

BANK OF RUSSIA

ORDINANCE

№ 1584-U OF JUNE 22, 2005

ON MAKING PROVISIONS FOR POSSIBLE LOSSES RESULTING FROM TRANSACTIONS BETWEEN CREDIT INSTITUTIONS AND OFFSHORE RESIDENTS AND THEIR AMOUNTS

This Ordinance, on the basis of articles 62 and 69 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' (Collection of Legislation of the Russian Federation, № 28, dated 2002, art. 2790 and № 52, dated 2003, art. 5032) and in accordance with the decision of the Bank of Russia Board of Directors (Minutes of the Bank of Russia Board of Directors № 10, dated 14 June 2005), establishes the procedure for creating provisions for possible losses resulting from transactions between credit institutions and offshore residents (hereinafter - the 'Provisions') and their amounts.

Chapter 1. General Provisions

1.1. For purposes of this Ordinance, Offshore Residents are:

Individuals whose permanent place of residence is in a foreign country which offers preferential taxation and/or does not require mandatory disclosures and reporting in relation to financial transactions (hereinafter - 'Offshore Zone'), including such individuals temporarily located outside of the Offshore Zone;

Legal persons incorporated in the Offshore Zone;

Separate business units of legal persons which are located within an Offshore Zone and do not have their own legal personality; and

Branches or representative offices or similar units of an Offshore Resident located outside of the Offshore Zone.

1.2. In accordance with this Ordinance, credit institutions shall create provisions for the cases listed below:

Loans to Offshore Residents, as well as loan debts and similar debts, as determined in accordance with the requirements of Bank of Russia Regulation № 254-P, dated 26 March 2004, 'On the Procedure for Making Provisions for Possible Losses by Credit Institutions Resulting from Loans and Similar Debts', registered with the Ministry of Justice of the Russian Federation on 26 April 2004 under № 5774 (Bulletin of the Bank of Russia, № 28, dated 7 May 2004) (hereinafter - the 'Bank of Russia Regulation № 254-P'), which were issued to Offshore Residents (hereinafter - the 'Loans');

Financial instruments included in the calculation base in accordance with Bank of Russia Regulation № 232-P, dated 9 July 2003, 'On the Procedure for Making Provisions for Possible Losses by Credit Institutions', registered with the Ministry of Justice of the Russian Federation on 24 July 2003 under № 4922 (Bank of Russia Bulletin № 45, dated 6 August 2003) (hereinafter, 'Bank of Russia Regulation № 232-P'), for which the counterparties are Offshore Residents (hereinafter - the 'Financial Instruments').

1.3. The requirements of this Ordinance shall not be applied to:

Transactions made via correspondent accounts or other accounts with international clearing houses located within the European Union and applying the rules, regulations, and standards established by the European Commission;

Investments in the authorised capitals of subsidiaries or other dependent entities which are Offshore Residents, if such investments reduce the equity (capital) of a credit institution, as determined in accordance with Bank of Russia Regulation № 215-P, dated 10 February 2003, 'On the Procedure for Determining the Equity (Capital) of Credit Institutions', registered with the Ministry of Justice of the Russian Federation on 17 March 2003 under № 4269 (Bank of Russia Bulletin № 15, dated 20 March 2003);

Loans and financial instruments for which the counterparties are:

An Offshore Resident bank, if such bank is a subsidiary of a credit institution and the transfer of funds to the authorised capital of the offshore resident bank was made with the permission of the Bank of Russia;

A parent company which is a resident of the Russian Federation and its non-banking subsidiaries which are Offshore Residents, if transfer of funds to the authorised capital of the offshore resident subsidiary was made with the permission of the Bank of Russia;

A bank represented by its branches, representative offices, or business units registered in the Offshore Zone, when such bank resides in a member state of the Organisation for Economic Cooperation and Development (OECD) and/or the Financial Action Task Force on Money Laundering (FATF), provided the banking supervision authority at such Bank's headquarters country has concluded that such Bank's procedures and processes used throughout the banking group to prevent the laundering of criminal incomes, the financing of terrorism, and suspicious transactions, are sufficient to be due diligence practices. In this case, such conclusions issued by the banking supervision authority shall be submitted by such bank to the Bank of Russia.

