loss) on loans issued at below market rates	34	53,545	(103,643)
Other income	12,34	100,966	54,648
NET NON-INTEREST INCOME		3,087,944	2,651,508
OPERATING INCOME		8,897,227	4,771,685
OPERATING EXPENSES	13,34	(5,117,037)	(3,960,331)
OPERATING PROFIT BEFORE TAX		3,780,190	811,354
Income tax expense	14	(760,689)	(215,802)
NET PROFIT		3,019,501	595,552
Attributable to:			
Owners of the parent		3,074,461	595,552
Non-controlling interest	6	(54,960)	—


The selected notes on pages 10-96 form an integral part of the consolidated financial statements.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2010**
(in thousands of Russian Rubles)

	Year ended December 31, 2010	Year ended December 31, 2009
NET PROFIT	<u>3,019,501</u>	<u>595,552</u>
OTHER COMPREHENSIVE INCOME		
Revaluation of property, plant and equipment	(158,385)	514,109
Deferred tax relating to revaluation of property, plant and equipment	31,677	(102,822)
Financial assets available-for-sale:		
Net gain for the period	190,548	2,525,529
Less: Reclassification adjustments relating to amounts recognized in the income statement	(228,554)	1,896,555
Deferred income tax effect	7,601	(884,417)
Other components of comprehensive income of an associate	(985)	985
Deferred tax relating to other comprehensive income of an associate	197	(197)
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX	<u>(157,901)</u>	<u>3,949,742</u>
TOTAL COMPREHENSIVE INCOME	<u>2,861,600</u>	<u>4,545,294</u>
Attributable to:		
Owners of the parent	2,917,098	4,545,294
Non-controlling interest	(55,498)	—

On behalf of the Management Board:



**President, Chairman of the Management Board
D.A. Mizgulin**

March 15, 2011



**Chief Accountant
V.I. Marinina**

March 15, 2011

The selected notes on pages 10-96 form an integral part of the consolidated financial statements.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2010
(in thousands of Russian Rubles)**

	Notes	December 31, 2010	December 31, 2009
ASSETS			
Cash and balances with the Central Bank of the Russian Federation	15	8,518,339	9,012,489
Minimum reserve deposit with the Central Bank of the Russian Federation	16	951,257	636,078
Precious metals	17	15,923	16,957
Loans and advances to banks and other financial institutions	20,34	22,221,493	13,337,217
Financial assets at fair value through profit or loss	18,19	2,732,652	2,675,561
Loans to customers	21,34	100,832,992	80,005,001
Investments available-for-sale	22,34	24,460,940	19,603,966
Property, plant and equipment and intangible assets	23	5,037,390	4,710,058
Deferred income tax assets	14	13,791	60,136
Investments in associates	34	—	202,419
Other assets	24,34	3,485,127	563,843
TOTAL ASSETS		<u>168,269,904</u>	<u>130,823,725</u>
LIABILITIES AND EQUITY			
LIABILITIES:			
Financial liabilities at fair value through profit or loss	25	529,956	299,157
Due to banks and the Central Bank of the Russian Federation	26,34	14,883,504	24,727,999
Customer accounts	27,34	101,247,584	64,870,183
Securities issued	28,34	17,522,015	13,065,017
Bonds	29,34	6,043,381	3,060,622
Deferred income tax liabilities	14	201,310	—
Other liabilities	30,34	841,176	331,971
Subordinated debt and Eurobonds	31,34	5,288,300	5,692,102
TOTAL LIABILITIES		<u>146,557,226</u>	<u>112,047,051</u>
EQUITY:			
Equity attributable to owners of the parent			
Share capital	32	11,282,369	11,282,369
Share premium	32	4,550,504	4,550,504
Revaluation of investments available-for-sale		273,404	303,996
Property, plant and equipment revaluation reserve		873,269	1,026,394
Retained earnings		4,701,421	1,613,411
Total equity attributable to owners of the parent		<u>21,680,967</u>	<u>18,776,674</u>
Non-controlling interest	6	31,711	—
TOTAL EQUITY		<u>21,712,678</u>	<u>18,776,674</u>
TOTAL LIABILITIES AND EQUITY		<u>168,269,904</u>	<u>130,823,725</u>

On behalf of the Management Board:



**President, Chairman of the Management Board
D.A. Mizgulin**

March 15, 2011



**Chief Accountant
V.I. Marinina**

March 15, 2011

The selected notes on pages 10-96 form an integral part of the consolidated financial statements.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

	Share capital	Share premium	Financial assets available-for-sale revaluation reserve	Property, plant and equipment revaluation reserve	Retained earnings/ (accumulated deficit)	Total equity attributable to owners of the parent	Non-controlling interest	TOTAL EQUITY
December 31, 2008	7,782,369	4,060,504	(3,234,811)	632,545	1,000,773	10,241,380	—	10,241,380
Net profit	—	—	—	—	595,552	595,552	—	595,552
Total other comprehensive income, net of deferred tax ...	—	—	3,538,807	393,849	17,086	3,949,742	—	3,949,742
Total comprehensive income	—	—	3,538,807	393,849	612,638	4,545,294	—	4,545,294
Issue of ordinary shares	3,500,000	490,000	—	—	—	3,990,000	—	3,990,000
December 31, 2009	11,282,369	4,550,504	303,996	1,026,394	1,613,411	18,776,674	—	18,776,674
Net profit	—	—	—	—	3,074,461	3,074,461	(54,960)	3,019,501
Total other comprehensive income, net of deferred tax ...	—	—	(30,592)	(153,125)	26,354	(157,363)	(538)	(157,901)
Total comprehensive income	—	—	(30,592)	(153,125)	3,100,815	2,917,098	(55,498)	2,861,600
Acquisition of a subsidiary	—	—	—	—	—	—	87,209	87,209
Effect of changing interest in subsidiaries during the period	—	—	—	—	(12,805)	(12,805)	—	(12,805)
December 31, 2010	11,282,369	4,550,504	273,404	873,269	4,701,421	21,680,967	31,711	21,712,678

On behalf of the Management Board:



**President, Chairman of the Management Board
D.A. Mizgulin**

March 15, 2011



**Chief Accountant
V.I. Marinina**

March 15, 2011

The selected notes on pages 10-96 form an integral part of the consolidated financial statements.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

	<u>Notes</u>	<u>Year ended December 31, 2010</u>	<u>Year ended December 31, 2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		14,535,703	14,085,239
Interest paid		(7,674,933)	(7,744,364)
Net receipts/(payments) on financial instruments at fair value through profit or loss		658,043	(488,644)
Net receipts on precious metals transactions		2,193	314,009
Net receipts on foreign exchange operations		272,173	701,740
Commission income received		2,207,392	1,632,240
Commission expense paid		(458,838)	(215,371)
Dividend income received		1,895	5,971
Other income received		88,111	33,023
Operating expenses paid		(4,618,081)	(3,568,441)
Income tax paid/(received)		(507,974)	415,006
		<u>4,505,684</u>	<u>5,170,408</u>
Increase of minimum reserve deposit with the Central Bank of the Russian Federation		(275,358)	(523,703)
Increase of guarantee deposits on plastic cards		(48,386)	(48,556)
Net sale/(purchase) of precious metals		668,522	(334,211)
Net decrease/(increase) of loans and advances to banks and other financial institutions		(8,925,061)	4,703,388
Net decrease of financial assets and liabilities at fair value through profit or loss		573,290	1,802,473
Net increase in loans to customers		(17,014,923)	(13,979,532)
Proceeds from loans sold		1,655,236	—
Net decrease in amounts due to banks and the Central Banks of the Russian Federation		(14,578,606)	(14,597,783)
Net increase of customer accounts		29,668,867	9,618,694
Net increase in securities issued		4,882,312	7,086,375
Issue of bonds		3,044,850	—
Net change in other assets and liabilities		(1,394,392)	(157,484)
Net cash inflow/(outflow) from operating activities		<u>2,762,035</u>	<u>(1,259,931)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment and intangible assets	23	(306,588)	(508,905)
Proceeds on sale of property, plant and equipment		3,838	454
(Purchase)/disposal of investments available-for-sale		(3,793,297)	(37,086)
Payments for investment property		(471,520)	—
Proceeds on disposal of investment property		8,536	—
Acquisition of subsidiaries, net of cash acquired	4	593,872	—
Purchase of interest in associate	4	—	(198,900)
Net cash outflow from investing activities		<u>(3,965,159)</u>	<u>(744,437)</u>


The selected notes on pages 10-96 form an integral part of the consolidated financial statements.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010 (CONTINUED)**
(in thousands of Russian Rubles)

	Notes	Year ended December 31, 2010	Year ended December 31, 2009
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase of share capital		—	3,990,000
Purchase of shares of subsidiaries without obtaining control		(253,206)	—
Sale of shares of subsidiaries without losing control		240,000	—
Receipt of subordinate debt and Eurobonds		60,000	1,995,033
Repayment of subordinated debt and Eurobonds	31	(700,000)	—
Net cash inflow from financing activities		(653,206)	5,985,033
Effect of foreign exchange changes on cash and cash equivalents		(15,834)	115,683
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(1,872,164)	4,096,348
CASH AND CASH EQUIVALENTS, beginning of the period	15	16,188,900	12,092,552
CASH AND CASH EQUIVALENTS, end of the period	15	14,316,736	16,188,900

On behalf of the Management Board:



President, Chairman of the Management Board
D.A. Mizgulin

March 15, 2011



Chief Accountant
V.I. Marinina

March 15, 2011

The selected notes on pages 10-96 form an integral part of the consolidated financial statements.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

1. ORGANIZATION

The KHANTY-MANSIYSK BANK GROUP comprises the Khanty-Mansiysk Bank, Open Joint Stock Company, (the “Bank”) and its subsidiaries (the “Group”). The Khanty-Mansiysk Bank, Open Joint Stock Company (Khanty-Mansiysk Bank OAO) is an open joint-stock company, which was incorporated in the Russian Federation in 1992. The registered office of the Bank is located at: 38, Mira St., Khanty-Mansiysk, Khanty-Mansiysk Autonomous District-Yugra, Russia. The Bank is regulated by the Central Bank of the Russian Federation (the “CBR”) and conducts its business under general license number 1971. The Bank’s primary business consists of commercial banking, trading with securities, foreign currencies and originating loans and guarantees.

The Bank holds the following licenses

- General banking license issued by the CBR;
- Precious metals operations license issued by the CBR;
- Professional securities market participant license for broker operations issued by the Federal Service For Financial Markets (“FSFM”);
- Professional securities market participant license for securities management issued by the FSFM;
- Professional securities market participant license for custodian operations issued by the FSFM;
- Professional securities market participant license for dealer operations issued by the FSFM; and
- License of commodity exchange intermediary for performing futures and options transactions in the stock exchange market issued by the FSFM.

The Bank has a branch network to deliver services to its customers. As at December 31, 2010 and 2009 the Bank had 16 branches in the Russian Federation, 1 representative office in the Russian Federation and 1 representative office abroad. As at December 31, 2010 the Bank had 138 additional offices, operating offices and operating cash desks (December 31, 2009: 117).

The Bank is the parent company of a banking group which consists of the following enterprises which have been included in the consolidated financial statements of the Group:

<u>Name</u>	<u>Country of operation</u>	<u>Proportion of ownership interest/control at December 31, 2010</u>	<u>Proportion of ownership interest/control at December 31, 2009</u>	<u>Type of operation</u>
Khanty-Mansiysk Bank, Open Joint Stock Company	Russian Federation	Parent company	Parent company	Banking
BKM Finance Limited	Ireland Russian	0% / 100%	0% /100%	Assistance to Bank in securities issue
OOO Yugra-Leasing	Federation Russian	100% / 100%	0% / 0%	Finance lease
OOO GPF	Federation Russian	1% / 100%	0% / 0%	Construction
ZPIF KhMB-Capital	Federation Russian	100% / 100%	0% / 0%	Investment fund management
OAO Novosibirsk Municipal Bank	Federation	75.13% / 75.13%	25.37 /25.37%	Banking

As at December 31, 2010 and 2009 the Group also had holdings (50%) in ZAO PK HESCARD that does not conduct active operations.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

OOO Yugra-Leasing is a finance lease company rendering leasing services to the Bank's customers.

OOO GPF is a provider of financing for construction projects of the Bank's customers.

BKM Finance Limited is a special purpose entity incorporated for the purposes of assisting in the issuance of the Group's securities. The Group does not have an interest in the capital of the company, but exercises the control through the determination of its operations.

Acquisitions and disposals of subsidiaries during the year ended December 31, 2010 are disclosed in Note 4.

The Bank is a member/participant of:

- Association of Regional Banks ("Russia" Association);
- Association of Russian Banks;
- Tyumen Regional Association of Credit Institutions;
- Association of Banks of the North-West;
- National Currency Association;
- Russian National SWIFT Association;
- National Stock Exchange Association;
- Moscow Interbank Currency Exchange;
- Siberian Interbank Currency Exchange;
- National Settlement Depository (as a depositor);
- Chamber of Industry and Commerce of the Khanty-Mansiysk Autonomous District-Yugra;
- Chamber of Industry and Commerce of the Tyumen Region;
- St.-Petersburg Chamber of Industry and Commerce;
- Chamber of Industry and Commerce of the Leningrad Region;
- Chamber of Industry and Commerce of Nizhnevartovsk;
- "Russian Trading System" Stock Exchange;
- VISA International payment system (principal member);
- MasterCard International Incorporated payment system (principal member);
- UNION CARD Russian payment system;
- Obligatory Deposit Insurance System (register number 322);
- "The Northern Forum" International Association (business partner);
- "Brussels International Banking Club" International Association;
- The "Union of Builders of Yugra" Non-Commercial Organization;
- The "West-Siberian Association of Builders" Non-Commercial Organization.

The number of employees of the Group as at December 31, 2010 and 2009 was 4,545 and 3,458, respectively.

As at December 31, 2010 and 2009 the Management Board consisted of 6 persons. As at December 31, 2010 and 2009 the Board of Directors comprised 11 persons, including 1 member of the Management Board.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

As at December 31, 2010 and 2009, the following shareholders held the Bank's outstanding shares:

	Share in capital, % December 31, 2010	Share in capital, % December 31, 2009
Shareholders		
Khanty-Mansiysk Autonomous District-Yugra, represented by the Department of State Property of Khanty-Mansiysk Autonomous District-Yugra	44.20	44.20
Open Joint-Stock Company "NOMOS-BANK"	31.31**	—
Limited Liability Company "East-Capital"	19.98**	19.98*
Limited Liability Company "Ferrosplav Invest"	—	19.98*
Russia Finance Corporation B.V.	—	8.2*
Other (individually not more than 5%)	4.51	7.64
Total	100.00	100.00
	Share in capital, % December 31, 2010	Share in capital, % December 31, 2009
Ultimate shareholders of the Bank		
Khanty-Mansiysk Autonomous District-Yugra	44.20	44.20
Mr. P. Kellner	14.48**	8.2*
Mr. R. Korbacka	9.68**	— *
Mr. A.N. Nesis	9.57**	9.99*
Mr. A.A. Gudaitis	6.17**	6.19*
Mr. N.I. Dobrinov	6.17**	23.78*
Other (individually not more than 5%)	9.73	7.64
Total	100.00	100.00

* The statements has been provided by a custody holder as at January 11, 2010.

** The statements has been provided by a custody holder as at January 11, 2011.

As at December 16, 2010 OJSC "NOMOS-Bank" has acquired 31.31% of the Bank and became a controlling owner of 51.29% stake of the Bank through it's additional 100% holding of LLC "East-Capital".

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets designated at fair value through profit or loss, available-for-sale investments, derivative financial instruments, which have all been measured at fair value and the land, buildings and investment property stated at revalued amounts.

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future. Management and shareholders have the intention to further develop the business of the Group in the Russian Federation both in the corporate and retail banking segments. The Management believes that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy, and based on historical experience, the short-term obligations will be refinanced in the normal course of business. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)

These consolidated financial statements are presented in thousands of Russian Roubles (“RUB thousand”), unless otherwise indicated.

The Bank and its consolidated companies, registered in the Russian Federation, maintain their accounting records in accordance with Russian Accounting Standards (“RAS”), and the foreign consolidated companies of the Bank maintain their accounting records in accordance with the laws and regulations of the countries, in which they operate. Necessary translation adjustments are applied in consolidation process to ensure convergence to IFRS. These consolidated financial statements, except for BKM Finance Limited, which accounting records are prepared already in accordance with IFRS, have been prepared from the Russian statutory accounting records and has been adjusted to conform to IFRS.

Functional currency

The functional currency of a majority of the entities within the Group is Russian Roubles (“RUB”). Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The presentational currency of the consolidated financial statements of the Group is the RUB. All values are rounded to the nearest thousand Rubles, except when otherwise indicated.

3. ACCOUNTING POLICIES

Significant accounting policies

Basis of consolidation—The consolidated financial statements incorporate the financial statements of the Bank and entities (including special purpose entities) controlled by the Bank (its subsidiaries).

Income and expenses of subsidiaries acquired during the year are included in the consolidated income statement and the consolidated statement of comprehensive income from the effective date of acquisition. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Special purpose entities (“SPEs”) are entities that are created to accomplish a narrow and well-defined objective such as the securitization of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE’s risks and rewards, the Group concludes that it controls the SPE.

Non-controlling interests—Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank. Non-controlling interests are presented separately in the consolidated income statement, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholders’ equity.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Business combinations—Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. From January 1, 2010, acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities and contingencies of subsidiaries are recognised at their fair value at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. In a business combination achieved in stages, the previously held equity interest is remeasured at the acquisition-date fair value with the resulting gain or loss recognised in the income statement. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in the consolidated income statement.

Non-controlling interest which represents a share in equity participation and grants the right to its holders on a proportional share in net assets in case of liquidation, can be originally recognised at its fair value or at the non-controlling interests' proportionate share of the recognised identifiable assets of the acquired entity. The choice of measurement basis is made on a transaction by transaction basis. All other components of non-controlling interest are measured at their acquisition date fair value or, when applicable, on the basis specified in another IFRS.

The equity attributable to owners of the parent and net income attributable to non-controlling interest shareholders are shown separately in the consolidated statement of financial position and consolidated income statement, respectively.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete at the end of the reporting period in which the business combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Changes in the Group's ownership interests in existing subsidiaries—Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the parent.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss or transferred directly to retained earnings in the same manner as would be required if the relevant assets or liabilities were disposed of.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

The results of the companies acquired or transferred during an accounting period are recognized in the consolidated statement of comprehensive income from the date of acquisition or before leaving date, accordingly.

Recognition and measurement of financial instruments—The Group recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual provisions of the financial instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Rights to purchase financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value. Financial assets or financial liabilities not designated at or classified as fair value through profit or loss are initially recognized at fair value. Transaction costs are directly attributable to the acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these financial instruments are disclosed in the respective accounting policies set out below.

Derecognition—A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or when the Group transfers substantially all the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities.

Also, when a financial asset is deemed to be uncollectible, the Group writes them off.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

Cash and balances with the Central Bank of the Russian Federation—Cash represents cash on hand. Unrestricted balances on correspondent and term deposit accounts with the CBR are recognized as balances with the CBR and are measured at amortized cost.

Cash and cash equivalents—In the consolidated statement of cash flows the cash and cash equivalents, include cash on hand, unrestricted balances on correspondent and term deposit accounts with the Central Bank of the Russian Federation and amounts due from the credit institutions and settlement centers that are not restricted, except for margin deposits for operations with plastic cards, which may be converted to cash within a short period of time (less than 90 days).

Physical positions in precious metals and financial assets and liabilities denominated in precious metals are translated at the current rate of the second fixing of the London Metal Exchange rates using the RUB /USD exchange rate effective at the date. Results from changes in the precious metal prices are recorded as net gain or loss on operations with precious metals.

Loans and advances to banks and other financial institutions include funds placed on nostro accounts with credit institutions and settlement centers. Also, in the normal course of business, the Group originates loans and deposits to other banks and other credit institutions for various time periods. Loans and deposits to credit institutions thus non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables and that are measured at amortized cost using the effective interest method.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Financial assets and liabilities at fair value through profit or loss represent financial instruments:

- Acquired for the purpose of selling them in the near future;
- Are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit taking;
- Are derivative financial instruments (except for derivative financial instruments that are designated and effective as a hedging instruments); or
- Are financial assets and liabilities that upon initial recognition are designated by the Group 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.

Financial assets and liabilities at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Group uses quoted market prices to determine the fair value for financial assets and liabilities at fair value through profit or loss or appropriate pricing models if quoted market prices are not available. The valuation models include the use of information about current market prices of similar instruments, discounted cash flow analysis and use of other valuation models where appropriate. If there is a valuation technique commonly used by market participants to compute fair value for the financial instrument and that technique has been demonstrated to provide reliable estimates of the fair value obtained in actual market transactions, the Group uses that technique. Changes in fair value of financial assets and liabilities at fair value through profit or loss are recognized in profit or loss in the period that they occurred.

Derivative financial instruments—The Group enters into derivative financial instruments to manage currency, interest rate and liquidity risks and for trading purposes. Derivatives entered into by the Group include forward transactions in foreign exchange, precious metals and securities, interest rate swaps and derivatives embedded in other contractual arrangements. The Group does not use hedge accounting for transactions with derivatives.

Derivatives may be embedded in another contractual arrangement (a “host contract”). An embedded derivative is separated from the host contract and is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value through profit or loss.

Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market, other than those classified in other categories of financial assets. These financial assets are classified as loans and receivables.

Loans and advances are initially recognized at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Where the fair value of the consideration given does not equal the fair value of the loan, for example where the loans and advances to customers are issued at lower than market rates, the difference between the fair value of the consideration given and the fair value of the loan is included in profit or loss or in the consolidated statement of changes in equity. Subsequently, loans are carried at amortized cost using the effective interest method. Loans and advances to customers are carried net of any allowance for impairment losses.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Write-off of loans to customers—The Board of Directors considers and makes a decision on writing off loans in the consolidated statement of financial position against the allowance for loan impairment. The Group writes off a loan balance (and any related allowance for loan impairment) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Repurchase and reverse repurchase agreements—The Group enters into sale and repurchase agreements with securities (“repo”) and purchase and resale agreements with securities (“reverse repo”) in the normal course of its business. Repos and reverse repos are utilized by the Group as an element of its treasury management and trading business.

A repo is an agreement to transfer securities to another party in exchange for cash or other consideration with an obligation to repurchase the securities at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Securities transferred under repo agreements are not derecognized from the Group’s consolidated statement of financial position. The funds received are recognized as collateralized deposits received.

Reverse repo agreements are recognized in the consolidated financial statements as amounts placed on deposit, which is collateralized by securities. Assets purchased under reverse repo agreements are not recognized in the consolidated statement of financial position.

