

RESOLUTION N° 2682/99

It provides the classification criteria of credit operations and the rules to establish the provisions for credits of doubtful settlement.

BANCO CENTRAL DO BRASIL (Brazilian Central Bank), as stated in Art. 9º of Law N° 4.595, dated December 31, 1964, makes public that the CONSELHO MONETÁRIO NACIONAL (National Monetary Council), in a meeting held on December 21, 1999, based on Art. 4., Letters XI and XII, of the aforementioned Law,

D E C I D E D:

Art. 1 – Determine that financial institutions and all other institutions authorized by the Banco Central do Brasil to operate should classify the credit operations in a risk increasing order, in the following levels:

- I - level AA;
- II - level A;
- III - level B;
- IV - level C;
- V - level D;
- VI - level E;
- VII - level F;
- VIII - level G;
- IX - level H.

Art. 2. The operation classification in the corresponding risk level is under the responsibility of the institution that holds the credit and should be carried out based on consistent and verifiable criteria, supported by internal and external information, contemplating, at least, the following aspects:

I – with regard to the debtor and its guarantors:

- a) economic-financial situation;
- b) Level of indebtedness;
- c) capacity for generating results;
- d) cash flow;
- e) controls administration and quality;
- f) payments punctuality and delays;
- g) contingencies;
- h) economic activity segment;
- i) credit limit

II – with regard to the operation:

- a) transaction nature and purpose;
- b) characteristics of guarantees, particularly related to sufficiency and liquidity;
- c) value.

Sole Paragraph. Credit operations classification of private person ownership should also take into account the income and equity situations, as well as other debtor's information registered.

Art. 3. Credit operations classification of a same client or economic group should be defined, taking into account the one that presents a larger risk, exceptionally accepting a different classification for a certain operation, as provided for in the Art. 2, letter II.

Art. 4. Operation classification in risk levels, as provided for in the Art. 1st, should be reviewed, at least:

I – monthly, at the time of trial balances and balance sheets, depending on the delay verified in the payment of installments of the principal or of charges, and the following should be observed:

- a) delay between 15 and 30 days: risk level B, minimum;
- b) delay between 31 and 60 days: risk level B, minimum;
- c) delay between 61 and 90 days: risk level D, minimum;
- d) delay between 91 and 120 days: risk level E, minimum;
- e) delay between 121 and 150 days: risk level F, minimum;
- f) delay between 151 and 180 days: risk level G, minimum;
- g) delay superior to 180 days: risk level H;

II – based on criteria established in Arts. 2. and 3.:

a) at each six months, for operations of a same client or economic group, which amount is superior to five percent (5%) of the adjusted net equity;

b) once at each twelve months, in all situations, except in the event foreseen in Art. 5.

Paragraph 1. Advances operation over exchange agreements, financings to importation and those financings with terms inferior to one month, which present delays superior to thirty days, as well as the advance to depositor as from thirty days of its occurrence, should be classified, at least, as a risk level G.

Paragraph 2. For operations with elapsing terms superior to 36 months, the Double count of terms foreseen in the Letter I is accepted.

Paragraph 3. The non-compliance with the provisions set forth in this article implies in the re-classification of the debtor operations for the risk level H, regardless other measures of administrative nature.

Art. 5. Credit operations contracted with the client, which full responsibility is for a value inferior to R\$50,000.00 (fifty thousands reais) may have its classification reviewed in an automatically way, depending on the delays set forth in Art. 4, Letter I, of this Resolution, observing that the original classification should be maintained when the revision corresponds to a lower risk level.

Paragraph 1. Banco Central do Brasil may change the value set forth in this article.

Paragraph 2. Provisions of this article apply to operations contracted up to February 29, 2000, observing the value referred to in the caput and the classification, at least, as risk level A.