1.4. The Provisions shall be created in the currency of the Russian Federation.

1.5. The Provisions shall be created as of the moment when a loan and/or financial instrument specified in article 1.2 hereof is recorded in a balance-sheet account or off-balance-sheet account, as determined by the Charter of Accounts for Credit Institutions established by Bank of Russia Regulation № 205-P, dated 5 December 2002, 'On Financial Accounting for Credit Institutions Located within the Russian Federation', registered with the Ministry of Justice of the Russian Federation on 20 December 2002 under № 4061; 25 June 2003 under № 4827; 26 November 2003 under № 5267; 19 February 2004 under № 5571; 1 April 2004 under № 5703; 11 June 2004 under № 5840; 17 June 2004 under № 5851; 28 June 2004 under № 5878; 24 August 2004 under № 5992; 30 November 2004 under № 6150; 21 December 2004 under № 6214; and 20 April 2005 under № 6522 (Bulletin of the Bank of Russia № 70 and 71, dated 25 December 2002; № 36, dated 27 June 2003; № 65, dated 3 December 2003; № 16, 27 February 2004; № 21, dated 7 April 2004; № 34, dated 16 June 2004; № 36, dated 18 June 2004; № 38. dated 30 June 2004; № 53, dated 8 September

2004; № 70, dated 8 December 2004; № 73, dated 23 December 2004; № 74, dated 31 December 2004; № 21, dated 27 April 2005); such Provisions are to be adjusted as of the time of changes in the calculated values or balances of respective accounts, except for changes in the balances of foreign currency accounts in connection with the adjustment of foreign currency balance sheet items.

When the balances of foreign currency accounts change due to the adjustment of foreign currency balance sheet items, the Provisions shall be adjusted at least once a month as of the reporting date.

It is expressly prohibited for credit institutions to write off any debts which are impossible to collect, as determined in accordance with article 2.3 of Bank of Russia Regulation № 254-P, against the Provisions.

Chapter 2. The Procedure for Calculating Provisions

2.1. Provisions shall be made in consideration of balances on individual accounts opened within the balance-sheet accounts and off-balance-sheet accounts which are included in the Provisions calculation base in accordance with Bank of Russia Regulation № 232-P (with the exception of the financial instruments specified in articles 2.2 and 2.3 hereof) and in which financial instruments are recorded, with due regard for the following:

2.1.1. For guarantees (bank guarantees), Provisions shall be made for both guarantees (bank guarantees) specifying an Offshore Resident as principal (debtor) and guarantees (bank guarantees) specifying an Offshore Resident as beneficiary (creditor). For sureties, Provisions shall be made for both sureties specifying an Offshore Resident as debtor and sureties specifying an Offshore Resident as creditor.

2.1.2. If a credit institution serves as guarantor in a transaction in which both the principal (debtor) and the beneficiary (creditor) are Offshore Residents, Provisions shall be made for the Offshore Resident (either the principal (debtor) or the beneficiary (creditor)) for which the risks are deemed the highest.

2.2. For balances of individual accounts within the balance-sheet accounts in which securities issued by Offshore Residents are recorded, regardless of whether

they relate to the investment or trade portfolio and whether they are traded on a stock exchange, Provisions shall be made for the amount of the maximum balance on such account within the last 30 calendar days.

2.3. For loans for which the provisions for possible losses are governed by Bank of Russia Regulation № 254-P, and for financial instruments for which the provisions for possible losses are governed by article 2.2 of Bank of Russia Regulation № 232-P, the Provisions shall be made as follows:

2.3.1. For separate accounts within the balance-sheet accounts in which loans and/or financial instruments are recorded, the Provisions shall be made for the largest of:

the account balance as of the date the Provisions are created;

the average daily debit of the account (AD, to be calculated as follows:

$$AD = \frac{D}{30}, \text{ where}$$

D means the total debit for an account for the last 30 calendar days, expressed in Russian rubles, as of the date the loan/financial instrument was recorded in the bookkeeping accounts, including debits resulting from changes in the Russian ruble exchange rate as stated by the Bank of Russia.

2.4. Depending on the Offshore Zone group, as determined by Bank of Russia Ordinance № 1317-U, dated 7 August 2003, 'On the Procedure for Establishing Correspondent Relations with Non-Resident Banks Registered in States or Areas Offering Beneficial Taxation and/or Not Requiring Mandatory Disclosures and Reporting in Relation to Financial Transactions (Offshore Zones)', registered with the Ministry of Justice of the Russian Federation on 10 September 2003 under № 5058 (Bulletin of the Bank of Russia № 51, dated 17 September 2003), the Provisions shall be made in an amount pro-rated to values calculated in accordance with articles 2.1 to 2.3 hereof, as follows:

Offshore Zone Group	Amount of Provisions as a Percentage
1st Group	0 %
2nd Group	25 %
3rd Group	50 %

Chapter 3. Final Provisions

3.1. This Ordinance shall be published in the Bank of Russia Bulletin and comes into force on 1 October 2005.

GOVERNOR OF THE CENTRAL

BANK OF THE RUSSIAN FEDERATION

SERGEY IGNATIEV