Any related income or expense arising from differences between the purchase and sale prices represents interest income or expense and is accrued over the term of the repo agreement using the effective interest method.

When securities purchased under reverse repo agreements are sold to third parties the obligation to return securities is recorded as a financial liability at fair value through profit or loss and measured at fair value.

Investments classified as available-for-sale are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity financial assets or financial assets at fair value through profit or loss. Financial assets available-for-sale represent debt and equity investments that are intended to be held for an indefinite period of time. Financial assets classified as available for sale are initially recorded at fair value. Subsequently the financial assets are measured at fair value, with revaluation recognized in other comprehensive income until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in other comprehensive income is recognized in profit or loss, except for impairment losses, foreign exchange gains and losses on debt financial instruments and interest income accrued using the effective interest method, which are recognized in profit or loss.

The Group uses quoted market prices to determine fair value of financial assets available-for-sale or appropriate valuation models if quoted market prices are not available. The valuation models include the use of information about current market prices of similar instruments, discounted cash flow analysis and use of other valuation models where appropriate. If there is a valuation technique commonly used by market participants to compute fair value of the instrument and that technique has been demonstrated to provide reliable estimates of fair values obtained in actual market transactions, the Group uses that technique.

Unquoted shares are stated at acquisition cost less impairment losses, unless fair value can be reliably measured.

Impairment—Financial assets carried at amortized cost consist principally of loans and receivables. The Group reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has (have) had an impact on the estimated future cash flows of the loan that can be reliably estimated.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

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

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

Impairment—Financial assets classified as available-for-sale. When there is objective evidence that financial assets available-for-sale are impaired, the cumulative loss previously recognized in other comprehensive income is removed from other comprehensive income and recognized in profit or loss. For an investment available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

- For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement to the extent of the increase in fair value;
- For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses recognised on the equity security are not reversed through the income statement. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Impairment—Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in profit or loss in the consolidated statement of comprehensive income and can not be reversed.

Reclassification of financial assets—Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be reclassified out of the fair value through profit or loss category in the following circumstances:

- Financial assets that would have met the definition of loans and receivables at initial recognition (if the financial asset had not been required to be classified as held for trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity; and
- Financial assets (except financial assets that would have met the definition of loans and receivables at initial recognition) may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

When a financial asset is reclassified as described in the above circumstances, the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in the income statement is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Investments in associates—An associate is an entity over which the Group is in a position to exercise significant influence, but is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting.

Investments in associates are carried in the consolidated statement of financial position at cost and adjusted for goodwill and post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of associates in excess of the Group's interest in those associates are not recognized.

Unrealized gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealized gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

Property, plant, equipment and intangible assets (except for land and buildings) acquired after December 31, 2002 are carried at cost less accumulated depreciation/amortization and accumulated impairment losses. Property, plant and equipment and intangible assets (except for land and buildings) acquired before December 31, 2002 are carried at cost adjusted for hyperinflation less accumulated depreciation/amortization and accumulated impairment losses.

Land and buildings held for use in supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The following methods were used for the estimation of the fair value: discounted cash flow approach (income capitalization approach), sales comparison approach (comparative approach), and aggregate asset valuation approach (cost approach). Revaluation is performed on a sufficiently regular basis such that the carrying amount does not differ significantly from the fair value of land and buildings subject to revaluation.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Any increase in the carrying amount of land and buildings for use in the supply of service, or for administrative purposes as a result of the revaluation is recognized in the revaluation reserve for property, plant and equipment within other comprehensive income, except to the extent that it reverses a previous revaluation decrease recognized in profit or loss, in which case it is recognized in profit or loss. A revaluation decrease on such an item of land or buildings is recognized as a loss to the extent that it exceeds a revaluation surplus resulted from a previous revaluation.

Depreciation on revalued buildings is charged to profit or loss. The depreciation attributable to revalued buildings is transferred from the revaluation reserve for property, plant and equipment to retained earnings/(accumulated deficit), without any charge to the consolidated statement of comprehensive income. On the subsequent sale or disposal of revalued land and buildings, the attributable revaluation surplus remaining in the revaluation reserve for property, plant and equipment is transferred directly to retained earnings/(accumulated deficit).

Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use in accordance with the management's designation.

Depreciation and amortization is charged on the carrying value of property, plant and equipment (except for land) and intangible assets and is designed to write off assets over their useful economic lives. Depreciation is calculated on a straight line basis at the following annual prescribed rates:

Buildings	20-50 years
Transport and other equipment	3-7 years
Intangible assets	3-7 years

After recognition of an impairment loss the depreciation/amortization charge for property, plant, equipment and intangible assets is adjusted in future periods to allocate the revised carrying value of assets, less residual value (if any), on a straight line basis over the remaining useful life.

Expenses related to repairs and renewals are charged when incurred and are included in the operating expenses unless they qualify for capitalization.

Impairment—Tangible and Intangible Assets are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognized in profit or loss, unless the relevant assets are carried at their revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where there is objective evidence that an impairment loss has subsequently reversed, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Operating leases—Leases under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases.

Payments under operating leases are expensed over the term of the lease and included in the operating expenses.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Finance leases—The Group as a lessor presents finance leases as loans and initially measures them at an amount equal to the net investment in the lease. Subsequently the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

Before commencement date property, plant and equipment purchased for future transfer to finance lease is recognized in the consolidated financial statements as property, plant and equipment purchased to transfer to finance lease at cost.

Investment property comprising office and commercial buildings, is held to earn future rentals or for capital appreciation. Investment property is initially measured at cost, including transactions costs. Subsequent to initial recognition, investment property is measured at the fair value amount, determined from market-based evidence by appraisal undertaken by professional independent appraisers. Fair value is determined with sufficient regularity such that the carrying amount does not differ materially from what would be determined using fair values at the reporting date. Gains and losses arising from changes in the fair value of investment property are included in the income statement in the period in which they arise.

Assets held for sale consists of non-current assets or disposal groups where the carrying amount of the asset or liability is expected to be recovered primarily through a sale transaction rather than through continuing use are classified as held for sale, with the assets or disposal group measured at the lower of the carrying amount or fair value less costs to sell.

Taxation—Income tax expense represents the sum of the current and deferred tax expense. 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 in other comprehensive income or directly in equity, respectively.

The current tax expense is based on taxable profit for the year. Taxable profit differs from profit before taxes reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Current tax expense is calculated as a percentage from taxable profit for the reporting period using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years. If several tax rates are used, total current tax expense is calculated as a sum of tax expenses calculated separately as percentages from relevant tax bases using relevant tax rates.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses and credits can be utilized. Such tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and if temporary differences are related to investments in subsidiaries and associates 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.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized.

Deferred and current income tax assets and liabilities are offset if:

- The Group has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;
- The Group has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously; and
- The deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority in each future tax period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

The Russian Federation also has various other taxes that are applicable to the Group's activities. These taxes are included as a component of operating expenses in the profit or loss.

Due to banks and Central Bank of the Russian Federation and customer accounts are initially recognized at fair value, which is equal to the issue proceeds less transaction costs incurred. Subsequently, amounts due to banks and Central Bank of the Russian Federation and customers are stated at amortized cost. Any respective difference between net proceeds and the redemption value is recognized as interest expense in profit or loss over the period of the borrowings using the effective interest method.

Securities issued and bonds represent promissory notes and bonds issued to obtain additional financing. These financial instruments are initially recognized at fair value, which is equal to the issue proceeds less transaction costs incurred. Subsequently, securities issued are stated at amortized cost and any difference between net proceeds and the redemption value is recognized as interest expense in profit or loss over remaining period to maturity using the effective interest method.

Subordinated debt and Eurobonds are initially recognized at fair value, which is equal to the issue proceeds less transaction costs incurred. Subsequently, subordinated debt and Eurobonds are stated at amortized cost, and any difference between net proceeds and the redemption value is recognized as interest expense in profit or loss over the period till redemption using the effective interest method.

All other non-derivative financial liabilities, other than those which arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are initially recognized at fair value, which is equal to the issue proceeds less transaction costs incurred. Subsequently these financial liabilities are stated at amortized cost, and any respective difference between net proceeds and the redemption value is recognized as interest expense in profit or loss over the period till redemption using the effective interest method.

Share capital and share premium—Contributions to share capital made before January 1, 2003 are recognized at their cost adjusted for hyperinflation. Contributions to share capital made after January 1, 2003 are recognized at cost. Share capital contributions other than cash contributions are stated at their fair value at the date of contribution. Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses on sales of treasury stock are charged or credited to share premium.

Costs directly attributable to the issue of new shares are deducted from equity net of any related income taxes.

Dividends on ordinary and preference shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a non-adjusting subsequent event under IAS 10 *Events after the Balance Sheet Date* ("IAS 10") and disclosed accordingly.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Pension obligations—The Group does not have any pension arrangements other than payments to the State pension system of the Russian Federation, which requires current contributions by an employer calculated as a percentage of current gross salary payments. This expense is charged in the period in which the related salaries are earned. The Group has no post-retirement benefits or significant compensated benefits requiring accrual.

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 this obligation and a reliable estimate of the obligation can be made.

These liabilities include provisions for losses on guarantees and other off-balance sheet commitments and are accounted for as “Other liabilities” in the consolidated statement of financial position.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingencies—Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent liabilities are not recognized in the consolidated financial statements but are disclosed unless the possibility of any outflow in settlement is remote. Contingent assets are not recognized in the consolidated financial statements. Contingent assets are disclosed when an inflow of economic benefits is probable.

Recognition of income and expense—Interest income and expense are recognized in profit or loss in the consolidated statement of comprehensive income on an accrual basis calculated using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The discounting period is equal to the expected life of the financial instrument, or if applicable, to a shorter period. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses.

Fee and commissions and other income/expense are recognized as income/expense when the related transactions are completed. Loan origination fees together with the related direct costs that are considered to be integral to the overall profitability of a loan, are recorded in interest income over the estimated life of the financial instrument using the effective interest method. Non-interest income/(expenses) are recognized on an accrual basis when the corresponding service has been provided.

Translation into Russian rubles—Monetary assets and liabilities denominated in foreign currencies and precious metals are translated into Russian rubles at the appropriate foreign exchange rate ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate ruling at the date when the fair value is determined. Foreign currency and precious metals transactions are accounted for at the foreign exchange rates prevailing at the date of the transaction. Profits and losses arising from the translations are included in net gains on foreign exchange transactions and net gains on transactions with precious metals.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

The assets and liabilities of foreign operations are translated into RUB at foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated into RUB at average exchange rates unless these do not approximate to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on the translation of a foreign operation are recognised directly in equity and included in profit or loss on its disposal.

Foreign exchange rates—The foreign exchange rates at the year end used in the preparation of this consolidated financial statements are as follows:

	December 31, 2010	December 31, 2009
RUB/USD	30.4769	30.2442
RUB/EUR	40.3331	43.3883
RUB/gold (1 ounce)	42,980.0482	33,389.5968
RUB/silver (1 ounce)	933.5074	513.8490

Financial guarantees and letters of credit are obligations of the Group to make payments to the beneficiary under the instrument to reimburse it for a loss incurred when a specified debtor fails to make payment when due under the original or modified terms of a contract.

Financial guarantees and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of the amount recognized as a provision or the amount initially recognized less, where appropriate, cumulative amortization of consideration received over the life of a financial guarantee or a letter of credit.

Offset of financial assets and liabilities—Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Fiduciary activities—The Group provides trustee services to its customers. Also the Group provides depositary services to its customers that include transactions with securities on their depo accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's consolidated financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

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 the resources to be allocated to the segment and to assess its performance; and for which discrete financial statements is available.

Areas of significant management judgment and sources of estimation uncertainty

The preparation of the Group's consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The following estimates and judgments are considered key significant judgments and estimation uncertainty in relation to the financial position and performance of the Group:

	December 31, 2010	December 31, 2009
Allowance for impairment losses on loans to customers	6,211,864	6,416,796
Land and buildings at revalued amounts	3,856,630	4,004,183

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Allowance for impairment losses on loans to customers—The Group regularly reviews its loans to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans. The Group considers accounting estimates related to allowance for impairment of loans a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has 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 past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and 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. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Russian Federation and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Land and buildings at revalued amounts—Certain property (land and buildings) is measured at revalued amounts. The date of the latest appraisal was December 31, 2010. The next revaluation is preliminary scheduled as at December 31, 2011.

Standards and Interpretations affecting amounts reported in the current period

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out in section *New Standards and Interpretations applied with no material effect on the consolidated financial statements*.

New and revised IFRSs affecting the reported financial performance and/or financial position

IFRS 3 (as revised in 2008) Business Combinations

IFRS 3(2008) has been applied in the current year prospectively to business combinations for which the acquisition date is on or after January 1, 2010 in accordance with the relevant transitional provisions. Its adoption has affected the accounting for business combinations in the current year.

The impact of the application of IFRS 3(2008) is as follows.

- IFRS 3(2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree. In the current year, in accounting for the acquisition of OAO Novosibirsky Municipal Bank, the Group has elected to measure the non-controlling interests at the non-controlling interests' share of recognised identifiable net assets of the acquiree at the date of acquisition.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

- IFRS 3(2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of the acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the date of acquisition. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.
- IFRS 3(2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.
- IFRS 3(2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

Specifically, the amendments have been applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions and have affected the accounting for the acquisition of OOO Ugra- Leasing and OAO Novosibirsky Municipal Bank in the current year. The adoption of the amendments did not have a material impact on the Group's consolidated financial statements.

Results in future periods may be affected by future impairment losses relating to the increased goodwill, and by changes in the fair value of contingent consideration recognised as a financial liability.

IAS 27 (as revised in 2008) Consolidated and Separate Financial Statements

The application of IAS 27(2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under IAS 27(2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

These changes in accounting policies have been applied prospectively from January 1, 2010 in accordance with the relevant transitional provisions.

The adoption of the revised Standard has affected the accounting for the Group's disposal of part of its interest in ZPIF KhMB-Capital and subsequent acquiring back this interest in the current year. The change in policy has resulted in recognising loss amounted RUB 12,805 thousand in equity as the results for such transactions.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these consolidated financial statements but may affect the accounting for future transactions or arrangements.

Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to IFRSs issued in 2009)	The amendments to IFRS 5 clarify that the disclosure requirements in IFRSs other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those IFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5 and the disclosures are not already provided in the consolidated financial statements.
Amendments to IAS 7 Statement of Cash Flows (as part of Improvements to IFRSs issued in 2009)	The amendments to IAS 7 specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows.
<i>Improvements to IFRSs issued in 2009</i>	The application of <i>Improvements to IFRSs</i> issued in 2009 has not had any material effect on amounts reported in the consolidated financial statements.

New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 7 Financial Instruments: Disclosures (as part of Improvements to IFRSs issued in 2010)	The amendments to IFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans ¹ .
Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)	The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements ¹ .
Amendments to IFRS 7 IFRS 9 (as amended in 2010) IAS 24 (revised in 2009) Amendments to IAS 32 Amendments to IFRIC 14 IFRIC 19	<i>Disclosures—Transfers of Financial Assets</i> ² <i>Financial Instruments</i> ³ <i>Related Party Disclosures</i> ¹ <i>Classification of Rights Issues</i> ⁵ <i>Prepayments of a Minimum Funding Requirement</i> ¹ <i>Extinguishing Financial Liabilities with Equity Instruments</i> ⁴

*Improvements to IFRSs issued in 2010 (except for the amendments to IFRS 3(2008), IFRS 7, IAS 1 described above)*⁶

- 1 Effective for annual periods beginning on or after January 1, 2011.
- 2 Effective for annual periods beginning on or after July 1, 2011.
- 3 Effective for annual periods beginning on or after January 1, 2013.
- 4 Effective for annual periods beginning on or after July 1, 2010.
- 5 Effective for annual periods beginning on or after February 1, 2010.
- 6 Effective for annual periods beginning on or after July 1, 2010 and January 1, 2011, as appropriate.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

IFRS 9 *Financial Instruments* issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The directors anticipate that IFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2013 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to IFRS 7 titled *Disclosures—Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to IFRS 7 will have a significant effect on the Group's disclosures regarding transfers of financial assets previously affected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

IAS 24 *Related Party Disclosures* (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in IAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

The amendments to IAS 32 titled *Classification of Rights Issues* address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to IAS 32 will have an impact on the classification of those rights issues.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

IFRIC 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, IFRIC 19 will affect the required accounting. In particular, under IFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

Reclassifications

Certain reclassifications, aggregation and disaggregation of financial statement line items have been made to the consolidated financial statements as at December 31, 2009 and for the year then ended to conform to the presentation as at December 31, 2010 and for the year then ended as current presentation provides a better view of the financial position of the Group. Conforming changes to the associated notes as well as reclassifications between detailed line items within certain notes have also been performed with the same objective.

4. ACQUISITION OF SUBSIDIARIES

The subsidiaries acquired comprise:

	<u>Principal activity</u>	<u>Date of acquisition</u>	<u>Proportion of voting equity interests acquired (%)</u>	<u>Consideration transferred (cash)</u>
OOO Yugra-Leasing	Finance leasing	26.03.2010	100%	6,095
OOO GPF	Construction	26.03.2010	1%	14
OAO Novosibirsk Municipal Bank	Banking	13.07.2010	49.76%	57,340

In April 2010, the Group acquired 100% in OOO Yugra-Leasing for RUB 6,095 thousand.

In June 2010, the Group acquired 1% in OOO GPF in which OOO Yugra-Leasing holds 99%, for RUB 14 thousand.

On April 28, 2009 the Group acquired 25.37% in OAO Novosibirsk Municipal Bank for RUB 198,900 thousand. The consideration was paid in cash. In the period from the date of acquisition to the reporting date the Group assumed loss from an associate net of share of intercompany gains and losses of RUB 128,321 thousand, and loss in other components of comprehensive income of RUB 435 thousand. In July 2010, the Group acquired a further 49.76% in OAO Novosibirsk Municipal Bank for RUB 57,340 thousand, increasing its interest from 25.37% at December 31, 2009 to 75.13% at December 31, 2010 (Note 5). Before the date of first acquisition the fair value of OAO Novosibirsk Municipal Bank shares belonging to the Group (25.37%) amounted to RUB 132,720 thousand. Before the date of acquisition for the second share (49.76%) the fair value of OAO Novosibirsk Municipal Bank shares belonging to the Group was estimated on the basis of net assets value and amounted to RUB 88,973 thousand. The gain amounted to RUB 18,829 thousand has been recognized as result of recalculation to fair value of a share of the Group in OAO Novosibirsk Municipal Bank and reflected in the consolidated income statement as a gain from revaluation of a share of associate company.

In the first quarter of 2010 the Group formed 100% in ZPIF KhMB-Capital for RUB 2,098,178 thousand.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Fair value of assets acquired and liabilities assumed at the date of acquisition:

	OOO Yugra- Leasing and OOO GPF	OAO Novosibirsk Municipal Bank	Total
Current assets			
Cash and cash equivalents	—	432,586	432,586
Minimum reserve deposit with the Central Bank of the Russian Federation	—	39,821	39,821
Loans and advances to banks and other financial institutions	145,073	1,958,990	2,104,063
Loans to customers	2,828,209	2,584,444	5,412,653
Investments available-for-sale	—	357,403	357,403
Other assets	658,874	102,680	761,554
	<u>3,632,156</u>	<u>5,475,924</u>	<u>9,108,080</u>
Non- current assets			
Plant and equipment and intangible assets	130	725,229	725,359
Deferred tax assets	5,050	—	5,050
	<u>5,180</u>	<u>725,229</u>	<u>730,409</u>
Total assets	<u>3,637,336</u>	<u>6,201,153</u>	<u>9,838,489</u>
Current liabilities			
Due to banks and the Central Bank of the Russian Federation	3,381,863	867	3,382,730
Customer accounts	36,604	5,532,042	5,568,646
Securities issued	—	10,619	10,619
Other liabilities	146,346	59,855	206,201
	<u>3,564,813</u>	<u>5,603,383</u>	<u>9,168,196</u>
Non- current liabilities			
Deferred tax liabilities	7,034	71,499	78,533
Subordinated loans	—	175,611	175,611
	<u>7,034</u>	<u>247,110</u>	<u>254,144</u>
Total liabilities	<u>3,571,847</u>	<u>5,850,493</u>	<u>9,422,340</u>
Fair value of assets acquired and liabilities assumed	<u>65,489</u>	<u>350,660</u>	<u>416,149</u>

During the period from the date of acquisition to the reporting date the cumulative revenue from the activities of the acquired subsidiaries, net of intergroup income and expenses, has amounted to RUB 1,263,029 thousand, the cumulative financial result, net of intergroup income and expenses, relation to profit or loss of the Group has amounted to RUB 229,375 thousand and the financial result relating to comprehensive income amounted to RUB 99,610 thousand.

Had these business combinations been effected at January 1, 2010, the revenue of the Group from continuing operations would have been RUB 19,533,941 thousand, and the profit for the year from continuing operations would have been RUB 2,487,690 thousand, the financial result relating to comprehensive income amounted to loss RUB 143,245 thousand. Management considers these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

The balances and transactions of acquired subsidiaries affect all business segments reported in Note 36.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

The following table represents the fair value and the uncollectable amount of acquired receivables as well as the gross contractual amount of receivables:

	<u>Fair value</u>	<u>Gross contractual amounts receivable</u>	<u>Amount not expected to be received</u>
ASSETS:			
Balances with the Central Bank of the Russian Federation	18,471	18,471	—
Loans and advances to banks and other financial institutions	2,104,063	2,104,063	—
Loans to customers	5,412,653	6,854,165	1,239,745
Other assets	761,554	730,663	25,304
	<u>8,296,741</u>	<u>9,707,362</u>	<u>1,265,049</u>

Net cash outflow on acquisition of subsidiaries

	<u>Year ended December 31, 2010</u>
Consideration paid in cash	63,449
Less: cash and cash equivalents acquired	(657,321)
Total	<u>(593,872)</u>

5. BARGAIN PURCHASE GAIN RECOGNIZED

In 2010 the bargain purchase gain was recognized at amount RUB 59,380 thousand on the acquisition of OOO Yugra-Leasing and OOO GPF and at amount RUB 117,138 thousand on the acquisition of OAO Novosibirsk Municipal Bank is as follows:

	<u>OOO Yugra-Leasing and OOO GPF</u>	<u>OAO Novosibirsk Municipal Bank</u>	<u>Total</u>
Consideration paid	6,109	57,340	63,449
Plus: non-controlling interests (24.87% in OAO Novosibirsk Municipal Bank) (Note 6)	—	87,209	87,209
Plus: fair value of the equity interest immediately before the acquisition date	—	88,973	88,973
Less: fair value of net assets acquired (Note 4)	(65,489)	(350,660)	(416,149)
Bargain purchase gain recognized	<u>(59,380)</u>	<u>(117,138)</u>	<u>(176,518)</u>

The fair value of the identifiable assets acquired and liabilities assumed at the date of acquisition was determined by the independent appraiser. The bargain purchase gain recognized on the acquisition of OAO Novosibirsk Municipal Bank is mainly derived from the recognition of the banking license and customer base which were not recognized in the statement of financial position of OAO Novosibirsk Municipal Bank at the date of acquisition.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

6. NON-CONTROLLING INTEREST

Non-controlling interest comprises:

	OAO Novosibirsk Municipal Bank
January 1, 2010	—
Effect of increase in the interest in subsidiaries due to purchase of shares from the non-controlling interest (Note 5)	87,209
Loss attributable to non-controlling interest	(55,498)
December 31, 2010	<u>31,711</u>

For the acquisition of OAO Novosibirsky Municipal Bank, the Group has elected to measure the non-controlling interests at the non-controlling interests' share of recognised identifiable net assets of the acquiree at the date of acquisition.