Art. 6. Provision to support credits of doubtful settlement should be formed on a monthly basis, and should not be inferior to the sum deriving from applying the percentages mentioned below, without prejudicing the responsibility of the institutions' managers for establishing the provision in amounts sufficient to face the probable losses in realizing the credits:

- I – zero point five percent (0.5%) over the value of operations classified as risk level A;
- II - one percent (1%) over the value of operations classified as risk level B;
- III - three percent (3%) over the value of operations classified as risk level C;
- IV - ten percent (10%) over the value of operations classified as risk level D;
- V - thirty percent (30%) over the value of operations classified as risk level E;
- VI - fifty percent (50%) over the value of operations classified as risk level F;
- VII - seventy percent (70%) over the value of operations classified as risk level G;
- VIII - one hundred percent (100%) over the value of operations classified as risk level H.

Art. 7. Operation classified as risk level H should be transferred to the compensation account, with the corresponding provision debt, after six months of its classification in this risk level, not being accepted the registration in an inferior period.

Sole Paragraph. Operation classified as provided for in the caput of this article should remain registered in the compensation account for a minimum period of five years and as long as all collection procedures are not depleted.

Art. 8. The operation, subject-matter of renegotiation, should be maintained for at least, the same risk level in which it is classified, observing that the one registered as a loss should be classified as risk level H.

Paragraph 1. The re-classification for a smaller risk category is accepted, when there is a significant amortization of the operation or when new relevant facts justify the risk level change.

Paragraph 2. Earning eventually obtained at the renegotiation time should be apportioned to the result at the time it is effectively received.

Paragraph 3. For the renegotiation, it is taken into account the debt formation, the extension, the novation, the concession of a new operation for partial or full settlement of the previous operation or any other type of agreement that implies in changing the originally agreed upon maturity terms or the payment conditions.

Art. 9. It is forbidden the acknowledgement in the results of income and charges period of any nature, related to credit operations that present delay equal or superior to sixty days, in the payment of installment to the principal or charges.

Art. 10. Institutions should maintain their policies and procedures for concession and classification of credit operations properly documented, which should remain at the Banco Central do Brasil and the independent auditor disposition.

Sole Paragraph. Documentation referred to in the caput of this article should evidence, at least, the risk type and levels intended to be administered, the minimum requirements required for granting loans and the authorization process.

Art. 11. Financial statements should disclose in an explanatory note the detailed information about the formation of the credit operation portfolio, observing, at least:

- I – operations distribution, segregated per type of client and economic activity;
- II – distribution per maturity range;
- III – amounts of renegotiated operations, posted against losses and the recovered operations, in the fiscal year.

Art. 12. The independent auditor should prepare a detailed report for reviewing the criteria adopted by the institution related to the classification in risk levels and the evaluation of the provisioning registered in the financial statements.

Art. 13. Banco Central do Brasil will be able to enact supplementary rules necessary for the compliance with the provisions set forth in this Resolution, as well as to determine:

I – reclassification of operations based on the criteria established in this Resolution, in the risk levels referred to in the Art. 1;

II – additional provisioning, depending on the debtor responsibility near the National Financial System;

III – remedy measures to be adopted by the institutions, seeking to assure its liquidity and appropriate equity structure, including in the form of allocating capital for classification operations considered inappropriate;

IV – criteria of credit classification change, accounting and provision formation;

V – content of information and explanatory notes mentioned in the financial statements;

VI – procedures and controls to be adopted by the institutions.

Art. 14. Provisions set forth in this Resolution apply also to commercial leasing operations and other operations with credit concession characteristics.

Art. 15. Provisions set forth in this Resolution do not contemplate fiscal aspects, and the institution is fully responsible for complying with the relevant rules.

Art. 16. This Resolution is effective in the date of its publication, producing effects as from March 1st, 2000, when Resolutions N^os 1.748 dated August 30, 1990, and 1.999, dated June 30, 1993, articles 3 and 5 of Circular-Letter N^o 1.872 dated December 27, 1990, letter "b" of section II of art. 4 of Circular-Letter N^o 2.782 dated November 12, 1997 and the Bulletin ^o 2.559 dated October 17, 1991 are revoked.

Brasília, December 21, 1999

Armínio Fraga Neto
President