7. NET INTEREST INCOME

	Year ended December 31, 2010	Year ended December 31, 2009
Interest income:		
Interest income on assets recorded at amortized cost	12,024,993	11,920,258
Interest income on assets available for sale	2,466,262	2,083,329
Interest income on assets at fair value through profit or loss	179,484	190,035
Total interest income	<u>14,670,739</u>	<u>14,193,622</u>
Interest income on financial assets recorded at amortized cost:		
Interest on loans to customers	11,491,415	11,556,348
Interest on loans and advances to banks	377,695	363,910
Interest on finance lease operations	155,883	—
Total interest income on financial assets recorded at amortized cost	12,024,993	11,920,258
Interest income on assets available for sale	2,466,262	2,083,329
Total interest income on assets available for sale	2,466,262	2,083,329
Interest income on assets at fair value through profit or loss:		
Interest income on financial assets at fair value through profit or loss held for sale . .	179,484	190,035
Total interest income on assets at fair value through profit or loss	179,484	190,035
Interest expense:		
Interest expense on liabilities recorded at amortized cost	8,586,660	8,913,860
Total interest expense	<u>8,586,660</u>	<u>8,913,860</u>
Interest expense on liabilities recorded at amortized cost comprises:		
Interest on customer accounts	5,147,441	4,240,505
Interest on Bonds	494,083	415,407
Interest on promissory notes issued	1,695,899	1,138,213
Interest on subordinated debt	539,931	546,740
Interest on due to banks and the Central Bank of the RF	709,306	2,572,995
Total interest expense on financial liabilities recorded at amortized cost	8,586,660	8,913,860
Net interest income	<u>6,084,079</u>	<u>5,279,762</u>

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

8. NET GAIN ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain on financial assets and liabilities at fair value through profit or loss comprises:

	Year ended December 31, 2010	Year ended December 31, 2009
Net gain on financial assets and liabilities at fair value through profit or loss:		
Net realized gain on financial assets at fair value through profit or loss held for trading	217,538	852,094
Net realized gain on operations with derivative financial instruments	536,097	67,533
Unrealised gain/(loss) on revaluation of financial assets and liabilities	303,990	(95,592)
Total net gain on financial assets and liabilities at fair value through profit or loss	<u>1,057,625</u>	<u>824,035</u>

9. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended December 31, 2010	Year ended December 31, 2009
Dealing, net	272,173	657,787
Translation differences, net	373,904	447,528
Total net gain on foreign exchange operations	<u>646,077</u>	<u>1,105,315</u>

Significant amount of net gain on foreign exchange operation in 2009 was due to high volatility of current exchange rates.

10. NET LOSS ON PRECIOUS METALS TRANSACTIONS

Net loss on precious metals transactions comprises:

	Year ended December 31, 2010	Year ended December 31, 2009
Dealing, net	2,174	(33,245)
Translation differences, net	(1,051,012)	(439,362)
Total net loss on precious metals transactions	<u>(1,048,838)</u>	<u>(472,607)</u>

The loss from translation differences on precious metals transactions is related to revaluation on payables to banks in precious metals, which are mitigated by the gain from derivatives with precious metals used to cover the open position in precious metals.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

11. NET COMMISSION INCOME

Fee and commission income and expense comprise:

	Year ended December 31, 2010	Year ended December 31, 2009
Fee and commission income:		
Settlements	1,043,041	731,554
Cash operations	806,408	606,569
Guarantees issued	217,041	119,821
Broker operations	72,237	54,828
Documentary operations	20,721	21,490
Other	47,944	99,791
Total fee and commission income	<u>2,207,392</u>	<u>1,634,053</u>
Fee and commission expense:		
Settlements	(432,464)	(213,478)
Cash operations	(18,744)	(17)
Other	(2,469)	—
Total fee and commission expense	<u>(453,677)</u>	<u>(213,495)</u>
Total net commission income	<u>1,753,715</u>	<u>1,420,558</u>

12. OTHER INCOME

Other income comprises:

	Year ended December 31, 2010	Year ended December 31, 2009
Gain from disposal of non-current assets held for sale	40,268	—
Income from operations with commemorative coins	16,564	19,167
Rental income	16,276	9,689
Penalty income	9,993	220
Income on early withdrawal of deposits	3,391	16,674
Dividend income	1,895	5,971
Other	12,579	2,927
Total other income	<u>100,966</u>	<u>54,648</u>

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

13. OPERATING EXPENSES

	Year ended December 31, 2010	Year ended December 31, 2009
Staff costs	2,387,218	2,053,245
Administrative expenses	459,312	374,531
Unified social tax	381,321	308,919
Depreciation and amortization expense	349,765	284,237
Revaluation of land and buildings	286,455	63,977
Tax settlements, other than income tax	232,853	192,410
Payments to the Deposit Insurance Fund	175,341	124,599
Property, plant and equipment maintenance	175,115	113,679
Security expenses	123,659	59,814
Charity expenses	111,998	99,941
Communications	98,385	99,970
Operating leases	97,752	83,957
Advertising expenses	66,772	51,874
Insurance expenses	54,635	20,326
Professional services fees	48,233	11,230
Loss on valuation of non-current assets held for sale	18,077	—
Representative expenses	5,131	3,405
Other expenses	45,015	14,217
Total operating expenses	<u>5,117,037</u>	<u>3,960,331</u>

14. INCOME TAXES

The Group provides for income taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of the Russian Federation.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2010 and 2009 relate mostly to different methods of income and expense recognition as well as to carrying values of certain assets and liabilities.

The statutory tax rate is 20%.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Temporary differences as at December 31, 2010 and 2009 comprise:

	<u>December 31, 2010</u>	<u>Tax at the statutory tax rate (20%)</u>	<u>December 31, 2009</u>	<u>Tax at the statutory tax rate (20%)</u>
Deductible temporary differences:				
Loans and advances to banks and other financial institutions	220	44	—	—
Loans to customers	830,250	166,050	3,135,060	627,012
Financial assets available-for-sale (related to other comprehensive income)	4,795	959	440	88
Property, plant and equipment	343,985	68,797	—	—
Other assets	55,795	11,159	142,915	28,583
Precious metals	—	—	440	88
Financial liabilities at fair value through profit or loss	529,956	105,991	286,540	57,308
Due to banks and Central Bank of Russian Federation	10,250	2,050	18,150	3,630
Customer accounts	36,450	7,290	—	—
Securities issued	25	5	226,430	45,286
Other liabilities	487,804	97,561	167,045	33,409
Total deductible temporary differences	<u>2,299,530</u>	<u>459,906</u>	<u>3,977,020</u>	<u>795,404</u>
Taxable temporary differences:				
Loans and advances to banks and other financial institutions	—	—	3,735	747
Financial assets at fair value through profit or loss	914,880	182,976	190,975	38,195
Financial assets available-for-sale (related to other comprehensive income)	345,353	69,071	379,995	75,999
Financial assets available-for-sale	185,012	37,002	1,694,595	338,919
Investments in subsidiaries and associate	—	—	2,535	507
Property, plant and equipment (related to other comprehensive income)	1,092,110	218,422	1,347,505	269,501
Property, plant and equipment	443,350	88,670	20,340	4,068
Customer accounts	—	—	65	13
Securities issued	245,215	49,043	—	—
Bonds issued	1,470	294	—	—
Subordinated debt	9,735	1,947	36,595	7,319
Total taxable temporary differences	<u>3,237,125</u>	<u>647,425</u>	<u>3,676,340</u>	<u>735,268</u>
Net taxable temporary differences	<u>(937,595)</u>	<u>(187,519)</u>	<u>300,680</u>	<u>60,136</u>
Net deferred tax liabilities at the statutory rate effective from January 1, 2009 (20%)	<u>(187,519)</u>	<u>—</u>	<u>60,136</u>	<u>—</u>
Net deferred tax liability (after offset)	<u>(201,310)</u>	<u>—</u>	<u>(704)</u>	<u>—</u>
Net deferred tax asset (after offset)	<u>13,791</u>	<u>—</u>	<u>60,840</u>	<u>—</u>

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

The effective tax rate reconciliation for the years ended December 31, 2010 and 2009 is explained as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
Profit before income tax	3,780,190	811,354
Statutory tax rate	20%	20%
Tax at the statutory tax rate	756,038	162,271
Effect of application of various income tax rates	(1,212)	(2,540)
Tax withheld abroad subject to reimbursement/offset from the Russian Federation budget in future periods	8,742	11,064
Prior year income tax expenses adjustment	175	(17,988)
Tax accounting basis difference generated	(39,069)	—
Non-deductible expenses		
Interest expenses on customer accounts	1,836	48
Interest expenses on securities issued	—	27,877
Charity	400	19,989
Loss in funds	15,791	—
Other non-deductible expenses	17,988	15,081
Income tax expense	760,689	215,802
	Year ended December 31, 2010	Year ended December 31, 2009
Current income tax expense	538,300	244,468
Temporary differences arising and reversing	213,647	(39,730)
Tax withheld abroad subject to reimbursement/offset from the Russian Federation budget in future periods	8,742	11,064
Income tax expense	760,689	215,802
	December 31, 2010	December 31, 2009
Deferred income tax liabilities		
At the beginning of the period	(704)	—
Deferred income tax liabilities of acquired subsidiaries at the date of acquisition	(78,533)	—
Change in deferred tax liabilities charged to other comprehensive income	64,918	(197)
Increase of deferred income tax liability for the period	(186,991)	(507)
At the end of the period	(201,310)	(704)
	December 31, 2010	December 31, 2009
Deferred tax assets		
At the beginning of the period	60,840	1,007,842
Deferred income tax assets of acquired subsidiaries at the date of acquisition	5,050	—
Change in deferred tax assets charged to other comprehensive income	(25,443)	(987,239)
(Decrease)/increase in deferred income tax asset for the period	(26,656)	40,237
At the end of the period	13,791	60,840

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

15. CASH AND BALANCES WITH THE CENTRAL BANK OF THE RUSSIAN FEDERATION

	December 31, 2010	December 31, 2009
Cash	5,551,803	4,324,052
Correspondent account with the Central Bank of the Russian Federation	2,966,536	4,688,437
Total cash and balances with the Central Bank of the Russian Federation	<u>8,518,339</u>	<u>9,012,489</u>

Cash and cash equivalents for the purposes of the consolidated statement of cash flows comprise:

	December 31, 2010	December 31, 2009
Cash and balances with the Central Bank of the Russian Federation	8,518,339	9,012,489
Due from credit institutions and settlement centers (Note 20)	5,798,397	7,176,411
Total cash and cash equivalents	<u>14,316,736</u>	<u>16,188,900</u>

16. MINIMUM RESERVE DEPOSIT WITH THE CENTRAL BANK OF THE RUSSIAN FEDERATION

As at December 31, 2010 the Group maintained mandatory balances of RUB 951,257 thousand with the CBR (December 31, 2009: RUB 636,078 thousand). The Group is not able to use its mandatory balances with the CBR for payments and other purposes. According to the Russian legislation mandatory balances are interest-free.

17. PRECIOUS METALS

Precious metals comprise:

	December 31, 2010	December 31, 2009
Gold in vault	12,658	15,709
Silver in vault	3,263	1,248
Other precious metals in vault	2	—
Total precious metals	<u>15,923</u>	<u>16,957</u>

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	December 31, 2010	December 31, 2009
Financial assets designated as fair value through profit and loss		
First to default credit-linked notes	1,816,972	2,267,075
Total financial assets designated as fair value through profit and loss	<u>1,816,972</u>	<u>2,267,075</u>
Total derivative financial instruments (Note 19)	<u>915,680</u>	<u>408,486</u>
Total financial assets at fair value through profit or loss	<u>2,732,652</u>	<u>2,675,561</u>

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

(in thousands of Russian Rubles)

First to default credit-linked notes are USD denominated floating coupon notes issued by major international financial institutions, repayment of which is dependent on certain corporate bonds being repaid by their issuers in full (the “reference bonds”). In case of default of any of the reference bonds, the major international financial institutions have the right to transfer to the Group defaulted bonds with a nominal amount equal to the nominal amount of first to default credit-linked notes held by the Group without any further payments to the Group for these notes.

As at December 31, 2010 and 2009 first to default credit-linked notes were as follows:

Nominal amount and margin calls		Maturity date	Coupon rate	Reference bonds	December 31, 2010 Carrying amount
Nominal currency	Ruble equivalent				
USD 20 million	609,538	March 20, 2011	LIBOR+ 12.75% per annum	OAO Bank VTB OAO Vypelkom, OAO Severstal,	676,654
USD 20 million	609,538	December 20, 2011	6 month LIBOR+ 6.6% per annum	OAO Gazprom, OAO Severstal, OAO Evrazholding, OAO Mobile Telecommunication Systems, OAO Vypelkom	574,914
USD 10 million	304,769	November 20, 2012	LIBOR+ 12.5% per annum	AK Alrosa, OAO TNK-BP, OAO Evrazholding, OAO Mobile Telecommunication Systems, OAO Rosneft,	278,964
USD 10 million	304,769	December 20, 2011	6 month LIBOR+ 9.25% per annum	AK Alrosa, OAO TNK-BP, OAO Severstal, OAO Alfa-Bank, OAO Vypelkom	286,440
					<u>1,816,972</u>

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Nominal amount and margin calls		Maturity date	Coupon rate	Reference bonds	December 31, 2009 Carrying amount
Nominal currency	Ruble equivalent				
USD 40 million	1,209,768	March 20, 2011	LIBOR+ 12.75% per annum	OAO Bank VTB OAO Vypelkom, OAO Severstal	1,219,304
USD 30 million	907,326	December 20, 2011	6 month LIBOR+ 6.6% per annum	OAO Gazprom, OAO Severstal, OAO Evrazholding, OAO Mobile Telecommunication Systems, OAO Vypelkom	806,465
USD 10 million	302,442	November 20, 2012	LIBOR+12.5% per annum	AK Alrosa, OAO TNK-BP, OAO Evrazholding, OAO Mobile Telecommunication Systems, OAO Rosneft	241,306
					2,267,075

These instruments are not traded in an active market and there are no market quotes available. The values of these instruments are determined by the Group using a discounted cash flows model estimated based on the probabilities of default for the reference bonds.

First to default credit-linked notes were designated by the Group as financial assets at fair value through profit or loss as these instruments contain embedded derivatives that significantly modify the cash flows that would otherwise be required under the contract.

19. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments comprise:

	December 31, 2010			December 31, 2009		
	Nominal amount	Fair value		Nominal amount	Fair value	
		Asset	Liability		Asset	Liability
Derivative financial instruments:						
Foreign currency contracts						
Forward contracts	(75,243,886)	791,470	(416,346)	(29,640,252)	133,474	(90,580)
Contracts for precious metal operations						
Forward contracts	(804,565)	3,650	(3,458)	(2,659,921)	24,588	(54)
Contracts for securities operations						
Forward contracts	(122,024)	1,144	—	(796,197)	29,235	—
Other derivatives:						
Swaps	(4,574,193)	119,416	(110,152)	(2,964,881)	221,189	(208,523)
Total derivative financial instruments		915,680	(529,956)		408,486	(299,157)

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**
(in thousands of Russian Rubles)

Forwards

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. The Group has credit exposure to the counterparties of forward contracts. Forward contracts also result in market risk exposure.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Group with counterparties in which the Group either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually net, with the difference being paid by one party to the other.

Interest rate swaps are used for interest rate risks management and presented as the exchange of interest payments for nominal amount, amortized during the time and nominated in USD. The Group uses interest rate swaps for exchange of fixed interest rate for floating interest rate and vice versa. The floating interest rate is tied to basic interest rate LIBOR on the different terms basis.

20. LOANS AND ADVANCES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Loans and advances to banks and other financial institutions comprise:

	December 31, 2010	December 31, 2009
Loans to banks	16,064,000	5,479,867
Correspondent accounts with banks and other financial institutions (Note 15)	5,798,397	7,176,411
Guarantee deposits on settlements with plastic cards	359,039	310,674
Accounts with banks in gold	721	370,286
	<u>22,222,157</u>	<u>13,337,238</u>
Provision for impairment losses	(664)	(21)
Total loans and advances to banks and other financial institutions	<u>22,221,493</u>	<u>13,337,217</u>

Movements in allowances for impairment losses on loans and advances to banks and other financial institutions for the years ended December 31, 2010 and 2009 were as follows:

	For the year ended December 31, 2010	2009
As at January 1	21	—
Impairment loss recognized	643	114
Bad debt written-off	—	(93)
As at December 31	<u>664</u>	<u>21</u>

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

As at December 31, 2010 and 2009 correspondent accounts with banks in OECD countries amounted to RUB 735,267 thousand and RUB 2,764,912 thousand, respectively.

As at December 31, 2010 and 2009 included in loans and advances to banks and other financial institutions were guarantee deposits placed by the Group for its operations with plastic cards in the amount of RUB 359,039 thousand and RUB 310,674 thousand, respectively.

As at December 31, 2010 included in loans and advances to banks and other financial institutions were placed in two banks totaling RUB 10,651,328 thousand that individually exceeded 10% of the its equity. As at December 31, 2009 included in loans and advances to banks and other financial institutions were placed in two banks totaling RUB 4,558,891 thousand that individually exceeded 10% of the its equity.

21. LOANS TO CUSTOMERS

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Loans to legal entities:		
Loans to corporate customers	51,182,988	49,618,956
Small business loans	9,912,839	4,810,002
Loans to government organisations of different levels	2,153,760	1,209,881
Medium business loans	2,209,676	1,538,391
Net investment in finance lease	1,170,223	—
Total loans to legal entities	<u>66,629,486</u>	<u>57,177,230</u>
Loans to individuals:		
Mortgage loans	14,142,597	13,090,707
Consumer loans	7,671,563	4,644,111
Auto loans	1,975,392	1,599,664
Credit cards	1,444,183	747,876
Consumer loans to individuals—civil officers	253,479	196,426
Total loans to individuals	<u>25,487,214</u>	<u>20,278,784</u>
Loans under reverse repurchase agreements	<u>14,928,156</u>	<u>8,965,783</u>
Loans to customers before allowance for impairment losses	<u>107,044,856</u>	<u>86,421,797</u>
Loan loss allowance	(6,211,864)	(6,416,796)
Loans to customers after allowance for impairment losses	<u>100,832,992</u>	<u>80,005,001</u>

The credit quality of loans to customers is determined based on the Group internal credit quality assessment system which reflects the probability of default of an obligor, i.e. the likelihood that counterparty fails to pay interest, principal and other financial obligations to the Group.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

The following tables provide an analysis of the credit quality and distribution of loans granted to legal entities by the Group as at December 31, 2010:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans, %
Loans to government organisations of different levels				
Loans without individual indicators of impairment	2,153,760	—	2,153,760	—
Total loans to government organisations of different levels	2,153,760	—	2,153,760	—
Small business loans to corporates				
Total loans without individual indicators of impairment . . .	9,487,580	545,472	8,942,108	5.75%
—standard loans not overdue	9,424,976	545,188	8,879,788	5.78%
—watch list loans	62,604	284	62,320	0.45%
Loan with individual indicators of impairment:				
—not past due	28,567	28,567	—	100.00%
—overdue less than 90 days	69,526	56,064	13,462	80.64%
—overdue more than 90 days and less than 1 year	58,436	54,469	3,967	93.21%
—overdue more than 1 year	268,730	260,491	8,239	96.93%
Total loans with individual indicators of impairment	425,259	399,591	25,668	93.96%
Total small business loans to corporate	9,912,839	945,063	8,967,776	9.53%
Medium business loans				
Loans without individual indicators of impairment:	2,185,928	9,880	2,176,048	0.45%
—standard loans not overdue	1,440,401	3,250	1,437,151	0.23%
—watch list loans	745,527	6,630	738,897	0.89%
Loan with individual indicators of impairment:				
—overdue less than 90 days	10,832	4,446	6,386	41.05%
—overdue more than 90 days and less than 1 year	884	266	618	30.09%
—overdue more than 1 year	12,032	97	11,935	0.81%
Total loan with individual indicators of impairment	23,748	4,809	18,939	20.25%
Total medium business loans	2,209,676	14,689	2,194,987	0.66%
Loans to corporate customers				
Loans without individual indicators of impairment:	47,424,370	2,375,924	45,048,446	5.01%
—standard loans not overdue	43,288,768	2,123,005	41,165,763	4.90%
—watch list loans	4,135,602	252,919	3,882,683	6.12%
Loan with individual indicators of impairment:				
—not past due	1,312,223	245,580	1,066,643	18.71%
—overdue less than 90 days	44,382	44,382	—	100.00%
—overdue more than 90 days and less than 1 year	1,447,457	1,266,724	180,733	87.51%
—overdue more than 1 year	954,556	734,551	220,005	76.95%
Total Loan with individual indicators of impairment	3,758,618	2,291,237	1,467,381	60.96%
Total loans to corporate customers	51,182,988	4,667,161	46,515,827	9.12%
Net investment in finance lease				
Finance lease without individual indicators of impairment:				
—standard not past due	997,684	39,590	958,094	3.97%
Finance lease with individual indicators of impairment:				
—not past due	171,599	174	171,425	0.10%
—overdue more than 90 days and less than 1 year	940	293	647	31.17%
Total finance lease with individual indicators of impairment	172,539	467	172,072	0.27%
Total net investment in finance lease	1,170,223	40,057	1,130,166	3.42%
Total loans to legal entities	66,629,486	5,666,970	60,962,516	8.51%

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

The following table provides statements on the analysis of credit risk and classification of the loans given by the Group to legal entities as at December 31, 2009:

	<u>Gross loans</u>	<u>Impairment allowance</u>	<u>Net loans</u>	<u>Impairment allowance to gross loans, %</u>
Loans to government organisations of different levels				
Loans without individual indicators of impairment	1,209,881	—	1,209,881	—
Total loans to government organizations of different levels	1,209,881	—	1,209,881	—
Small business loans to corporates				
Loans without individual indicators of impairment:	4,502,273	170,535	4,331,738	3.79%
—standard loans not overdue	4,402,029	164,473	4,237,556	3.74%
—watch list loans	100,244	6,062	94,182	6.05%
Loan with individual indicators of impairment:				
—overdue less than 90 days	47,443	41,799	5,644	88.10%
—overdue more than 90 days and less than 1 year	204,561	204,561	—	100%
—overdue more than 1 year	55,725	55,725	—	100%
Total loan with individual indicators of impairment	307,729	302,085	5,644	98.17%
Total small business loans to corporates	4,810,002	472,620	4,337,382	9.83%
Medium business loans				
Loans without individual indicators of impairment:	1,528,301	60,139	1,468,162	3.94%
—standard loans not overdue	531,370	20,910	510,460	3.94%
—watch list loans	996,931	39,229	957,702	3.93%
Loan with individual indicators of impairment:				
—overdue more than 1 year	10,090	10,090	—	100%
Total loan with individual indicators of impairment	10,090	10,090	—	100%
Total medium business loans	1,538,391	70,229	1,468,162	4.57%
Loans to corporate customers				
Loans without individual indicators of impairment:	41,655,242	1,639,146	40,016,096	3.94%
—standard loans not overdue	38,516,557	1,515,638	37,000,919	3.94%
—watch list loans	3,138,685	123,508	3,015,177	3.94%
Loan with individual indicators of impairment:				
—not past due	6,671,501	3,078,772	3,592,729	46.15%
—overdue less than 90 days	1,042,404	330,157	712,247	31.67%
—overdue more than 90 days and less than 1 year	166,989	97,711	69,278	58.51%
—overdue more than 1 year	82,820	82,820	—	100%
Total loan with individual indicators of impairment	7,963,714	3,589,460	4,374,254	45.07%
Total loans to corporate customers	49,618,956	5,228,606	44,390,350	10.54%
Total loans to corporate customer	57,177,230	5,771,455	51,405,775	10.09%

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

The Group estimates loan impairment for loans to legal entities, except for small business loans, based on an analysis of the future cash flows for loans with individual objective evidence of impairment and based on its past loss experience for portfolios of loans for which no individual objective evidence of impairment have been identified.

The Group estimates the impairment allowance for small business loans based on its past loss experience for these types of loans.

During the year ended December 31, 2010 the Group renegotiated loans to legal entities that would otherwise be past due or impaired of RUB 1,896,356 thousand (2009: RUB 952,844 thousand). Renegotiated loans are mainly extending of the payment arrangements of the loan agreements. Such restructuring activity is aimed at managing customer relationships and maximizing collection opportunities. Restructured loans are not considered impaired until the borrower fails to comply with the restructured terms.

Analysis of collateral

The following table provides an analysis of loans to legal entities, net of impairment allowance, by types of collateral as at December 31, 2010 and 2009.

	<u>December 31, 2010</u>	<u>% of loan portfolio</u>	<u>December 31, 2009</u>	<u>% of loan portfolio</u>
Loans collateralized by guarantees	21,350,326	35.02%	14,222,720	27.67%
Loans collateralized by receivables under contracts	13,684,061	22.45%	7,710,381	15.00%
Loans collateralized by property	9,039,337	14.83%	8,383,862	16.31%
Loans collateralized by real estate	7,439,871	12.20%	5,830,912	11.34%
Loans collateralized by securities	594,474	0.98%	39,566	0.08%
Loans collateralized by the Bank's own securities	9,023	0.01%	578,907	1.13%
Unsecured loans	8,845,424	14.51%	14,639,427	28.47%
	<u>60,962,516</u>	<u>100%</u>	<u>51,405,775</u>	<u>100%</u>

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

Assets accepted as collateral for loans to legal entities are those liquid assets that meet the requirements of the Bank. They include securities, real estate, motor vehicles, purpose-built machinery and other movable property. The fair value of the pledged property is determined on the basis of the most prudent estimations in relation to both collateral value and the expected period of its realization. Pledged property is considered to be liquid if the period required for its realization does not exceed 180 days from the day when actions aimed at realization of property start.

The comparative approach is used for determination of the fair value of real estate and movable property collateral.

The comparative approach is based on a comparison of the item being valued with comparable items for which the information on market prices is available. The comparative approach is based on the market information and considers expected behaviors of a potential buyer and seller.

Assets accepted as collateral include quoted securities, real estate items, motor vehicles, machinery and equipment.

As at December 31, 2010 overdue loans or loans with individual signs of impairment with a gross value of RUB 1,320,802 thousand were secured by real property with a fair value of RUB 1,659,729 thousand (December 31, 2009: RUB 1,906,387 thousand were secured by collateral with a fair value of RUB 1,514,689 thousand). For the remaining loans with individual signs of impairment of RUB 3,059,362 thousand there was no collateral or it was impracticable to determine fair value of collateral (December 31, 2009: RUB 6,375,236 thousand).

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

During the year ended December 31, 2010 the Group did not repossess any collateral (real estate, motor vehicles) by taking control of collateral securing loans to legal entities (December 31, 2009: RUB 156,045 thousand).

The following table provides information on loans to individuals as at December 31, 2010:

	<u>Gross loans</u>	<u>Impairment allowance</u>	<u>Net loans</u>	<u>Impairment allowance to gross loans, %</u>
Mortgage loans				
—Not past due	13,850,885	12,596	13,838,289	0.09%
—Overdue less than 30 days	101,002	8,552	92,450	8.47%
—Overdue 30-90 days	65,007	14,346	50,661	22.07%
—Overdue 91-180 days	24,192	17,919	6,273	74.07%
—Overdue 181-365 days	16,799	15,824	975	94.20%
—Overdue more than 365 days	84,712	84,712	—	100.00%
Total mortgage loans	14,142,597	153,949	13,988,648	1.09%
Consumer loans				
—Not past due	7,340,097	9,434	7,330,663	0.13%
—Overdue less than 30 days	48,082	4,027	44,055	8.38%
—Overdue 30-90 days	48,955	11,726	37,229	23.95%
—Overdue 91-180 days	10,355	8,885	1,470	85.80%
—Overdue 181-365 days	38,222	36,396	1,826	95.22%
—Overdue more than 365 days	185,852	185,852	—	100.00%
Total consumer loans	7,671,563	256,320	7,415,243	3.34%
Auto loans				
—Not past due	1,829,462	2,889	1,826,573	0.16%
—Overdue less than 30 days	25,815	2,611	23,204	10.11%
—Overdue 30-90 days	22,766	3,813	18,953	16.75%
—Overdue 91-180 days	4,484	2,437	2,047	54.35%
—Overdue 181-365 days	11,883	11,586	297	97.50%
—Overdue more than 365 days	80,982	80,982	—	100.00%
Total auto loans	1,975,392	104,318	1,871,074	5.28%
Credit cards				
—Not past due	1,368,082	2,491	1,365,591	0.18%
—Overdue less than 30 days	48,170	1,382	46,788	2.87%
—Overdue 30-90 days	6,542	3,027	3,515	46.27%
—Overdue 91-180 days	4,955	3,721	1,234	75.10%
—Overdue 181-365 days	5,769	5,112	657	88.61%
—Overdue more than 365 days	10,665	10,665	—	100.00%
Total credit cards	1,444,183	26,398	1,417,785	1.83%
Consumer loans to individuals—civil officers				
—Not past due	247,676	292	247,384	0.12%
—Overdue less than 30 days	2,219	165	2,054	7.44%
—Overdue 30-90 days	182	50	132	27.47%
—Overdue 91-180 days	305	305	—	100.00%
—Overdue 181-365 days	617	617	—	100.00%
—Overdue more than 365 days	2,480	2,480	—	100.00%
Total consumer loans to individuals—civil officers	253,479	3,909	249,570	1.54%
Total loans to individuals	25,487,214	544,894	24,942,320	2.14%

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

The following table provides information on loans to individuals as at December 31, 2009:

	<u>Gross loans</u>	<u>Impairment allowance</u>	<u>Net loans</u>	<u>Allowance for impairment losses against the amount of loans before allowance for impairment losses (%)</u>
Mortgage loans				
—Not past due	12,847,601	87,897	12,759,704	0.68%
—Overdue less than 30 days	63,119	31,552	31,567	49.99%
—Overdue 30-90 days	69,559	52,735	16,824	75.81%
—Overdue 91-180 days	12,738	12,738	—	100%
—Overdue 181-365 days	56,865	56,865	—	100%
—Overdue more than 365 days	40,825	40,825	—	100%
Total mortgage loans	13,090,707	282,612	12,808,095	2.16%
Consumer loans				
—Not past due	4,372,780	25,948	4,346,832	0.59%
—Overdue less than 30 days	49,308	11,851	37,457	24.03%
—Overdue 30-90 days	59,142	30,756	28,386	52.00%
—Overdue 91-180 days	24,300	24,300	—	100%
—Overdue 181-365 days	39,338	39,338	—	100%
—Overdue more than 365 days	99,243	99,243	—	100%
Total consumer loans	4,644,111	231,436	4,412,675	4.98%
Auto loans				
—Not past due	1,475,843	14,532	1,461,311	0.98%
—Overdue less than 30 days	31,891	9,676	22,215	30.34%
—Overdue 30-90 days	45,860	26,076	19,784	56.86%
—Overdue 91-180 days	6,639	6,639	—	100%
—Overdue 181-365 days	27,481	27,481	—	100%
—Overdue more than 365 days	11,950	11,950	—	100%
Total auto loans	1,599,664	96,354	1,503,310	6.02%
Credit cards				
—Not past due	690,314	7,891	682,423	1.14%
—Overdue less than 30 days	35,327	1,916	33,411	5.42%
—Overdue 30-90 days	4,622	3,364	1,258	72.78%
—Overdue 91-180 days	5,578	4,541	1,037	81.41%
—Overdue 181-365 days	7,813	7,813	—	100%
—Overdue more than 365 days	4,222	4,222	—	100%
Total credit cards	747,876	29,747	718,129	3.98%
Consumer loans to individuals—civil officers				
—Not past due	189,566	541	189,025	0.29%
—Overdue less than 30 days	1,739	225	1,514	12.94%
—Overdue 30-90 days	1,304	609	695	46.70%
—Overdue 91-180 days	97	97	—	100%
—Overdue 181-365 days	405	405	—	100%
—Overdue more than 365 days	3,315	3,315	—	100%
Total consumer loans to individuals—civil officers	196,426	5,192	191,234	2.64%
Total loans to individuals	20,278,784	645,341	19,633,443	3.18%

The Group estimates the impairment allowance for loans to individuals based on its past loss experience for these types of loans.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Analysis of collateral

The following table provides an analysis of loans to individuals, net of impairment allowance, by types of collateral as at December 31, 2010 and 2009.

	December 31, 2010	% of loan portfolio	December 31, 2009	% of loan portfolio
Loans collateralized by real estate	10,177,333	40.80%	10,003,988	50.95%
Loans collateralized by guarantees	9,415,809	37.75%	6,860,858	34.95%
Loans collateralized by property	1,695,174	6.80%	1,216,295	6.20%
Loans collateralized by securities	1,586,885	6.36%	67,300	0.34%
Unsecured loans	2,067,119	8.29%	1,485,002	7.56%
	<u>24,942,320</u>	<u>100.00%</u>	<u>19,633,443</u>	<u>100.00%</u>

The amounts shown in the table above represent the carrying value of the loans, and do necessary not necessarily represent the fair value of the collateral.

Mortgage loans are secured by underlying housing real estate. Auto loans are secured by underlying cars. Consumer loans are secured by guarantees received from third parties. Credit card loans are not secured.

During the year ended December 31, 2010 the Bank sold part of its mortgage loans portfolio to the Agency of Housing Mortgage Loans ("AHML") and the Novosibirsk regional operator of AHML—OAO NOAHML under their standard mortgage refinancing program. The carrying value of the loans sold amounts to RUB 297,288 thousand (December 31, 2009: RUB 54,852 thousand). The loans sold are serviced by the Bank.

As at December 31, 2010 the Group provided loans to six borrowers totaling RUB 22,016,322 thousand that individually exceeded 10% of the its equity.

As at December 31, 2009 the Group provided loans to six borrowers totaling RUB 16,133,192 thousand that individually exceeded 10% of the its equity.

The carrying value of loans and the fair value of assets pledged under reverse repurchase agreements as at December 31, 2010 and 2009 were as follows:

	December 31, 2010		December 31, 2009	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Shares of Russian companies	12,556,200	15,610,742	6,458,527	7,775,160
Bonds of Russian banks	525,500	524,350	1,541,384	1,937,561
Corporate Eurobonds	1,014,124	1,005,107	658,930	733,150
Eurobonds of credit institutions	—	—	306,942	302,442
Promissory notes of Russian companies	832,332	840,130	—	—
Total	<u>14,928,156</u>	<u>17,980,329</u>	<u>8,965,783</u>	<u>10,748,313</u>

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Analysis of loans by sector is provided below:

	December 31, 2010	December 31, 2009
Individuals	25,487,215	20,278,784
Corporations and individuals dealing in securities	14,928,156	8,965,783
Manufacturing	14,896,352	10,608,541
Finance lease	7,100,671	10,740,599
Real estate	5,740,262	4,393,065
Industrial construction	5,519,248	3,936,069
Transport and communication	5,510,523	4,409,576
Commercial real estate	5,198,633	838,578
Wholesale trade	4,503,140	6,078,931
Other financial companies	3,833,026	1,118,064
Housing construction	2,970,479	5,615,448
Retail trade	2,423,506	1,881,891
Services	2,410,782	3,186,115
Government finance	2,165,300	1,218,909
Agriculture	1,423,438	1,261,551
Science	1,236,695	986,692
Net investment in finance lease	1,170,223	—
Electric power industry	423,683	759,879
Production of weapons	15,255	—
Other	88,269	143,322
Total loans and advances to customers before allowance for impairment losses	107,044,856	86,421,797
Less allowance for impairment losses	(6,211,864)	(6,416,796)
Total loans and advances to customers after allowance for impairment losses	100,832,992	80,005,001

Movements in allowances for impairment losses on loans and advances to customers for the years ended December 31, 2010 and 2009 were as follows:

	For the year ended December 31,	
	2010	2009
As at January 1	6,416,796	3,328,762
Impairment loss recognized	274,153	3,159,471
Disposal of loans	(416,650)	—
Bad debt written-off	(62,435)	(71,437)
As at December 31	6,211,864	6,416,796

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Net investments into finance lease

Net investments into finance lease as at December 31, 2010 (2009: none) represent:

	December 31, 2010
—less than 1 year	763,301
—more than 1 year and less than 5 years	654,957
—more than 5 years	6,646
Minimum lease payments	1,424,904
Less non received finance income	(254,681)
Net investments into finance leasing	<u>1,170,223</u>
Current portion	595,818
Non current portion	574,405
Net investments into finance leasing	<u>1,170,223</u>

During the year ended December 31, 2010 the Group sold to legal entities certain loans with no recourse (2009: none).

Net gain on disposal of loans is represented by:

	The year ended December 31, 2010
Fair value of the consideration received	1,655,236
Carrying amount net of provisions	(1,246,296)
Net gain on disposal of loans	<u>408,940</u>

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

22. INVESTMENTS AVAILABLE-FOR-SALE

Investments available-for-sale comprise:

	<u>Interest to nominal</u>	<u>December 31, 2010</u>	<u>Interest to nominal</u>	<u>December 31, 2009</u>
Promissory notes of credit institutions	11.3-12.0%	10,902,634	10.0%	4,594,365
Units of investment funds	—	5,235,056	—	—
Corporate bonds			0.1-	
	7.5-13.5%	3,495,305	21.0%	3,796,192
Eurobonds of the Russian Federation	7.5%	1,215,060	—	—
Corporate Eurobonds	5.9-10.0%	1,151,177	6.63-12.0%	5,336,527
Bonds of foreign countries	8.8%	856,152	—	—
Bonds of credit institutions	7.8-14.9%	776,478	10.5-19.7%	3,266,639
Corporate shares	—	394,473	—	1,282,075
Bonds of the Russian Federation	6.9-8.0%	209,059	6.9%	36,885
Bonds of Russian regional and municipal governments ...	8.0%	151,369	8.0%	131,255
Eurobonds of credit institutions	7.5-8.3%	53,147	7.4%	1,156,135
Eurobonds of Russian regional and municipal governments	6.5%	21,030	—	—
Corporate promissory notes	—	—	—	3,893
Total investments available-for-sale		<u>24,460,940</u>		<u>19,603,966</u>

Promissory notes of credit institutions include interest-bearing and discount-bearing securities of large Russian banks with maturities from January 2011 to December 2011 (December 31, 2010) and from January 2010 to December 2010 (December 31, 2009).

Corporate bonds include bonds of Russian companies. As at December 31, 2010 and 2009 contractual maturities of corporate bonds held by the Group were from July 2012 to December 2036 and from February 2010 to December 2036, respectively. As at December 31, 2010 and 2009 corporate bonds with a carrying amount of RUB 2,606,114 thousand and RUB 2,700,540 thousand, respectively, were pledged under repurchase agreements (Note 26).

Eurobonds of the Russian Federation are bonds nominated in foreign currency with maturity in March 2030. As at include December 31, 2010 Eurobonds of the Russian Federation with a carrying amount of RUB 1,215,060 thousand were pledged under repurchase agreements (Note 26).

Corporate Eurobonds principally include Eurobonds of Russian companies. As at December 31, 2010 and 2009 contractual maturities of corporate Eurobonds held by the Group were from June 2011 to June 2015 and from December 2010 to April 2018, respectively. As at December 31, 2010 corporate Eurobonds totaling RUB 1,052,606 thousand (2009: RUB 5,336,527 thousand) were pledged under repurchase agreements with banks. The counterparty under the most part of repurchase agreements was the CBR (Note 26).

Bonds of foreign countries include bonds of the Republic of Belarus with maturity in August 2015. As at December 31, 2010 bonds totaling RUB 646,152 thousand were pledged under repurchase agreements (Note 26).

Bonds of credit institutions include bonds of Russian banks with maturities from November 2011 to October 2016 (December 31, 2010) and from March 2010 to October 2016 (December 31, 2009), of which RUB 216,805 thousand and RUB 2,437,065 thousand, respectively, were pledged under repurchase agreements (Note 26).

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Corporate shares include quoted shares of Russian companies, and other investments in unquoted equity instruments.

As at December 31, 2010 and 2009, the Bank's investments in unquoted equity instruments amounted to RUB 390,176 thousand.

Bonds of the Russian Federation (OFZ) are government securities issued by the Russian Ministry of Finance denominated in the currency of the RF and maturities from November 2021 to February 2036 (December 31, 2010) and in February 2036 (December 31, 2009).

Bonds of regional and municipal governments of the Russian Federation include bonds of the Moscow Region Government with maturity in April 2014.

Eurobonds of credit institutions include securities of credit institutions of the RF and the Republic of Kazakhstan with maturities from October 2011 to November 2011 (December 31, 2010) and in September 2014 (December 31, 2009). As at December 31, 2009 Eurobonds were pledged under repurchase agreements (Note 26).

Eurobonds of regional and municipal governments of the Russian Federation include bonds of the Moscow Region Government nominated in foreign currency with maturity in October 2011.

Units of investment funds included in financial assets available-for-sale as at December 31, 2010 are presented below (2009: none):

<u>Name</u>	<u>December 31, 2010</u>
ZPIF Rusnedra	5,226,364
OPIF of shares "Troika-Dialog—Dobrynya Nikitich"	8,692
Total	<u>5,235,056</u>

Closed unit investment fund of private equity investments ZPIF Rusnedra is managed by OOO Managing Company Fleming Family & Partners and created with the purpose of investing into shares (units) of companies engaged in the production and exploration and holding oil and gas production licenses.

Open Unit Investment Fund of shares "Troika-Dialog—Dobrynya Nikitich" is aimed at receiving income in the investment horizon from one to three years by investing into shares of Russian issuers with the highest growth potential and targeted at investors tolerant to high risk levels. The Fund invests into a diversified portfolio of shares of Russian issuers with sufficient liquidity and high potential of market quotation growth. This strategy uses an approach based on a combination of passive and active management of fund assets. The fund's portfolio is dominated by shares of blue chips, the objective being to increase liquidity of investments and mitigate risks.

Reclassification of securities

Pursuant to the amendments to IAS 39 and IFRS 7, the Group reclassified certain trading securities to investments available-for-sale. The Group identified securities eligible under the amendments, for which it had changed its intent such that it no longer held these securities for the purpose of selling in the short term. For those trading securities identified for reclassification, the Group determined that the deterioration of the financial markets during the third quarter of 2008 constituted rare circumstances that permit reclassification out of the trading category.

Under IAS 39 as amended, the reclassifications of securities were made with effect from July 1, 2008 at fair value at that date.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

The table below sets out the trading securities reclassified and their carrying and fair values.

	<u>December 31, 2010</u>		<u>December 31, 2009</u>		<u>December 31, 2008</u>		<u>July 1, 2008</u>	
	<u>Carrying value</u>	<u>Fair value</u>	<u>Carrying value</u>	<u>Fair value</u>	<u>Carrying value</u>	<u>Fair value</u>	<u>Carrying value</u>	<u>Fair value</u>
Trading securities reclassified to investments available-for-sale	494,546	494,546	2,700,678	2,700,678	1,536,243	1,536,243	2,364,714	2,364,714

Included in the table above are amounts related to financial instruments held as at December 31, 2010 and 2009 respectively.

	<u>2010</u>		<u>2009</u>	
	<u>Recognised for reclassified assets</u>	<u>Would have been recognized if the reclassifications were not made</u>	<u>Recognised for reclassified assets</u>	<u>Would have been recognized if the reclassifications were not made</u>
Interest income	120,754	120,754	316,374	316,374
Net gain on financial assets at fair value through profit or loss	—	105,664	—	1,538,874
Net gain/(loss) on investments available-for-sale	78,878	—	(80,979)	—
Impairment of investments available-for-sale	—	—	(8,891)	—
Total recognised in profit or loss for the period (before tax)	<u>199,632</u>	<u>226,418</u>	<u>226,504</u>	<u>1,855,248</u>
Net change in fair value of investments available-for-sale	47,291	—	1,172,227	—
Net change in fair value of investments available-for-sale transferred to profit or loss	(20,505)	—	456,517	—
Total recognized in other comprehensive income for the period (before tax)	<u>26,786</u>	<u>—</u>	<u>1,628,744</u>	<u>—</u>
Total recognized in the consolidated statement of comprehensive income for the period (before tax)	<u>226,418</u>	<u>226,418</u>	<u>1,855,248</u>	<u>1,855,248</u>

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

23. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Intangible assets</u>	<u>Other</u>	<u>Total</u>
Cost/revalued amount						
At December 31, 2008	28,518	2,867,097	1,003,725	—	850,000	4,749,340
Additions	—	840,561	141,993	117	12,958	995,629
Disposals	—	(1,303)	(44,423)	—	(490,478)	(536,204)
Revaluation	21,473	247,837	—	—	—	269,310
At December 31, 2009	<u>49,991</u>	<u>3,954,192</u>	<u>1,101,295</u>	<u>117</u>	<u>372,480</u>	<u>5,478,075</u>
Acquisition of subsidiaries	36,360	200,820	62,011	358,181	67,987	725,359
Additions	—	152,897	239,926	75	415,851	808,749
Disposals	—	(250)	(90,334)	(30)	(418,864)	(509,478)
Revaluation	85,783	(623,163)	—	—	—	(537,380)
At December 31, 2010	<u>172,134</u>	<u>3,684,496</u>	<u>1,312,898</u>	<u>358,343</u>	<u>437,454</u>	<u>5,965,325</u>
Accumulated depreciation						
At December 31, 2008	—	105,202	558,048	—	45,162	708,412
Charge for the period	—	75,674	188,909	11	19,643	284,237
Eliminated on disposal	—	(54)	(40,365)	—	(3,391)	(43,810)
Eliminated accumulated depreciation of revalued assets	—	(180,822)	—	—	—	(180,822)
At December 31, 2009	<u>—</u>	<u>—</u>	<u>706,592</u>	<u>11</u>	<u>61,414</u>	<u>768,017</u>
Charge for the period	—	92,564	224,366	12,196	20,639	349,765
Eliminated on disposal	—	(24)	(85,278)	(12)	(11,993)	(97,307)
Eliminated accumulated depreciation of revalued assets	—	(92,540)	—	—	—	(92,540)
At December 31, 2010	<u>—</u>	<u>—</u>	<u>845,680</u>	<u>12,195</u>	<u>70,060</u>	<u>927,935</u>
Carrying amount						
At December 31, 2010	<u>172,134</u>	<u>3,684,496</u>	<u>467,218</u>	<u>346,148</u>	<u>367,394</u>	<u>5,037,390</u>
Carrying amount						
At December 31, 2009	<u>49,991</u>	<u>3,954,192</u>	<u>394,703</u>	<u>106</u>	<u>311,066</u>	<u>4,710,058</u>

As at December 31, 2010, land and buildings were revalued by management on the basis of a valuation performed by an independent appraiser. As a result of revaluation, the Group recognized negative revaluation before tax of RUB 158,385 thousand in other comprehensive income and negative revaluation before tax of RUB 286,455 included in the consolidated income statement.

As at December 31, 2009, land and buildings were revalued by management on the basis of a valuation performed by an independent appraiser. As a result of revaluation, the Group recognized positive revaluation before tax of RUB 514,109 thousand in other comprehensive income and negative revaluation before tax of RUB 63,977 included in the consolidated income statement.

The following methods were used for the estimation of the fair value: discounted cash flow approach (income capitalization approach), sales comparison approach (comparative approach), and aggregate asset valuation approach (cost approach).

The valuation approaches described above were used in estimating the fair values of land and buildings recognized in these financial statements to the extent that they were considered appropriate in each case, taking into consideration reliability and completeness of the statements available, the nature of the property under the appraisal, etc.

If buildings and constructions were accounted at historical cost restated according to inflation indices less accumulated depreciation and impairment losses, their carrying value would have been RUB 2,947,260 thousand as at December 31, 2010 and RUB 2,720,708 thousand as at December 31, 2009.

As at December 31, 2010 and 2009 property, plant and equipment included fully depreciated assets totaling RUB 498,815 thousand and RUB 323,073 thousand, respectively.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

24. OTHER ASSETS

	December 31, 2010	December 31, 2009
Other financial assets:		
Receivables on securities transactions	956,454	15,033
Other receivables	111,594	73,963
Receivables on commission	93,685	—
	<u>1,161,733</u>	<u>88,996</u>
Less: allowance for impairment	(75,255)	(33,140)
	<u>1,086,478</u>	<u>55,856</u>
Other non-financial assets:		
Rights of claim against property	703,723	—
Prepaid expenses	493,727	151,369
Prepayment of capital investments under shared construction agreements	465,830	36,515
Investment property	299,050	—
Settlements on receipt of property	109,137	2,115
Settlements on transactions with coins	98,266	61,868
Tax settlements, other than income tax	86,489	12,510
Current income tax assets	52,207	169,837
Property for finance lease	41,136	—
Other inventories	20,618	15,798
Non-current assets held for sale	10,710	—
Other	177,614	143,047
	<u>2,558,507</u>	<u>593,059</u>
Less: allowance for impairment	(159,858)	(85,072)
	<u>2,398,649</u>	<u>507,987</u>
Total other assets	<u>3,485,127</u>	<u>563,843</u>

	December 31, 2010
Settlements on securities transactions comprise (2009:none):	
Gross carrying amount	
Contract for sale of promissory notes	956,344
Gain recognized in the reporting period	110
December 31, 2010	<u>956,454</u>

In 2010 investments property comprises (2009:none):

	December 31, 2010
Gross carrying amount	
December 31, 2009	—
Acquisition of a subsidiary	54,500
Sale of investment property	(8,536)
Acquisition of investment property	471,520
Loss on revaluation of investment property	(218,434)
December 31, 2010	
Net book value	<u>299,050</u>

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

As at December 31, 2010 the Group performed a valuation of its investment property. The fair value of the Group's investment property at December 31, 2010 has been arrived at on the basis of a valuation carried out at that date by independent appraisers that are not related to the Group. On the basis of the appraisal, the Group recognized a revaluation loss of RUB 218,434 thousand in the consolidated income statement. The decrease of the carrying value of buildings and other real estate was recognized in profit and loss.

As at December 31, 2010 non-current assets held for sale totaling RUB 10,710 thousand were included in other assets. Management plans to sell these assets during 12 months from the reporting date.

Movements in allowances for impairment losses for the years ended December 31, 2010 and 2009 were as follows:

	For the year ended December 31,	
	2010	2009
As at January 1	118,212	27,355
Impairment loss recognized	126,168	92,168
Bad debt written-off	(9,267)	(1,311)
As at December 31	<u>235,113</u>	<u>118,212</u>

25. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial liabilities at fair value through profit or loss comprise:

	December 31, 2010	December 31, 2009
Derivative financial instruments	529,956	299,157
Total financial liabilities at fair value through profit or loss	<u>529,956</u>	<u>299,157</u>

Information on derivative financial instruments is disclosed in Notes 18 and 19.

26. DUE TO BANKS AND THE CENTRAL BANK OF THE RUSSIAN FEDERATION

Due to banks and the Central Bank of the Russian Federation comprise:

	December 31, 2010	December 31, 2009
Bank deposits	10,017,536	11,756,316
Loans under repurchase agreements	4,721,469	5,838,331
Correspondent accounts of other banks	144,499	3,897,955
Deposits of the CBR received under repurchase contracts	—	3,235,397
Total due to credit institutions	<u>14,883,504</u>	<u>24,727,999</u>

As at December 31, 2010 the Group had loans and deposits from two counterparties, which individually exceeded 10% of its equity, totaling RUB 4,857,786 thousand. As at December 31, 2009 the Group had loans and deposits from four counterparties, which individually exceeded 10% of its equity, totaling RUB 15,229,941 thousand.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

The carrying value of loans and the fair value of assets pledged under repurchase agreements as at December 31, 2010 and 2009 were as follows:

	December 31, 2010		December 31, 2009	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Corporate bonds	2,288,937	2,606,114	2,422,150	2,700,540
Eurobonds of the Russian Federation	1,028,650	1,215,060	—	—
Corporate Eurobonds	729,369	1,052,606	3,849,049	5,336,527
Bonds of foreign countries	484,735	646,152	—	—
Bonds of credit institutions	189,778	216,805	1,931,444	2,437,065
Eurobonds of credit institutions	—	—	871,085	1,156,135
Total	4,721,469	5,736,737	9,073,728	11,630,267

27. CUSTOMER ACCOUNTS

Customer accounts at December 31, 2010 were as follows:

	December 31, 2010	December 31, 2009
Demand deposits	30,461,122	23,943,095
Term deposits	70,786,462	40,927,088
Total customer accounts	101,247,584	64,870,183

As at December 31, 2010 included in customer accounts were deposits from four customers of RUB 16,802,463 thousand (17% of total customer accounts), which individually exceeded 10% of the Group's equity. As at December 31, 2009 included in customer accounts were deposits from four customers of RUB 7,773,605 thousand (12% of total customer accounts), which individually exceeded 10% of the Group's equity.

Analysis by sector and type of customers is presented below.

	December 31, 2010	December 31, 2009
Individuals	53,908,706	38,572,973
Government finance	12,304,590	395,505
Other financial companies	10,591,022	2,919,553
Insurance	3,656,711	4,203,486
Industrial construction	3,566,715	3,272,073
Wholesale trade	3,142,135	4,520,132
Services	2,870,179	1,624,810
Other construction	2,257,296	2,441,633
Manufacturing	2,094,170	1,787,254
Transport and communication	1,566,735	1,460,141
Real estate	1,390,845	657,223
Science	1,318,641	804,772
Retail trade	818,177	535,909
Electric power industry	738,667	656,509
Finance lease	304,488	103,926
Agriculture	116,204	150,359
Production of weapons	1,965	217,059
Precious metals mining	10	589
Other	600,328	546,277
Total customer accounts	101,247,584	64,870,183

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

28. SECURITIES ISSUED

Securities issued comprise:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Discount bearing promissory notes	17,411,400	12,452,828
Interest-bearing promissory notes	78,323	544,262
Interest free promissory notes	32,292	67,927
Total debt securities issued	<u>17,522,015</u>	<u>13,065,017</u>

The Group issues interest, discount bearing and interest free promissory notes for the purpose of financing its operations. The total nominal value of promissory notes issued as at December 31, 2010 and 2009 was RUB 18,248,500 thousand and RUB 13,853,736 thousand, respectively. The annual interest rates and discount rates on discount and interest bearing promissory notes issued as at December 31, 2010 ranged from 3.00% to 15.00% on promissory notes denominated in Russian Rubles and from 1.50% to 6.05% on promissory notes denominated in foreign currencies. The annual interest rates and discount rates on discount and interest bearing promissory notes issued as at December 31, 2009 ranged from 3.00% to 16.60% on promissory notes denominated in Russian Rubles and from 1.50% to 10.50% on promissory notes denominated in foreign currencies.

29. BONDS

The bonds comprise:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Bonds issued on local market	6,043,381	3,060,622
Total bonds issued	<u>6,043,381</u>	<u>3,060,622</u>

In October 2008 the Group issued interest bearing non-convertible documentary bonds with a total nominal value of RUB 3,000,000 thousand denominated in Russian Rubles, maturing on October 31, 2011 and with an early redemption option on the part of the holder in November 2010. The early redemption option was not exercised by the bondholders. These bonds have coupon yields of 14.00% per annum from October 27, 2008 to November 2, 2009, 13.00% per annum from November 3, 2009 to November 1, 2010 and 7.00% per annum starting from November 2, 2010.

In June 2010 the Group issued interest bearing non-convertible documentary bonds with a total nominal value of RUB 3,000,000 thousand denominated in Russian Rubles, maturing on June 12, 2013 and with an early redemption option on the part of the holder in June 2011. The bonds have coupon yields of 7.85% per annum during the entire term to maturity.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

30. OTHER LIABILITIES

	December 31, 2010	December 31, 2009
Other financial liabilities:		
Salary payable and accrued bonuses	166,389	130,787
Accrued expenses	28,443	—
Settlements on operations with securities	91	—
	<u>194,923</u>	<u>130,787</u>
Other non-financial liabilities:		
Provisions for guarantees	300,239	—
Accounts payable	149,708	64,343
Unamortised commissions	131,538	37,132
Taxes payable, other than income tax	49,624	38,131
Current income tax liability	7,056	59,823
Other liabilities	8,088	1,755
	<u>646,253</u>	<u>201,184</u>
Total other liabilities	<u>841,176</u>	<u>331,971</u>

Movements in provision for guarantees for the years ended December 31, 2010 and 2009 were as follows:

	For the year ended December 31, 2010
As at January 1	—
Provision recognised	300,239
As at December 31	<u>300,239</u>

31. SUBORDINATED DEBT AND EUROBONDS

	Currency	Maturity (year)	Nominal interest rate, %	December 31, 2010	Nominal interest rate, %	December 31, 2009
Subordinated debt comprises:						
Subordinated loan	RUB	2019	6.50%	1,994,538	8.00%	1,994,483
Subordinated loan	RUB	2010	—	—	5.83%	400,000
Subordinated loan	RUB	2010	—	—	5.83%	100,000
Subordinated loan	RUB	2010	—	—	5.83%	100,000
Subordinated loan	RUB	2010	—	—	5.83%	100,000
Subordinated Eurobonds	USD	2018	11.00%	3,057,460	11.00%	2,997,619
Subordinated loan	RUB	2013	10.00%	43,641	—	—
Subordinated loan	RUB	2013	10.00%	37,969	—	—
Subordinated loan	RUB	2014	10.00%	18,962	—	—
Subordinated loan	RUB	2016	6.00%	60,000	—	—
Subordinated loan	RUB	2016	11.30%	37,866	—	—
Subordinated loan	RUB	2016	8.00%	37,864	—	—
				<u>5,288,300</u>		<u>5,692,102</u>

In the event of bankruptcy or liquidation of the Group, repayment of this subordinated debt is subordinate to the repayments of the liabilities to all other creditors.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

32. SHARE CAPITAL, SHARE PREMIUM

In 2009 the Bank increased the share capital by RUB 3,500,000 thousand by issue of 35,000,000 ordinary shares with par value of RUB 100 each.

As at December 31, 2009 the authorized, issued and fully paid share capital comprised 104,990,000 ordinary shares with par value of RUB 100 each and 10 000 preference shares with par value of RUB 100 each.

Share capital comprises of:

	Ordinary shares, #	Nominal value	Preference shares, #	Nominal value
December 31, 2008	69,990,000	6,999,000	10,000	1,000
December 31, 2009	104,990,000	10,499,000	10,000	1,000
December 31, 2010	104,990,000	10,499,000	10,000	1,000

All ordinary shares are of the same class and bear one vote.

Preference shares provide their holders with equal rights and have equal par value. Dividends on preference shares are set at the rate of 8%. If the dividends paid by the Bank on each ordinary share exceed the dividends to be paid on each preference share, dividends paid on each preference share should be increased to the level of dividends paid on each ordinary share. Holders of preference shares are entitled to vote at the general shareholders' meeting on the issues of reorganization and liquidation of the Bank. Holders of fixed-dividend preference shares are entitled to vote at the general shareholders' meeting on all the issues, starting from the meeting subsequent to the annual general shareholders' meeting if at this annual general shareholders' meeting dividends on preference shares were not declared in full. This voting right is terminated when dividend on preference shares is paid in full. All preference shares are non-cumulative.

Share premium represents an excess of contributions received over the nominal value of shares issued. Accumulated share premium is disclosed in the statement of financial position.

Reserves distributable to shareholders are limited to the amount of the Bank's reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations and which can be used according to the decision of the Board of Directors to cover the losses or to repay the issued bonds and to repurchase the Bank's shares if no other funds are available. The reserve fund was created in accordance with the Charter that provides that a reserve fund should not be less than 15% of the share capital as reported in the Bank's statutory books.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

33. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group becomes a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The Group's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for operations accounted for in the statement of financial position.

As at December 31, 2010 the Group recognized a provision for losses on guarantees issued totaling RUB 300,239 thousand (Note 30). The risk-weighted amount is obtained by applying credit conversion factor and counterparty risk weightings according to the principles applied by the Basel Committee on Banking Supervision (Basel I).

As at December 31, 2010 and 2009, the nominal or contract amounts and risk-weighted amounts were as follows:

	December 31, 2010		December 31, 2009	
	Nominal amount	Risk weighted amount	Nominal amount	Risk weighted amount
Contingent liabilities and credit commitments				
Unused loan commitments	15,627,086	4,397,460	8,053,355	1,746,173
Guarantees issued and similar commitments	19,005,567	18,705,328	8,519,394	8,519,394
Letters of credit and other transaction related contingent obligations	1,057,978	524,936	414,005	207,003
Total contingent liabilities and credit commitments	35,690,631	23,627,724	16,986,754	10,472,570

Operating lease commitments—The future minimum rental payments under non-cancellable operating leases for buildings in effect as at December 31, 2010 and 2009 are as follows:

	December 31, 2010	December 31, 2009
Less than 1 year	72	1,000
Later than one year and not later than five years	—	—
More than 5 years	—	—
Total operating lease commitments	72	1,000

Fiduciary activities—The Group provides depositary services to its customers. As at December 31, 2010 and 2009, the Group had customer securities totaling 686,528,602 and 990,293,407 items, respectively, in its nominal holder's accounts.

Legal proceedings—From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. The Group did not create provisions for possible claims as at December 31, 2010 and 2009. Management believes that the Group will not experience significant losses as a result of any court proceeding.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Taxation—Provisions of the Russian tax legislation are sometimes inconsistent and may have more than one interpretation, which allows the Russian tax authorities to take decisions based on their own arbitrary interpretation of these provisions. In practice, the Russian tax authorities often interpret the tax legislation not in favour of the taxpayers, who have to resort to court proceeding to defend their position against the tax authorities. It should be noted that the Russian tax authorities can use the clarifications issued by the judicial bodies that have introduced the concept of “unjustified tax benefit”, “primary commercial goal of transaction” and the criteria of “commercial purpose (substance) of transaction”.

Such uncertainty could, in particular, be attributed to tax treatment of financial instruments/derivatives and determination of market price of transactions for transfer pricing purposes. It could also lead to temporary taxable differences incurred due to loan impairment provisions and income tax liabilities being treated by the tax authorities as understatement of the tax base. The management of the Group is confident that applicable taxes have all been accrued and, consequently, the creation of respective provisions is not required.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also according to the clarification of the Russian Constitutional Court the statute of limitation for tax liabilities may be extended beyond the three year term set forth in the tax legislation, if a court determines that the taxpayers has obstructed or hindered a tax inspection.

Operating environment—The Group’s principal business activities are within the Russian Federation. Laws and regulations affecting businesses operating in the Russian Federation are subject to rapid changes and the Group’s assets and operations could be at risk due to negative changes in the political and business environment.

Operating Environment—Emerging markets such as the Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in the Russian Federation and the Russian Federation’s economy in general.

Laws and regulations affecting businesses in the Russian Federation continue to change rapidly. Tax, currency and customs legislation within the Russian Federation are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

The global financial turmoil that has negatively affected the Russian Federation’s financial and capital markets in 2008 and 2009 has receded and the Russian Federation’s economy returned to growth in 2010. However significant economic uncertainties remain. Adverse changes arising from decline in the oil and gas prices could slow or disrupt the the Russian Federation’s economy, adversely affect the Group’s access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

The Russian Federation is facing a relatively high level of inflation (according to the government’s statistical data consumer price inflation for the years ended 31 December 2010 and 2009 was 8.8% and 8.8%, respectively).

Because the Russian Federation produces and exports large volumes of oil and gas, the Russian Federation’s economy is particularly sensitive to the price of oil and gas on the world market that fluctuated significantly during 2010 and 2009.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

34. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 *Related Party Disclosures*, represent:

- (a) parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Group (this includes parents, subsidiaries and fellow subsidiaries);
- (b) Associates—enterprises on which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) Individuals directly or indirectly holding voting power in the Group, which enables them to have significant influence on the activities of the Group;
- (d) Key management personnel, i.e. persons authorized and responsible for planning, managing and controlling the Group's activities, including directors and senior executives (and non-executive directors and their close family members);
- (e) Entities for which significant voting power resides with, directly or indirectly, any individual referred to in (c) or (d) or a party on which such individuals have significant influence; These include companies owned by directors and major shareholders of the Group, and companies which have a common member of key management personnel with the Group;
- (f) Parties which have joint control over the Group;
- (g) Joint ventures in which the Group is a venturer;
- (h) Post-employment benefit plans for the benefit of employees of the Group, or of any entity that is a related party of the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The Group had the following transactions outstanding as at December 31, 2010 and 2009 with related parties:

	December 31, 2010			December 31, 2009		
	Related party balances	Average effective interest %	Total category as per the financial statement caption	Related party balances	Average effective interest %	Total category as per the financial statement caption
Loans and advances to banks and other financial institutions, gross			22,222,157			13,337,238
—parent company	5,371	—		—	—	
—other related parties	—	—		60,425	—	
Loans to customers, gross			107,044,856			86,421,797
—key management personnel	28,310	10.40%		25,978	8.05%	
—entities under joint control	9,923,454	10.30%		—	—	
—other related parties	4,255,719	14.20%		7,833,385	13.41%	
Allowance for impairment losses on loans to customers			(6,211,864)			(6,416,796)
—key management personnel	(390)	—		(686)	—	
—entities under joint control	(205,300)	—		—	—	
—other related parties	(1,206,651)	—		(1,610,807)	—	
Investments available-for-sale			24,460,940			19,603,966
—other related parties	350,000	—		350,000	—	

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

	December 31, 2010			December 31, 2009		
	Related party balances	Average effective interest %	Total category as per the financial statement caption	Related party balances	Average effective interest %	Total category as per the financial statement caption
Investments in subsidiaries and associates			—			202,419
— <i>associates</i>	—	—		202,419	—	
Other assets, gross			3,720,240			682,055
— <i>key management personnel</i>	—	—		67	—	
— <i>shareholders of the Group</i>	—	—		4	—	
— <i>entities under joint control</i>	10	—		—	—	
— <i>other related parties</i>	375,100	—		6,713	—	
Allowance for impairment on other assets			(235,113)			(118,212)
— <i>other related parties</i>	(13,361)	—		(558)	—	
Due to banks and the Central Bank of the Russian Federation			14,883,504			24,727,999
— <i>parent company</i>	14,298	—		—	—	
— <i>associates</i>	—	—		1,465,604	5.67%	
— <i>other related parties</i>	12,464	—		204,655	0.40%	
Customer accounts			101,247,584			64,870,183
— <i>key management personnel</i>	94,362	6.80%		181,484	5.10%	
— <i>shareholders of the Group</i>	—	—		210,500	—	
— <i>associates</i>	95	—		96	—	
— <i>other related parties</i>	8,493,071	10.10%		5,418,347	7.50%	
Securities issued			17,522,015			13,065,017
— <i>other related parties</i>	—	—		135,030	12.20%	
Bonds			6,043,381			3,060,622
— <i>parent company</i>	1,200,000	7.43%		—	—	
— <i>other related parties</i>	—	—		714,707	14.00%	
Other liabilities			841,176			331,971
— <i>associates</i>	—	—		157	—	
— <i>key management personnel</i>	1,907	—		3,862	—	
— <i>other related parties</i>	12,594	—		1,344	—	
Subordinated debt and Eurobonds			5,288,300			5,692,102
— <i>shareholders of the Group</i>	100,000	7.00%		—	—	
— <i>other related parties</i>	—	—		700,000	5.83%	
Unused loan commitments			15,627,086			8,053,355
— <i>key management personnel</i>	12,512	—		6,160	—	
— <i>other related parties</i>	533,690	—		648,999	—	
Guarantees issued, letters of credit and similar commitments			19,005,567			8,933,399
— <i>other related parties</i>	373,621	—		2,797,290	—	

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Included in the consolidated income statement for the years ended December 31, 2010 and 2009 are the following amounts, which arose due to transactions with related parties:

	Year ended December 31, 2010		Year ended December 31, 2009	
	Related party balances	Total category as per the financial statement caption	Related party balances	Total category as per the financial statement caption
Key management personnel compensation:				
—salary	29,417		36,047	
—bonuses	24,291		56,766	
	53,708		92,813	
		5,117,037		3,960,331
	Year ended December 31, 2010		Year ended December 31, 2009	
	Related party balances	Total category as per the financial statement caption	Related party balances	Total category as per the financial statement caption
Interest income		14,670,739		14,193,622
—key management personnel	2,494		2,528	
—other related parties	567,479		804,320	
Interest expense		(8,586,660)		(8,913,860)
—key management personnel	(13,157)		(7,658)	
—associates	(28,503)		(21,812)	
—shareholders of the Bank	(1,663)		—	
—other related parties	(92,269)		(485,798)	
Allowance for impairment losses on interest bearing assets		(274,796)		(3,159,585)
—key management personnel	296		51	
—entities under joint control	(205,300)		—	
—other related parties	404,156		(1,244,159)	
Net gain on financial assets and liabilities at fair value through profit or loss		1,057,625		824,035
—associates	(1)		—	
—other related parties	(47,878)		(38,830)	
Net gain on foreign exchange operations		646,077		1,105,315
—key management personnel	(7,220)		(17,698)	
—associates	1,220		3,234	
—other related parties	492,335		570,430	
Fee and commission income received		2,207,392		1,634,053
—key management personnel	38		57	
—associates	500		35	
—other related parties	56,855		82,017	

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

	Year ended December 31, 2010		Year ended December 31, 2009	
	Related party balances	Total category as per the financial statement caption	Related party balances	Total category as per the financial statement caption
Fee and commission expense paid		(453,677)		(213,495)
— <i>associates</i>	(169)		(484)	
— <i>entities under joint control</i>	—		(12)	
— <i>other related parties</i>	(685)		—	
Net gain/(loss) on investments available-for-sale		705,309		(82,208)
— <i>other related parties</i>	42		(283,531)	
Loss from an associate		(139,901)		(2,422)
— <i>associates</i>	(139,901)		(2,422)	
Gain from revaluation of interest in an associate		18,829		—
— <i>associates</i>	18,829		—	
Allowance for impairment losses on other transactions		(426,407)		(92,168)
— <i>other related parties</i>	(12,803)		(558)	
Gain on loans sold		408,940		—
— <i>other related parties</i>	350,299		—	
Recovery/(loss) on loans issued at below market rates		53,545		(103,643)
— <i>key management personnel</i>	156		—	
— <i>other related parties</i>	50,321		(87,907)	
Other income		100,966		54,648
— <i>key management personnel</i>	148		4	
— <i>associates</i>	1,081		1,751	
— <i>shareholders of the Bank</i>	—		1	
— <i>other related parties</i>	1,300		1,675	
Operating expenses		(5,117,037)		(3,960,331)
— <i>key management personnel</i>	(70,164)		(100,578)	
— <i>shareholders of the Bank</i>	(60)		(62)	
— <i>associates</i>	(36)		(24)	
— <i>other related parties</i>	(132,859)		(60,179)	

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

35. SEGMENT REPORTING

The Group has restated its segment information as at December 31, 2009 and for the year then ended to align with the following segments description and in line with the information provided to the Chief Operating Decision Maker:

The reportable segments comprise of:

- Corporate banking—full range of banking services provided to large and medium-sized corporate customers, including, among others, direct debt facilities, current accounts, deposits, overdrafts, loan and other credit facilities and a variety of settlement and transactional services;
- Investment banking—representing trading of financial instruments, repurchased agreements, interbank loans to financial enterprises and other financial institutions as well as currency risk management;
- Small business (including entrepreneurs)—banking services provided to small businesses and individual entrepreneurs, including credit lines and loans (including overdrafts), current accounts, deposits to small enterprises;
- Retail banking (including private banking)—full range of banking services to mass, affluent and wealthy individuals, including individuals' consumer loans and mortgages, customer current accounts (including remittance service), deposits, credit and debit cards;
- Treasury and asset-liability unit—treasury, which lends and borrows funds of money market, undertakes the Group's funding, accumulates and further redistributes all funds attracted by other segments by means of transfer operations between segments and management of correspondent account with CBR;
- Unallocated amounts represent balances and/or income and expense items not allocated to any of the Group's business units and represent part of the Group's routine headquarter activities.

The reportable segments represent the products (services) the Group renders within the Russian Federation in accordance with the valid licenses (Note 1).

For the purposes of monitoring of reportable segments performance there are Business Line Directors who report the operating results, financial performance, forecasts and budgets to the CEO.

Operating results are reviewed regularly by the CEO to determine the resources to be allocated to the segment and assess its performance.

All settlements between segments are carried on via the Finance Central Treasury ("Kaznacheistvo") and accounted for following the internal methodologies to identify the price for the purposes of management accounting and reporting. All funds attracted (except for arbitration proceedings and technical deals) are subject of sale to the Central Treasury. The Central Treasury provides the finance resources for all active operations (except for arbitration proceedings and technical deals).

Operation expenses are allocated to reportable segments on the basis of Group's internal methodologies.

All operations are within the Russian Federation and Group has no customers or a group of customers under common control which bring more than 10% of revenue (represents commission and interest income).

The management of the Group believes that entity-wide disclosure is not required as the large majority of the Group's operations is within the Russian Federation.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Segment information about the assets and liabilities as at December 31, 2010 is presented below:

	Corporate banking	Investment banking	SME	Retail banking	Treasury and asset-liability management unit	Unallocated	Total
ASSETS							
Cash and balances with the Central Bank of Russian Federation	—	—	—	5,551,803	2,966,536	—	8,518,339
Minimum reserve deposit with the Central Bank of Russian Federation	342,072	129,290	70,985	385,321	23,589	—	951,257
Precious metals	—	—	—	15,923	—	—	15,923
Loans and advances to banks and other financial institutions	—	21,834,774	—	39,624	—	347,095	22,221,493
Financial assets at fair value through profit or loss	—	2,732,652	—	—	—	—	2,732,652
Loans to customers	51,994,740	14,928,156	8,967,776	24,942,320	—	—	100,832,992
Investments available-for-sale	5,226,364	18,707,413	—	—	—	527,163	24,460,940
Property, plant and equipment and intangibles	1,102,920	783,382	295,010	1,934,970	20,713	900,395	5,037,390
Deferred income tax assets	—	—	—	—	—	13,791	13,791
Other assets	1,424,595	927,083	110,316	112,906	—	910,227	3,485,127
TOTAL ASSETS	60,090,691	60,042,750	9,444,087	32,982,867	3,010,838	2,698,671	168,269,904
LIABILITIES							
Financial liabilities at fair value through profit or loss	—	529,956	—	—	—	—	529,956
Due to banks and the Central Bank of the Russian Federation	—	14,883,504	—	—	—	—	14,883,504
Customer accounts	37,317,082	84,776	10,008,233	53,837,493	—	—	101,247,584
Securities issued	8,948,965	8,573,050	—	—	—	—	17,522,015
Bonds	—	6,043,381	—	—	—	—	6,043,381
Deferred income tax liabilities	—	—	—	—	—	201,310	201,310
Other liabilities	496,962	9,595	38,175	70,140	—	226,304	841,176
Subordinated debt and Eurobonds	—	—	—	—	5,288,300	—	5,288,300
TOTAL LIABILITIES	46,763,009	30,124,262	10,046,408	53,907,633	5,288,300	427,614	146,557,226

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Segment information about the assets and liabilities as at 31, December 2009 is presented below:

	Corporate banking	Investment banking	SME	Retail banking	Treasury and asset-liability management unit	Unallocated	Total
ASSETS							
Cash and balances with the Central Bank of Russian Federation	—	—	—	4,320,798	4,691,691	—	9,012,489
Minimum reserve deposit with the Central Bank of Russian Federation	166,936	143,426	22,561	281,073	22,082	—	636,078
Precious metals	—	—	—	16,957	—	—	16,957
Loans and advances to banks and other financial institutions ...	—	13,318,452	—	18,765	—	—	13,337,217
Financial assets at fair value through profit or loss	—	2,675,561	—	—	—	—	2,675,561
Loans to customers	47,068,393	8,965,783	4,337,382	19,633,443	—	—	80,005,001
Investments available-for-sale ..	—	19,603,966	—	—	—	—	19,603,966
Property, plant and equipment and intangibles	1,031,251	732,477	275,840	1,809,235	19,367	841,888	4,710,058
Deferred income tax assets	—	—	—	—	—	60,136	60,136
Investments in associates	—	—	—	—	—	202,419	202,419
Other assets	30,030	390	292	36,053	—	497,078	563,843
TOTAL ASSETS	48,296,610	45,440,055	4,636,075	26,116,324	4,733,140	1,601,521	130,823,725
LIABILITIES							
Financial liabilities at fair value through profit or loss	—	299,157	—	—	—	—	299,157
Due to banks and the Central Bank of the Russian Federation	—	24,727,999	—	—	—	—	24,727,999
Customer accounts	22,506,195	771,845	3,090,050	38,502,093	—	—	64,870,183
Securities issued	885,037	12,179,980	—	—	—	—	13,065,017
Bonds	—	3,060,622	—	—	—	—	3,060,622
Other liabilities	20,225	9,221	—	45,537	—	256,988	331,971
Subordinated debt and Eurobonds	—	—	—	—	5,692,102	—	5,692,102
TOTAL LIABILITIES	23,411,457	41,048,824	3,090,050	38,547,630	5,692,102	256,988	112,047,051

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Segment information about the income and expenses for 2010 is presented below:

	Corporate banking	Investment banking	SME	Retail banking	Treasury and asset-liability management unit	Unallocated	Total
External interest income	6,090,169	4,055,599	1,373,842	3,150,729	—	400	14,670,739
External interest expense	(2,187,599)	(2,267,047)	(148,193)	(3,462,747)	(521,074)	—	(8,586,660)
Internal funding costs/revenues from Central Treasury	(1,490,697)	(939,032)	(758,677)	2,432,474	755,932	—	—
Net interest income	2,411,873	849,520	466,972	2,120,456	234,858	400	6,084,079
Allowance for impairment losses on interest bearing assets	(96,887)	11	(277,075)	99,155	—	—	(274,796)
Net interest income after allowance for impairment losses on interest bearing assets	2,314,986	849,531	189,897	2,219,611	234,858	400	5,809,283
Net gain on financial assets and liabilities at fair value through profit or loss	(5,311)	1,065,007	(2,071)	—	—	—	1,057,625
Net gain on foreign exchange operations	90,191	151,302	334,519	70,065	—	—	646,077
Net loss on precious metals transactions	—	(1,069,780)	—	20,942	—	—	(1,048,838)
Fee and commission income	588,095	138,660	387,635	1,060,410	32,592	—	2,207,392
Fee and commission expenses	(47,393)	(162,132)	(42,671)	(170,355)	(31,082)	(44)	(453,677)
Net gain on investments available-for-sale	—	705,309	—	—	—	—	705,309
Loss from an associate	—	—	—	—	—	(139,901)	(139,901)
Gain from revaluation of interest in an associate	—	—	—	—	—	18,829	18,829
Bargain purchase gain recognised	—	—	—	—	—	176,518	176,518
Allowance for impairment losses on other assets and credit related commitments	(334,992)	(37,346)	(39,525)	(14,544)	—	—	(426,407)
Gain on disposal of loans	408,940	—	—	—	—	—	408,940
Revaluation of investment property	(219,500)	—	—	—	—	1,066	(218,434)
Recovery on loans issued at below market rates	50,348	—	—	3,197	—	—	53,545
Other income	215,998	(45,197)	(2,982)	(32,302)	(51,813)	17,262	100,966
Net non-interest income	746,376	745,823	634,905	937,413	(50,303)	73,730	3,087,944
Operating expenses	(1,120,358)	(795,768)	(299,674)	(1,965,564)	(21,040)	(914,633)	(5,117,037)
Profit before tax	1,941,004	799,586	525,128	1,191,460	163,515	(840,503)	3,780,190
Income tax expense	—	—	—	—	—	(760,689)	(760,689)
NET PROFIT	1,941,004	799,586	525,128	1,191,460	163,515	(1,601,192)	3,019,501
Depreciation expenses	76,580	54,393	20,484	134,352	1,438	62,518	349,765
Capital expenditure	177,073	125,771	47,364	310,658	3,325	144,558	808,749

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Segment statements about the income and expenses for 2009 is presented below:

	Corporate banking	Investment banking	SME	Retail banking	Treasury and asset-liability management unit	Unallocated	Total
External interest income	7,090,558	3,332,696	773,853	2,996,515	—	—	14,193,622
External interest expense	(1,635,553)	(4,012,323)	(252)	(2,718,990)	(546,742)	—	(8,913,860)
Internal funding costs/revenues from Central Treasury	(3,044,299)	1,870,894	(506,861)	1,424,521	255,745	—	—
Net interest income	2,410,706	1,191,267	266,740	1,702,046	(290,997)	—	5,279,762
Allowance for impairment losses on interest bearing assets	(2,546,829)	(21)	(449,263)	(163,472)	—	—	(3,159,585)
Net interest income after allowance for impairment losses on interest bearing assets	(136,123)	1,191,246	(182,523)	1,538,574	(290,997)	—	2,120,177
Net gain on financial assets and liabilities at fair value through profit or loss	(6,778)	830,797	—	—	—	16	824,035
Net gain on foreign exchange operations	83,194	885,449	—	137,217	—	(545)	1,105,315
Net loss on precious metals transactions	—	(460,165)	—	(12,442)	—	—	(472,607)
Fee and commission income	471,377	113,426	112,114	937,136	—	—	1,634,053
Fee and commission expenses	(18,571)	(14,593)	—	(144,934)	(35,397)	—	(213,495)
Net gain on investments available-for-sale	—	(82,198)	—	—	—	(10)	(82,208)
Allowance for impairment losses on other assets and credit related commitments	(10,300)	(15,520)	—	(30,313)	—	(36,035)	(92,168)
Loss on loans issued at below market rates	—	—	(100,339)	(3,304)	—	—	(103,643)
Other income	6,027	184	269	32,491	—	15,677	54,648
Net non-interest income	524,949	1,257,380	12,044	915,851	(35,397)	(20,897)	2,653,930
Operating expenses	(937,280)	(776,431)	(258,039)	(1,959,274)	(29,063)	(244)	(3,960,331)
Loss from an associate	—	—	—	—	—	(2,422)	(2,422)
Profit before tax	(548,454)	1,672,195	(428,518)	495,151	(355,457)	(23,563)	811,354
Income tax expense	—	—	—	—	—	(215,802)	(215,802)
NET PROFIT	(548,454)	1,672,195	(428,518)	495,151	(355,457)	(239,365)	595,552
Depreciation expenses	65,515	54,272	25,050	137,182	2,031	187	284,237
Capital expenditure	229,487	190,104	87,746	480,524	7,116	652	995,629

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

Valuation techniques

The Group uses a number of methodologies to determine the fair values of financial instruments for which observable prices in active markets for identical instruments are not available. These techniques include: relative fair value methodologies based on observable prices for similar instruments; present value approaches where future cash flows from the asset or liability are estimated and then discounted using a risk-adjusted interest rate.

The principal inputs to these valuation techniques are listed below. Values between and beyond available data points are obtained by interpolation and extrapolation. When utilising valuation techniques, the fair value can be significantly affected by the choice of valuation model and by underlying assumptions concerning factors such as the amounts and timing of cash flows, discount rates and credit risk.

- Bond prices—quoted prices are generally available for government bonds, certain corporate securities and some mortgage-related products.
- Interest rates—these are principally benchmark interest rates or internal Bank rates effective as at reporting date and quoted interest rates in the swap, bond and futures markets.
- Foreign currency exchange rates—there are observable markets both for spot and forward contracts and futures in the world's major currencies.
- Equity and equity index prices—quoted prices are generally readily available for equity shares listed on the world's major stock exchanges and for major indices on such shares, except for shares that do not have quoted market price and are not reliably measured which are carried at cost.
- Commodity prices—many commodities are actively traded in spot and forward contracts and futures on exchanges in London, New York and other commercial centers.

In order to determine a reliable fair value, where appropriate, management applies valuation adjustments to the pricing information gathered from the above sources. Furthermore, on an ongoing basis, the Group assesses the appropriateness of any model used.

Financial assets and liabilities

The following methods and significant assumptions have been applied to estimate the fair values of financial instruments:

- Cash and balances with the Central Bank of the Russian Federation and minimum reserve deposit with the Central Bank of the Russian Federation, due to the short-term environment and availability restrictions of these types of assets, the carrying amount is assumed to be reasonable estimate of their fair value.
- The estimated fair value of quoted trading securities and derivative financial instruments, comprising financial assets and liabilities at fair value through profit or loss category, is determined based on quoted active market prices at the reporting date. The fair value of derivatives with foreign currency and precious metals is assessed on the basis of the curve of forward quotation rates, which was provided by top-ranked companies—providers of financial data for professional participants of financial markets.
- The fair value of loans and advanced to banks and loans to customers for loans provided during the period of one month to the reporting date is assumed to be fair value amount for them. The fair value of the other loans is estimated by application of market interest rates when the loans were originated with the current market rates offered on similar deposits with the deduction of the allowances for credit losses from the calculated fair value amounts.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

- The estimated fair value of promissory notes and bonds comprising investments available-for-sale category is determined based on the quoted market prices except for promissory that do not have quoted market price. Investments in equity instruments that do not have quoted market prices on active market are measured at cost, as their fair value can not be measured reliably. The fair value of promissory notes is estimated by application of market interest rates offered for similar promissory notes.
- The fair value of shares in investment funds, which have quoted prices on the active market, is determined based on the quoted market prices. For shares in investment funds, which have no quoted prices on the active market the Group uses an independent appraiser's valuation for determining the fair value of such shares in the investment funds. The fair value of the assets of the investment funds is determined by the use of different approaches (income approach, comparative approach and cost approach) and methods (income capitalization method, company-analogue method, discounted cash flows method, liquidation value method).
- Other financial assets and liabilities are mainly represented by short-term receivables and payables, therefore the carrying amount is assumed to be reasonable estimate of their fair value.
- The carrying value of term deposits (included in customer accounts and deposits from banks) for term deposits placed during the period of one month to the reporting date is assumed to be fair value amount for them. The fair value of the other term deposits is estimated by application of market interest rates offered on similar deposits.
- The carrying amount of current customer accounts is assumed to be reasonable estimate of their fair value due to the short-term environment and availability requirements of these types of liabilities.
- The fair value of issued bonds, subordinated debt and Eurobonds and securities issued is based on quoted prices. Where these are not available, fair value is based on expected cash flows discounted using market interest rates for similar securities or funds where market rates are quoted.

The following table compares the carrying amount of financial assets and liabilities to their estimated fair values:

	December 31, 2010		December 31, 2009	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and balances with the Central Bank of Russian Federation	8,518,339	8,518,339	9,012,489	9,012,489
Minimum reserve deposit with the Central Bank of the Russian Federation	951,257	951,257	636,078	636,078
Loans and advances to banks and other financial institutions	22,221,493	22,221,493	13,337,217	13,337,217
Financial assets at fair value through profit or loss ...	2,732,652	2,732,652	2,675,561	2,675,561
Loans to customers	100,832,992	103,750,254	80,005,001	79,203,949
Investments available-for-sale	24,460,940	24,460,940	19,603,966	19,603,966
Other financial assets	1,086,478	1,086,478	55,856	55,856
Financial liabilities				
Financial liabilities at fair value through profit or loss	529,956	529,956	299,157	299,157
Due to banks and the Central Bank of the RF	14,883,504	14,883,504	24,727,999	24,727,999
Customer accounts	101,247,584	102,162,250	64,870,183	65,141,524
Securities issued	17,522,015	17,625,582	13,065,017	13,093,029
Bonds	6,043,381	6,074,850	3,060,622	2,973,030
Other financial liabilities	194,923	194,923	130,787	130,787
Subordinated debt and Eurobonds	5,288,300	5,568,212	5,692,102	5,834,975

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Valuation hierarchy

Financial instruments recognized at fair value are broken down for disclosure purposes into a three level fair value hierarchy based on the observability of inputs as follows:

- Quoted prices in an active market (Level 1)—Valuations based on quoted prices in active markets that the Group has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to these financial instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuations of these products do not entail a significant amount of judgment.
- Valuation techniques using observable inputs (Level 2)—Valuations based on inputs for which all significant inputs are observable, either directly or indirectly and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active.
- Valuation techniques incorporating information other than observable market data (Level 3)—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Group's approach to valuation and fair value hierarchy categorization for certain significant classes of financial instruments recognized at fair value is as follows:

	December 31, 2010			
	Quoted prices in active market (Level 1)	Valuation techniques based on observable market data (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)	Total
Financial assets at fair value through profit or loss	—	2,732,652	—	2,732,652
First to default notes	—	1,816,972	—	1,816,972
Foreign currency forwards	—	791,470	—	791,470
Precious metal forwards	—	3,650	—	3,650
Swaps	—	119,416	—	119,416
Securities forwards	—	1,144	—	1,144
Investments available-for-sale	7,941,766	10,902,634	5,226,364	24,070,764
Bonds	7,928,777	—	—	7,928,777
Shares and units of investment funds	12,989	—	5,226,364	5,239,353
Promissory notes	—	10,902,634	—	10,902,634
	<u>7,941,766</u>	<u>13,635,286</u>	<u>5,226,364</u>	<u>26,803,416</u>
Financial liabilities at fair value through profit or loss				
loss	—	(529,956)	—	(529,956)
Foreign currency forwards	—	(416,346)	—	(416,346)
Precious metal forwards	—	(3,458)	—	(3,458)
Swaps	—	(110,152)	—	(110,152)
	<u>—</u>	<u>(529,956)</u>	<u>—</u>	<u>(529,956)</u>

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

	December 31, 2009			Total
	Quoted prices in active market (Level 1)	Valuation techniques based on observable market data (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)	
Financial assets at fair value through profit or loss	—	2,675,561	—	2,675,561
First to default notes	—	2,267,075	—	2,267,075
Foreign currency forwards	—	133,474	—	133,474
Precious metal forwards	—	24,588	—	24,588
Securities forwards	—	29,235	—	29,235
Swaps	—	221,189	—	221,189
Investments available-for-sale	14,055,895	5,157,895	—	19,213,790
Bonds	13,163,996	559,637	—	13,723,633
Shares	891,899	—	—	891,899
Promissory notes	—	4,598,258	—	4,598,258
	<u>14,055,895</u>	<u>7,833,456</u>	<u>—</u>	<u>21,889,351</u>
Financial liabilities at fair value through profit or loss				
loss	—	(299,157)	—	(299,157)
Foreign currency forwards	—	(90,580)	—	(90,580)
Precious metal forwards	—	(54)	—	(54)
Swaps	—	(208,523)	—	(208,523)
	<u>—</u>	<u>(299,157)</u>	<u>—</u>	<u>(299,157)</u>

Excluded from the table above were investments in the equity securities of unlisted entities classified as available for sale securities. The fair value of such securities is not readily measurable accordingly such investments are carried at the acquisition cost. As at December 31, 2010 and 2009 the value of such investments amounted to RUB 390,176 thousand.

There were no transfers between Level 1 and 2 in the period.

The Group invests in certain investment funds where as a result of general market conditions and illiquidity of the bond markets the valuation is based upon inputs other than those readily observable in the market place (Level 3). The following table provides a detail of the activity with respect to the fair value measurement during the period ending December 31, 2010.

	Shares and units of investment funds
January 1, 2010	—
Purchases	5,018,346
Gains or losses in other comprehensive income	208,018
December 31, 2010	<u>5,226,364</u>

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

37. CAPITAL MANAGEMENT

For Basel I ratio calculation purposes, two tiers of capital are distinguished:

Tier I capital is “core” bank capital and includes paid share capital (less the carrying value of treasury shares), minority interests in the equity of subsidiaries and retained earnings (including their allocations to reserves), less certain deductions, such as goodwill.

Tier II capital is “supplementary” bank capital that includes subordinated debt, hybrid instruments with characteristics of both capital and equity and certain revaluation reserves, such as unrealized gains on the revaluation of financial instruments classified as available-for-sale and property revaluation surplus.

The table below presents the composition of capital complying with Basel I and discloses the capital adequacy ratio for the reporting periods ended December 31, 2010 and 2009:

	December 31, 2010	December 31, 2009 (unaudited)
Tier 1 capital	20,566,005	17,446,284
Tier 2 capital	6,394,745	6,402,492
Total capital	<u>26,960,750</u>	<u>23,848,776</u>
Risk-weighted assets:		
Credit risks	153,800,165	94,683,429
Market risks	1,237,830	27,057,027
Total risk-weighted assets	<u>155,037,995</u>	<u>121,740,456</u>
Basel ratio	17.39%	19.59%
Tier 1	13.27%	14.33%

The capital adequacy ratios exceeded the minimum ratio of 8% recommended by the Basel Accord 1988. As at December 31, 2010 and 2009, the Bank and its individual banking subsidiaries complied with Basel capital requirements.

The Bank’s overall capital management policy is aimed at the dynamic optimization of capital required for the Bank’s expansion and maintenance of sufficient capital adequacy to protect the Bank from unfavourable changes in market conditions and minimize liquidity risk. The capital management policy supports the shareholders’ vision and strategy of long-term Bank development.

38. RISK MANAGEMENT POLICIES

Risk management policies

Management of risks is fundamental to the Group’s business. The risk management functions include:

- Organizational structure of risk management—a structure of the Group’s bodies and departments involved in risk management activities;
- Structure of risk identification and assessment;
- Risk monitoring and minimizing system;
- Internal control structure.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

The Group attaches importance to the effective functioning of the risk management system. The risk management policies aim to identify, analyze and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice. The Bank has introduced a procedure for review of risk status reports by the Board of Directors. Risk indicators are included in the Bank's development strategy. Recommendations of the Basel Committee on banking supervision are considered in calculation of risk indicators.

The Risk Management and Financial Control Department, an independent structural unit, identifies, analyses, evaluates and develops risk management methods. Risk management units report to the Head of Risk Management and Financial Control Department and are independent of the business units. The Risk Management and Financial Control Department together with other business units (Credit Committee, Asset and Liability Committee and others) constantly controls and monitors the situation on the financial markets and in the real sector of the economy, promptly responds to changes in the market conditions and implements measures necessary to maintain risks at acceptable levels and to minimize potential losses.

Credit, market and liquidity risks are managed and controlled by Credit Committees and Asset and Liability Committee both at the portfolio and transaction levels. The Bank established a hierarchy of Credit Committees depending on the type and amount of the exposure to facilitate efficient decision-making.

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

The main risks inherent to the Group's operations are those related to:

- Credit risk;
- Operational risk;
- Liquidity risk;
- Market risk.

The Bank controls the subsidiaries' activities, approves the budgets and controls the budgets' fulfillment. The subsidiaries perform their financial transactions only with the Bank's approval.

There have been no significant changes to the Group's risk management policies from those disclosed in the consolidated financial statements for the year ended December 31, 2009. The Group presents the following information in relation to its risk management policies as at December 31, 2010.

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group manages credit risk by:

- Implementation of a decision making procedure that requires, in addition to risk assessment performed by business units (loan departments, functions responsible for interbank operations and securities portfolio management), the independent consideration and monitoring of credit risks by the departments independent from the business units (risk-management, legal department, security department and collateral valuation department);
- Implementation of a system of limits that requires establishing critical risk ratios by types of borrowers and portfolios;

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

- Implementation of monitoring procedures for early identification of potential bad debts and mitigating negative trends;
- Implementation of a system of credit risk concentration indicators;
- Establishing a critical level of losses for loans issued to groups of related borrowers and control over the credit risk level.

Credit risk exposure is estimated using the results of a regular analysis of the counterparty's ability to meet its obligations, including forecast of macroeconomic and political trends affecting the creditworthiness of the counterparty.

The Group has established the Credit Committee which is responsible for the oversight of credit risk.

The proposed transactions are approved by a number of Credit Committees, the composition of which depends on the accepted aggregate counterparty credit risk and the nature of the asset.

The Credit Committees manage credit risk by setting individual limits on all types of credit risk, excluding retail loans.

Credit risk for retail loans is managed by establishing standard lending conditions and setting loss limits on each portfolio of homogeneous loans.

For transactions with counterparties operating outside the OECD countries and the Russian Federation the country risk limit is set.

The Credit Committee approves new loans and changes and amendments to the existing loan agreements. The Asset and Liability Committee takes decisions on establishing limits for transactions with financial assets, which are associated with credit risks. The Board of Directors or the Management Board approves new significant loans. The Risk Management and Financial Control Department assesses the level of credit risk in respect of each instrument and submits the results of such assessment to the above mentioned committees for their consideration. The Department of Interbank Business, Lending Department and Investment Department are responsible for current monitoring and control over credit risks.

Credit risk for off-balance sheet financial instruments is defined as the probability of losses due to failure of the counterparty to comply with the contractual terms and conditions. The Group applies the same credit policy to the credit related commitments as it does to financial instruments recognized in the consolidated statement of financial position, using the approved loan limits and risk level limits in accordance with the established control procedures.

The Risk Management and Financial Control Department is responsible for establishing and controlling the compliance with critical credit risk ratios.

The Internal Control Department is responsible for control over the compliance with the credit risk management requirements and procedures and reporting of information on credit risk positions to the Board of Directors.

A large proportion of operations is conducted with counterparties located on the territory of the Khanty-Mansiysk Autonomous District-Yugra.

Since 2006, under an agreement between the Group and the Government of the KhMAD-Yugra Autonomous District, the Group has been implementing the "Affordable Housing in Yugra" project. As part of the project, the Group provides mortgage loans to residents of the District who meet the requirements applicable to mortgage lending operations performed by the Group in the ordinary course of business. Management considers these loans as commercial lending operations and accordingly applies its regular procedures to manage the credit risk.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

The Government of the KhMAO-Yugra Autonomous District makes preliminary selection of potential borrowers, undertakes certain commitments in relation to communication about the program in the mass media and promotes presentations of information about this project across the entire territory of the District.

The Group has no commitments to the Government of the District and the Government of the District has no commitments to the Group in relation to this program.

Maximum credit risk exposure

The Group's maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. For financial guarantees and other off balance sheet assets, the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the credit line loan amount was called on.

	Maximum exposure	Collateral pledged(*)	December 31, 2010 Net exposure after collateral
Balances with the Central Bank of the Russian Federation	2,966,536	—	2,966,536
Minimum reserve deposit with the Central Bank of the Russian Federation	951,257	—	951,257
Loans and advances to banks and other financial institutions	22,221,493	—	22,221,493
Financial assets at fair value through profit or loss, except for equity securities	2,732,652	—	2,732,652
Loans to customers	100,832,992	89,920,449	10,912,543
Investments available-for-sale, except for equity securities	18,831,411	—	18,831,411
Other financial assets	1,086,478	—	1,086,478
Unused loan commitments	15,627,086	—	15,627,086
Guarantees issued and similar commitments	18,705,328	—	18,705,328
Letters of credit and other transaction related contingent obligations	1,057,978	2,950	1,055,028
	Maximum exposure	Collateral pledged(*)	December 31, 2009 Net exposure after collateral
Balances with the Central Bank of the Russian Federation	4,688,437	—	4,688,437
Minimum reserve deposit with the Central Bank of the Russian Federation	636,078	—	636,078
Loans and advances to banks and other financial institutions	13,337,217	—	13,337,217
Financial assets at fair value through profit or loss, except for equity securities	2,675,561	—	2,675,561
Loans to customers	80,005,001	63,880,572	16,124,429
Investments available-for-sale, except for equity securities	18,321,891	—	18,321,891
Other financial assets	55,856	—	55,856
Unused loan commitments	8,053,355	—	8,053,355
Guarantees issued and similar commitments	8,519,394	—	8,519,394
Letters of credit and other transaction related contingent obligations . .	414,005	—	414,005

(*) Collateral pledged is determined based on its fair value not exceeding the carrying amount of the underlying loans.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Financial assets are graded according to the current credit rating when available. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of unimpaired financial assets other than loans to customers held by the Group. Credit ratings of loans to customers are presented in Note 21.

	AAA	AA	A	BBB	<BBB	Not rated	December 31, 2010 Total
Balances with the Central Bank of the Russian Federation	—	—	—	2,966,536	—	—	2,966,536
Minimum reserve deposit with the Central Bank of the Russian Federation	—	—	—	951,257	—	—	951,257
Loans and advances to banks and other financial institutions		90,425	1,263,955	443,016	14,485,303	5,938,794	22,221,493
Financial assets at fair value through profit or loss	—	999,443	902,796	307,312	12,016	511,085	2,732,652
Investments available-for-sale . . .	—	—	—	4,194,307	14,106,663	6,159,970	24,460,940
Other financial assets	—	—	—	—	—	1,086,478	1,086,478
	AAA	AA	A	BBB	<BBB	Not rated	December 31, 2009 Total
Balances with the Central Bank of the Russian Federation	—	—	—	4,688,437	—	—	4,688,437
Minimum reserve deposit with the Central Bank of the Russian Federation	—	—	—	636,078	—	—	636,078
Loans and advances to banks and other financial institutions	—	2,371,705	2,753,429	2,464,694	2,283,904	3,463,485	13,337,217
Financial assets at fair value through profit or loss	806,465	1,488,166	—	79,581	26,812	274,537	2,675,561
Investments available-for-sale . . .	—	—	—	6,685,076	12,146,418	772,472	19,603,966
Other financial assets	—	—	—	—	—	55,856	55,856

Banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Group is concentrated within the Russian Federation. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Geographical concentration

The geographical concentration of assets and liabilities is set out below:

	RF	Non-OECD countries	OECD countries	December 31, 2010 Total
Assets				
Cash and balances with the Central Bank of the Russian Federation	8,518,339	—	—	8,518,339
Minimum reserve deposit and foreign currency with the Central Bank of the Russian Federation	951,257	—	—	951,257
Loans and advances to banks and other financial institutions	4,040,595	17,086,592	1,094,306	22,221,493
Financial assets at fair value through profit or loss	441,426	385,338	1,905,888	2,732,652
Loans to customers	89,815,442	11,015,098	2,452	100,832,992
Investments available-for-sale	23,078,053	1,382,887	—	24,460,940
Other financial assets	1,086,461	17	—	1,086,478
TOTAL FINANCIAL ASSETS	127,931,573	29,869,932	3,002,646	160,804,151
Precious metals	15,923	—	—	15,923
Property, plant and equipment	5,037,390	—	—	5,037,390
Deferred income tax assets	13,791	—	—	13,791
Other non-financial assets	2,394,007	4,015	627	2,398,649
TOTAL NON-FINANCIAL ASSETS	7,461,111	4,015	627	7,465,753
TOTAL ASSETS	135,392,684	29,873,947	3,003,273	168,269,904
LIABILITIES:				
Financial liabilities at fair value through profit or loss	58,859	345,317	125,780	529,956
Due to banks and the Central Bank of the Russian Federation	7,353,104	252,732	7,277,668	14,883,504
Customer accounts	100,771,395	444,943	31,246	101,247,584
Securities issued	17,522,015	—	—	17,522,015
Bonds	6,043,381	—	—	6,043,381
Other financial liabilities	194,923	—	—	194,923
Subordinated debt and eurobonds	2,230,840	—	3,057,460	5,288,300
TOTAL FINANCIAL LIABILITIES	134,174,517	1,042,992	10,492,154	145,709,663
Deferred income tax liabilities	201,310	—	—	201,310
Other non-financial liabilities	646,220	33	—	646,253
TOTAL NON-FINANCIAL LIABILITIES	847,530	33	—	847,563
TOTAL LIABILITIES	135,022,047	1,043,025	10,492,154	146,557,226
NET POSITION	370,637	28,830,922	(7,488,881)	

As at December 31, 2010, the increase in the negative net position with OECD countries is mainly due to a number of large deposits received from the foreign bank situated in OECD countries and owned by the Russian bank and also due to funds related to settlement on letters of credits of the Russian customers.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

	<u>RF</u>	<u>Non-OECD countries</u>	<u>OECD countries</u>	<u>December 31, 2009 Total</u>
Assets				
Cash and balances with the Central Bank of the Russian Federation	9,012,489	—	—	9,012,489
Minimum reserve deposit with the Central Bank of the Russian Federation	636,078	—	—	636,078
Loans and advances to banks and other financial institutions	6,124,464	2,608,911	4,603,842	13,337,217
Financial assets at fair value through profit or loss	304,497	16,392	2,354,672	2,675,561
Loans to customers	73,439,829	6,565,172	—	80,005,001
Investments available-for-sale	17,932,736	1,671,230	—	19,603,966
Other financial assets	55,856	—	—	55,856
TOTAL FINANCIAL ASSETS	107,505,949	10,861,705	6,958,514	125,326,168
Precious metals	16,957	—	—	16,957
Investments in associates	202,419	—	—	202,419
Property, plant and equipment	4,710,058	—	—	4,710,058
Deferred income tax assets	60,136	—	—	60,136
Other non-financial assets	507,987	—	—	507,987
TOTAL NON-FINANCIAL ASSETS	5,497,557	—	—	5,497,557
TOTAL ASSETS	113,003,506	10,861,705	6,958,514	130,823,725
LIABILITIES:				
Financial liabilities at fair value through profit or loss ..	14,666	52,976	231,515	299,157
Due to banks and the Central Bank of the Russian Federation	15,751,173	2,471,094	6,505,732	24,727,999
Customer accounts	64,471,058	353,381	45,744	64,870,183
Securities issued	13,065,017	—	—	13,065,017
Bonds	3,060,622	—	—	3,060,622
Other financial liabilities	130,787	—	—	130,787
Subordinated debt	2,694,483	—	2,997,619	5,692,102
TOTAL FINANCIAL LIABILITIES	99,187,806	2,877,451	9,780,610	111,845,867
Other non-financial liabilities	201,184	—	—	201,184
TOTAL NON-FINANCIAL LIABILITIES	201,184	—	—	201,184
TOTAL LIABILITIES	99,388,990	2,877,451	9,780,610	112,047,051
NET POSITION	13,614,516	7,984,254	(2,822,096)	

Market risk

Market risk is the risk that the fluctuation of the market value of securities, foreign exchange rates, value of precious metals or interest rates may affect the results of transactions and the value of assets.

Therefore, market risk includes currency risk, interest risk and pricing risk. The Group is exposed to market risk due to open positions on marketable securities, foreign currencies, precious metals and interest rates.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

The Asset and Liability Committee is responsible for managing market risk. Market risk limits are approved by the Asset and Liability Committee on the basis of recommendations of the Risk Management and Financial Control Department.

The Group manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by the Management Board.

Value at risk methodology applied by the Group to measure risks

The Group applies Value-at-Risk (VaR) methodology to assess its exposure to currency and price risk. VaR is the maximum volume of loss for the concerned position of financial instrument/ portfolio/ transaction that may arise during a given period of time with a given probability. The loss value is estimated based on statistical and probabilistic analysis.

Value at risk for currency risk and pricing risk on fixed-income securities is estimated on the basis of historic modeling, i.e. modeling of possible values of a random variable based on a sample of historic data. The securities pricing risk is estimated using the exponentially weighted covariance method assuming multivariate normal distribution of risk factors, with the observations made later assumed to have higher weight in the covariance.

The Group assumes the accuracy of the maximum value at risk estimate (level of confidence) of 99% and the time horizon of 10 days.

When preparing the IFRS consolidated financial statements the Risk Management and Financial Control Department estimated the value at risk with respect to the positions in principal currencies and gold, and of market (pricing) risks of the Group inherent in the securities portfolio as at December 31, 2010 and 2009.

As at December 31, 2010 and 2009, value at risk with respect to currency and market risks accepted by the Group were as follows:

	December 31, 2010	December 31, 2009
Currency risk	14,484	69,958
Pricing risk for fixed-income securities	1,097,249	4,456,669
Pricing risk on equity securities	1,261	96,912
	Year, ended December 31, 2010	Year, ended December 31, 2009
Currency risk		
Minimum	23	547
Average	46,225	65,527
Maximum	186,413	178,899
Pricing risk for fixed-income securities		
Minimum	1,097,249	3,944,391
Average	1,899,625	6,774,571
Maximum	4,544,319	8,350,115
Pricing risk on equity securities		
Minimum	1,261	96,872
Average	20,591	268,610
Maximum	118,976	542,855

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**
(in thousands of Russian Rubles)

Although the measurement of value at risk is quite effective in estimating risks, the effectiveness may be limited, especially in the case of low liquidity markets:

- Use of historic data to model future events does not consider all the possible scenarios, especially extraordinary ones;
- Use of the confidence level of 99% ignores losses beyond the confidence range;
- Calculation of the value at risk on the basis of business day results does not consider fluctuations which may occur during the day.

In view of the above, the Group applies other risk measurement methods as well: gap analysis for interest rate risk, and net interest income sensitivity analysis.

Interest rate risk

Fair value interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. Interest rate sensitivity is the relationship between market interest rates and net interest income resulting from the repricing characteristics of assets and liabilities. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

Cash flow interest rate risk arises from the possibility that future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risk, principally as a result of lending at fixed interest rates in amounts and for periods which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Risk Management and Financial Control Department is responsible for establishing critical interest rate risk ratios and control over compliance with these ratios. The Internal Control Department is responsible for control over the compliance with the interest rate risk management requirements and procedures and reporting of information on interest rate risk positions to the Board of Directors.

The interest rate risk management system includes:

- Calculation of aggregate interest rate repricing gaps;
- Projection of interest margins under the assumption of constant balances;
- Analysis of the effects of changes in the market interest rates on net interest margins, including crisis scenarios using stress-testing;
- Control over compliance of interest rate with target ratios.

The Asset and Liability Committee, which is the strategy management unit, and the units responsible for financial analysis and reporting manage risks related to changes in interest rates and market changes based on the analysis of interest rate positions, which helps to avoid a negative interest margin.

The target level of interest margin is established by the Board of Directors. The interest rates applied by the Group are approved by the Asset and Liability Committee. The majority of the Group's financial assets and liabilities are fixed rate contracts.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

The following table presents financial assets/liabilities' maturity based on projected repricing dates. These repricings are determined by management and are contained within the risk reports provided to key management personnel.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Financial assets and liabilities not sensitive to interest rate fluctuations	December 31, 2010 Total
ASSETS:							
Cash and balances with the Central Bank of the Russian Federation . .	3,352,504	—	—	—	—	5,165,835	8,518,339
Minimum reserve deposit with the Central Bank of the Russian Federation	—	—	—	—	—	951,257	951,257
Precious metals	—	—	—	—	—	15,923	15,923
Loans and advances to banks and other financial institutions	6,610,818	3,814,050	6,243,527	2,017,957	—	3,535,141	22,221,493
Financial assets at fair value through profit or loss	305,913	676,654	835,549	119,416	—	795,120	2,732,652
Loans to customers	20,263,880	6,455,824	34,052,733	29,393,727	10,666,828	—	100,832,992
Investments available-for-sale	1,845,379	7,164,464	4,488,138	3,766,603	1,566,828	5,629,528	24,460,940
Property, plant and equipment	—	—	—	—	—	5,037,390	5,037,390
Deferred income tax assets	—	—	—	—	—	13,791	13,791
Other assets	—	—	—	—	—	3,485,127	3,485,127
TOTAL ASSETS	32,378,494	18,110,992	45,619,947	35,297,703	12,233,656	24,629,112	168,269,904
LIABILITIES:							
Financial liabilities at fair value through profit or loss	—	—	—	110,152	—	419,804	529,956
Due to banks and the Central Bank of the Russian Federation	5,416,097	2,870,481	5,926,635	546,500	—	123,791	14,883,504
Customer accounts	25,007,376	8,146,012	41,523,636	11,169,234	8,357	15,392,969	101,247,584
Securities issued	414,446	1,409,986	15,554,065	143,518	—	—	17,522,015
Bonds	—	—	6,043,381	—	—	—	6,043,381
Deferred income tax liabilities	—	—	—	—	—	201,310	201,310
Other liabilities	—	—	—	—	—	841,176	841,176
Subordinated debt and eurobonds . .	—	—	9,312	3,148,719	2,130,269	—	5,288,300
TOTAL LIABILITIES	30,837,919	12,426,479	69,057,029	15,118,123	2,138,626	16,979,050	146,557,226
Net interest gap based on projected repricing dates	1,540,575	5,684,513	(23,437,082)	20,179,580	10,095,030		

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Financial assets and liabilities not sensitive to interest rate fluctuations	December 31, 2009 Total
ASSETS:							
Cash and balances with the Central Bank of the Russian Federation . . .	469,406	—	—	—	—	8,543,083	9,012,489
Minimum reserve deposit with the Central Bank of the Russian Federation	—	—	—	—	—	636,078	636,078
Precious metals	—	—	—	—	—	16,957	16,957
Loans and advances to banks and other financial institutions	8,915,268	658,745	—	—	—	3,763,204	13,337,217
Financial assets at fair value through profit or loss	1,239,003	614,420	442,887	221,189	—	158,062	2,675,561
Loans to customers	19,135,563	2,635,975	26,450,492	22,018,184	9,764,787	—	80,005,001
Investments available-for-sale	1,936,819	2,051,555	4,566,038	6,349,795	3,417,684	1,282,075	19,603,966
Property, plant and equipment	—	—	—	—	—	4,710,058	4,710,058
Deferred income tax assets	—	—	—	—	—	60,136	60,136
Investments in subsidiaries and associates	—	—	—	—	—	202,419	202,419
Other assets	—	—	—	—	—	563,843	563,843
TOTAL ASSETS	31,696,059	5,960,695	31,459,417	28,589,168	13,182,471	19,935,915	130,823,725
LIABILITIES:							
Financial liabilities at fair value through profit or loss	—	—	—	208,523	—	90,634	299,157
Due to banks and the Central Bank of the Russian Federation	11,509,415	2,726,762	6,743,425	130,726	—	3,617,671	24,727,999
Customer accounts	16,921,232	4,126,334	16,087,509	16,696,067	5,213	11,033,828	64,870,183
Securities issued	574,955	2,672,341	9,795,884	21,837	—	—	13,065,017
Bonds	—	—	3,060,622	—	—	—	3,060,622
Other liabilities	—	—	—	—	—	331,971	331,971
Subordinated debt and eurobonds	700,000	—	9,187	—	4,982,915	—	5,692,102
TOTAL LIABILITIES	29,705,602	9,525,437	35,696,627	17,057,153	4,988,128	15,074,104	112,047,051
Net interest gap based on projected repricing dates	1,990,457	(3,564,742)	(4,237,210)	11,532,015	8,194,343		

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

The following table presents a breakdown of weighted average effective interest rates in force as at December 31, 2010 and 2009. Effective average interest rates are analyzed by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Group.

	December 31, 2010			December 31, 2009		
	RUB	USD	Other currencies	RUB	USD	Other currencies
ASSETS:						
Loans and advances to banks and other financial institutions	0.99%	4.09%	4.78%	—	6.35%	—
Financial assets at fair value through profit or loss	—	9.58%	—	5.11%	6.01%	1.11%
Loans to customers	11.29%	8.23%	9.78%	13.47%	10.49%	13.02%
Investments available-for-sale	7.92%	6.67%	9.20%	12.91%	8.62%	4.00%
LIABILITIES:						
Due to banks and the Central Bank of the Russian Federation	4.78%	1.47%	5.34%	5.14%	4.62%	0.40%
Customer accounts	5.74%	6.50%	6.83%	7.74%	6.44%	7.62%
Securities issued	8.23%	1.50%	4.69%	13.56%	10.43%	1.41%
Bonds	7.43%	—	—	14.57%	—	—
Subordinated debt	6.92%	11.30%	—	7.44%	11.59%	—

Interest risk management

The first portion of this calculation is based on the assumption that market interest rates will rise (fall) by two percentage points and is assumed to stay on the same level, for a one year period. The sensitivity analysis applied to the profit and equity as a result of potential changes in the market interest rates as described below is for twelve months ended December 31, 2010 and 2009.

The calculation refers to the immediate effect on income statement of each scenario for the Group's interest rate positions on floating rates instruments.

The second portion entitled "changes in value" calculates the equivalent effect for debt securities in the trading and available-for-sale category only.

	December 31, 2010		December 31, 2009	
	Equity	Net profit for the period	Equity	Net profit for the period
Net interest income				
Interest rate increase	+2%	90,445	90,445	18,687
Interest rate decrease	-2%	(90,445)	(90,445)	(18,687)
Change in value				
Market rate increase	+2%	(468,911)	4,716	(776,627)
Marker rate decrease	-2%	563,609	(5,019)	858,769

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Group's exposure to foreign currency exchange rate risk is presented in the table below:

	RUB	USD USD 1 = RUB 30.4769	EUR EUR 1 = RUB 40.3331	Gold 1 ounce = RUB 42,980.0482	Other	December 31, 2010 Total
Assets						
Cash and balances with the Central Bank of the Russian Federation	8,132,371	160,243	225,725	—	—	8,518,339
Minimum reserve deposit and foreign currency with the Central Bank of the Russian Federation	951,257	—	—	—	—	951,257
Loans and advances to banks and other financial institutions	5,637,055	9,088,199	7,488,032	721	7,486	22,221,493
Financial assets at fair value through profit or loss	760,739	1,951,315	15,621	3,650	1,327	2,732,652
Loans to customers	82,966,423	17,760,329	106,240	—	—	100,832,992
Investments available-for-sale	19,796,440	4,556,704	107,796	—	—	24,460,940
Other financial assets	1,071,133	9,983	5,362	—	—	1,086,478
TOTAL FINANCIAL ASSETS	119,315,418	33,526,773	7,948,776	4,371	8,813	160,804,151
Precious metals	—	—	—	12,658	3,265	15,923
Property, plant and equipment	5,037,390	—	—	—	—	5,037,390
Deferred income tax assets	13,791	—	—	—	—	13,791
Other non-financial assets	2,294,308	1,185	4,580	38,980	59,596	2,398,649
TOTAL NON-FINANCIAL ASSETS	7,345,489	1,185	4,580	51,638	62,861	7,465,753
TOTAL ASSETS	126,660,907	33,527,958	7,953,356	56,009	71,674	168,269,904
LIABILITIES:						
Financial liabilities at fair value through profit or loss	362,401	136,874	27,223	3,458	—	529,956
Due to banks and the Central Bank of the Russian Federation	6,702,854	5,598,402	2,582,248	—	—	14,883,504
Customer accounts	91,771,034	5,884,548	3,586,962	5,040	—	101,247,584
Securities issued	16,952,998	6,069	562,948	—	—	17,522,015
Bonds	6,043,381	—	—	—	—	6,043,381
Other financial liabilities	194,923	—	—	—	—	194,923
Subordinated debt	2,230,840	3,057,460	—	—	—	5,288,300
TOTAL FINANCIAL LIABILITIES	124,258,431	14,683,353	6,759,381	8,498	—	145,709,663
Deferred income tax liabilities	201,310	—	—	—	—	201,310
Other non-financial liabilities	640,556	316	5,381	—	—	646,253
TOTAL NON-FINANCIAL LIABILITIES	841,866	316	5,381	—	—	847,563
TOTAL LIABILITIES	125,100,297	14,683,669	6,764,762	8,498	—	146,557,226
OPEN BALANCE SHEET POSITION	1,560,610	18,844,289	1,188,594	47,511	71,674	21,712,678
Payables on forward deals	(25,182,936)	(43,924,095)	(5,241,793)	(401,652)	(1,419,999)	(76,170,475)
Receivables on forward deals	45,339,636	24,772,941	4,234,987	402,912	1,419,999	76,170,475
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	20,156,700	(19,151,154)	(1,006,806)	1,260	—	—
TOTAL NET POSITION	21,717,310	(306,865)	181,788	48,771	71,674	—

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

	RUB (RUB '000)	USD USD 1 = RUB 30.2442 (RUB '000)	EUR EUR 1 = RUB 43.3883 (RUB '000)	Gold 1 ounce = RUB 33,689.50 (RUB '000)	Other (RUB '000)	December 31, 2009 Total (RUB '000)
Assets						
Cash and balances with the Central Bank of the Russian Federation	8,543,083	220,984	248,422	—	—	9,012,489
Minimum reserve deposit and foreign currency with the Central Bank of the Russian Federation	636,078	—	—	—	—	636,078
Loans and advances to banks and other financial institutions	6,037,711	5,895,712	1,030,127	370,286	3,381	13,337,217
Financial assets at fair value through profit or loss	123,517	2,530,059	723	21,262	—	2,675,561
Loans to customers	64,786,728	11,995,127	3,223,146	—	—	80,005,001
Investments available-for-sale	12,222,216	7,295,737	86,013	—	—	19,603,966
Other financial assets	14,708	26,391	14,522	—	235	55,856
TOTAL FINANCIAL ASSETS	92,364,041	27,964,010	4,602,953	391,548	3,616	125,326,168
Precious metals	—	—	—	15,709	1,248	16,957
Property, plant and equipment	4,710,058	—	—	—	—	4,710,058
Deferred income tax assets	60,136	—	—	—	—	60,136
Investments in an associate	202,419	—	—	—	—	202,419
Other non-financial assets	507,987	—	—	—	—	507,987
TOTAL NON-FINANCIAL ASSETS ..	5,480,600	—	—	15,709	1,248	5,497,557
TOTAL ASSETS	97,844,641	27,964,010	4,602,953	407,257	4,864	130,823,725
LIABILITIES:						
Financial liabilities at fair value through profit or loss	53,602	244,864	691	—	—	299,157
Due to banks and the Central Bank of the Russian Federation	14,653,505	7,482,652	223,941	2,367,901	—	24,727,999
Customer accounts	51,070,824	9,734,341	4,065,018	—	—	64,870,183
Securities issued	11,325,558	1,711,293	28,166	—	—	13,065,017
Bonds	3,060,622	—	—	—	—	3,060,622
Other financial liabilities	129,720	704	320	—	43	130,787
Subordinated debt	2,658,440	3,033,662	—	—	—	5,692,102
TOTAL FINANCIAL LIABILITIES ...	82,952,271	22,207,516	4,318,136	2,367,901	43	111,845,867
Other non-financial liabilities	201,184	—	—	—	—	201,184
TOTAL NON-FINANCIAL LIABILITIES	201,184	—	—	—	—	201,184
TOTAL LIABILITIES	83,153,455	22,207,516	4,318,136	2,367,901	43	112,047,051
OPEN BALANCE SHEET POSITION	14,691,186	5,756,494	284,817	(1,960,644)	4,821	18,776,674
Payables on forward deals	(6,052,760)	(19,002,110)	(6,895,821)	(333,601)	(812,079)	(33,096,371)
Receivables on forward deals	10,697,137	12,774,460	6,486,670	2,326,025	812,079	33,096,371
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	4,644,377	(6,227,650)	(409,151)	1,992,424	—	—
TOTAL NET POSITION	19,335,563	(471,156)	(124,334)	31,780	4,821	—

Principal cash flows (revenue, operating expenses) of the Group are mainly denominated in rubles. For this reason future fluctuations of the rate of exchange of the ruble into foreign currencies will affect the carrying amounts of monetary assets and liabilities of the Group. These fluctuations may also affect the Group's ability to invest in non-monetary assets at the value stated in foreign currencies in this consolidated financial statements.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Liquidity and cash flow risks arise when there is a mismatch between maturities of assets and liabilities.

The liquidity risk is defined as a mismatch of asset and liability maturity periods.

The liquidity is managed and controlled by:

- The Asset and Liability Committee, which is the strategy management unit;
- The Treasury, which is responsible for current liquidity management;
- The Risk Management and Financial Control Department, which is responsible for establishing critical liquidity ratios and control over compliance with such ratios;
- The Internal Control Department in respect of control over the compliance with liquidity management requirements and procedures, and reporting of liquidity ratios to the Board of Directors.

The liquidity management system includes:

- Determination of an adequate level of liquid assets;
- Determination of the amount of liquid assets required to meet obligations in crisis environment through stress-testing (on a regular basis);
- Contingency funding plans in case of significant outflow of liabilities resulted from a force-majeure;
- Developing cash flow forecast for a time horizon of up to 1 year;
- Control over compliance of the financial position liquidity ratios with mandatory liquidity ratios.

The liquidity management system enables adequate assessment of cash inflows and outflows for various future time intervals, and timely decision-making with a view to cover liquidity gaps.

The Group implements a prudent approach for assessment of medium-term and long-term liquidity, using the earliest possible estimated maturities for contractual liabilities and the latest possible estimated maturities for assets.

The Group also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the CBR. The Group was in compliance with these ratios during the years ended December 31, 2010 and 2009.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

The following table presents an analysis of liquidity risk based on carrying value of assets and liabilities.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2010 Total
ASSETS:							
Cash and balances with the Central Bank of the Russian Federation . . .	8,518,339	—	—	—	—	—	8,518,339
Minimum reserve deposit with the Central Bank of the Russian Federation	—	—	—	—	—	951,257	951,257
Precious metals	—	—	—	—	—	15,923	15,923
Loans and advances to banks and other financial institutions	10,111,931	3,814,050	6,277,555	2,017,957	—	—	22,221,493
Financial assets at fair value through profit or loss	639,072	700,201	999,602	393,777	—	—	2,732,652
Loans to customers	13,806,909	6,636,072	34,884,751	32,832,829	12,672,431	—	100,832,992
Investments available-for-sale	1,845,379	6,958,619	3,464,888	3,285,399	3,277,127	5,629,528	24,460,940
Property, plant and equipment	—	—	—	—	—	5,037,390	5,037,390
Deferred income tax assets	—	—	—	—	—	13,791	13,791
Other assets	1,195,546	284,184	1,777,102	122,985	105,310	—	3,485,127
Total assets	36,117,176	18,393,126	47,403,898	38,652,947	16,054,868	11,647,889	168,269,904
LIABILITIES:							
Financial liabilities at fair value through profit or loss	105,045	2,997	311,762	110,152	—	—	529,956
Due to banks and the Central Bank of the Russian Federation . . .	3,421,743	2,769,242	8,146,019	546,500	—	—	14,883,504
Customer accounts	40,400,235	8,146,012	41,523,746	11,169,234	8,357	—	101,247,584
Securities issued	414,446	1,409,986	15,554,065	143,518	—	—	17,522,015
Bonds	—	—	3,043,751	2,999,630	—	—	6,043,381
Deferred income tax liabilities	—	—	—	—	—	201,310	201,310
Other liabilities	392,561	67,555	116,285	264,281	494	—	841,176
Subordinated debt and Eurobonds	—	—	9,312	100,571	5,178,417	—	5,288,300
TOTAL LIABILITIES	44,734,030	12,395,792	68,704,940	15,333,886	5,187,268	201,310	146,557,226
Liquidity gap	(8,616,854)	5,997,334	(21,301,042)	23,319,061	10,867,600		

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2009 Total
ASSETS:							
Cash and balances with the Central Bank of the Russian Federation	9,012,489	—	—	—	—	—	9,012,489
Minimum reserve deposit with the Central Bank of the Russian Federation . .	—	—	—	—	—	636,078	636,078
Precious metals	—	—	—	—	—	16,957	16,957
Loans and advances to banks and other financial institutions	12,367,669	658,935	—	—	—	310,613	13,337,217
Financial assets at fair value through profit or loss . . .	1,453,980	159,080	5,320	1,057,181	—	—	2,675,561
Loans to customers	18,693,946	2,942,965	26,573,748	22,029,089	9,765,253	—	80,005,001
Investments available-for-sale	885,179	2,051,555	4,566,038	5,306,065	5,513,054	1,282,075	19,603,966
Property, plant and equipment	—	—	—	—	—	4,710,058	4,710,058
Deferred income tax assets	—	—	—	—	—	60,136	60,136
Goodwill	—	—	—	—	—	202,419	202,419
Other assets	239,762	39,839	179,333	42,607	62,302	—	563,843
TOTAL ASSETS	42,653,025	5,852,374	31,324,439	28,434,942	15,340,609	7,218,336	130,823,725
LIABILITIES:							
Financial liabilities at fair value through profit or loss	229,579	69,578	—	—	—	—	299,157
Due to banks and the Central Bank of the Russian Federation	15,084,723	2,762,248	6,750,302	130,726	—	—	24,727,999
Customer accounts	27,955,060	4,126,334	16,087,509	16,696,067	5,213	—	64,870,183
Securities issued	574,955	2,672,341	9,795,884	21,837	—	—	13,065,017
Bonds	—	—	3,060,622	—	—	—	3,060,622
Other liabilities	236,145	57,078	17,942	20,806	—	—	331,971
Subordinated debt and Eurobonds	—	—	709,187	—	4,982,915	—	5,692,102
	44,080,462	9,687,579	36,421,446	16,869,436	4,988,128	—	112,047,051
Liquidity gap	(1,427,437)	(3,835,205)	(5,097,007)	11,565,506	10,352,481		

The following tables show the undiscounted cash flows on the financial liabilities and off-balance sheet credit related commitments on the basis of their earliest possible contractual maturities. The expected cash flows on these financial liabilities and credit related commitments may vary significantly from this analysis.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Total undiscounted cash flows of the Group as at December 31, 2010 and 2009 were as follows:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2010 Total
LIABILITIES:							
Financial liabilities at fair value through profit or loss	4,040	15,928	51,842	68,455	—	—	140,265
Due to banks and the Central Bank of the Russian Federation	1,108,563	2,797,761	4,829,016	686,247	—	—	9,421,587
Customer accounts	10,215,716	8,495,980	43,533,558	12,024,430	11,753	—	74,281,437
Securities issued	394,369	1,420,440	16,253,800	155,301	—	—	18,223,910
Bonds	—	—	3,445,500	3,352,282	—	—	6,797,782
Subordinated debt and Eurobonds	—	37,380	449,463	2,144,468	6,658,246	—	9,289,557
Total fixed interest rate bearing liabilities	11,722,688	12,767,489	68,563,179	18,431,183	6,669,999	—	118,154,538
Due to banks and the Central Bank of the Russian Federation	—	813	3,473,826	—	—	—	3,474,639
Total variable interest rate bearing liabilities	—	813	3,473,826	—	—	—	3,474,639
Total interest bearing liabilities	11,722,688	12,768,302	72,037,005	18,431,183	6,669,999	—	121,629,177
Financial liabilities at fair value through profit or loss	105,123	3,025	323,908	—	—	—	432,056
Due to banks and the Central Bank of the RF	2,310,107	—	—	—	—	—	2,310,107
Customer accounts	30,461,122	—	110	—	—	—	30,461,232
Securities issued	21,779	6,885	3,628	—	—	—	32,292
Other finance liabilities	187,655	8,031	—	—	—	—	195,686
TOTAL FINANCIAL LIABILITIES	44,808,474	12,786,243	72,364,651	18,431,183	6,669,999	—	155,060,550
Contingent liabilities and commitments	35,690,631	—	—	—	—	—	35,690,631
	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2009 Total
LIABILITIES:							
Due to banks and the Central Bank of the Russian Federation	11,487,941	2,756,973	6,918,981	145,634	—	—	21,309,529
Customer accounts	15,962,679	4,294,918	17,112,794	19,685,076	6,650	—	57,062,117
Issued securities	578,283	2,751,613	10,531,668	32,877	—	—	13,894,441
Bonds	—	—	3,389,998	—	—	—	3,389,998
Financial liabilities at fair value through profit or loss	4,907	21,284	70,101	141,021	—	—	237,313
Subordinated debt and Eurobonds	—	39,354	452,934	1,470,563	5,814,405	—	7,777,256
Total fixed interest rate bearing liabilities	28,033,810	9,864,142	38,476,476	21,475,171	5,821,055	—	103,670,654
Subordinated debt and Eurobonds	—	—	719,335	—	—	—	719,335
Total variable interest rate bearing liabilities	—	—	719,335	—	—	—	719,335
Total interest bearing liabilities	28,033,810	9,864,142	39,195,811	21,475,171	5,821,055	—	104,389,989
Financial liabilities at fair value through profit or loss	21,063	70,301	—	—	—	—	91,364
Due to banks and the Central Bank of the Russian Federation	3,628,310	35,486	6,877	—	—	—	3,670,673
Customer accounts	12,090,747	—	—	—	—	—	12,090,747
Other finance liabilities	234,410	53,399	5,729	—	—	—	293,538
TOTAL FINANCIAL LIABILITIES	44,008,340	10,023,328	39,208,417	21,475,171	5,821,055	—	120,536,311
Contingent liabilities and commitments	16,986,754	—	—	—	—	—	16,986,754

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Russian Rubles)**

Operational risks

Operational risk arises from:

- Internal processes and procedures which are not appropriate given the nature and size of the business and/(or) current legislation;
- Failure to comply with internal processes and procedures by the employees or other parties as a result of incompetence, unintentional or intentional actions or by omission;
- Lack of functional capabilities, information, technological and another systems used by the Group and/(or) their failures;
- External events.

The Group considers the following types of operational risk:

- Personnel risk is the risk of losses resulting from potential errors, fraud actions, insufficient qualification of the employees;
- Process risk is the risk of losses resulting from errors in the processes of conducting operations, settlement of transactions, their accounting and recognition in the financial statements, pricing, etc.;
- Technology risk is the risk of losses resulting from inadequate technologies used, insufficient system capacity, use of systems which are inadequate for operations conducted, low quality of data processing or inadequacy of data used, etc.;
- Environment risk is the risk of losses resulting from non-financial changes in the environment, in which the Group operates, including changes in legislation, political changes, etc.

Operational risk is measured and managed by:

- Performing special and general reviews in order to assess the risk of losses resulting from errors in operational processes and settlements of transactions, their accounting and recognition in the financial statements and control over implementation of correcting measures;
- Maintaining of the losses database, which contains information on losses, failures and irregularities of business processes and control over implementation of correcting measures;
- Preliminary assessment (procedure of preliminary assessment by a business-unit not responsible for conducting operating activities) of internal regulatory acts which limit operational risks and introduce internal regulating processes for existence and adequacy of control mechanisms;
- Assessment of existing system of segregation of duties and responsibilities, etc.;
- Assessment of information on failures in the operational process;
- Compliance with the Russian legislation, requirements of the CBR and internal banking documents.

The Group has developed and implemented a system of assessment of the operational risk exposure in business units.

The management believes that their procedures mitigates the risk of an operational risk occurring. The Risk Management and Financial Control Department estimates the level of accepted operational risk.

The Internal Control Department is responsible for control over compliance with the operational risk management requirements and procedures and reporting of information on the level of operational risk to the Board of Directors.

**KHANTY-MANSIYSK BANK OPEN JOINT STOCK COMPANY
(OAO KHANTY-MANSIYSK BANK) GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**
(in thousands of Russian Rubles)

39. SUBSEQUENT EVENTS

In January 2011 the Management Board approved the deal with the Agency of Housing Mortgage Loans (“AOHML”) to resell the mortgage loans amounting to RUB 1,780,875 thousand during 2011 and 2012 with duration at January 1, 2012.

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**NOMOS
BANK**



**NOMOS
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Offering of Ordinary Shares in the form of Shares and Global Depositary Receipts