

APPROVED

The Decision of the Board of the
National Bank of the Republic of
Belarus

No.138 September 28, 2006

THE INSTRUCTIONS

on the procedure of formation and use of the special reserves for covering possible losses under the assets and operations, not reflected in the balance, by the banks and non-banking credit and financial organizations

(with amendments in accordance with the Decision of the Board of the National Bank No.234, December 28, 2007)

CHAPTER 1 GENERAL PROVISIONS

1. The Instructions on the procedure of formation and use of the special reserves for covering possible losses from assets and operations, not reflected in the balance, by the banks and non-banking credit and financial organizations (hereinafter referred to as the Instructions), is made up on the basis of Articles 26, 34 and 109 of the Banking Code of the Republic of Belarus in providing financial reliability of banks and non-banking credit and financial organizations (hereinafter referred to as the banks), keeping the stability and sustainability of banking system functioning, compensation of financial losses occurring as a result of the banks activity.

2. These Instructions define the procedure of formation and use of the following special reserves by the banks for covering possible losses:

special reserve for covering possible losses for the assets, subject to the credit risk;

special reserve against depreciation of securities;

special reserve for covering possible losses in the operations that are not reflected in the balance (hereinafter referred to as the conditional obligations).

3. For the purposes of these Instructions, the following terms and definitions means as follows:
the assets, subject to the credit risk, are the indebtedness to the bank under the assets, for which the credit risk appears, including the credit indebtedness and the funds placed in other banks;

the credit indebtedness is the indebtedness that has appeared as a result of giving loans or funds under REPO operations, issuing (sale) of bills with repayment deferment, implementation of financial leasing, factoring, performance of issued obligations by the bank instead of the third parties, the indebtedness under bills, certificates of deposit, and under other active operations subject to the credit risk, except for the indebtedness under the funds placed in other banks;

the indebtedness under the credits is the indebtedness that has appeared as a result of giving the credits by the bank to the legal entities (except for the banks), to the individual entrepreneurs, natural persons, and the indebtedness under the funds granted to these persons or entities under REPO operations and at issuing (sale) of bills with repayment deferment;

the credit risk is a risk of losses resulting from non-performance, delayed or partial performance of financial and other property obligations (in accordance with the agreement and (or) the legislation) to the bank by the debtor (counterpart), or the losses that can appear as a result of performing the conditional obligations by the bank;

the funds placed in other banks are the funds placed in other banks in the form of credits, deposits, on the correspondent accounts, in the bills and certificates of deposit of other banks, or in any other forms, irrespective of a kind of the agreement, including the float;

the conditional obligations are the obligations of bank, not reflected in the balance accounts and subject to the credit risk, including the obligations of bank to grant money on a returnable basis, obligations of bank to make payments under guarantee obligations and other obligations;

the guarantee obligations are the obligations of bank to make payments in case of non-performance, by the counterpart, of its obligations to other creditors, including obligations under warranties and guarantees granted by the bank, the obligations following from acceptances, guarantees, endorsements, and other obligations;

the counterparts in the conditional obligations are the persons or entities, the performance of the obligations to the third parties by whom is secured by the guarantee obligations of the bank, and the persons or entities, concerning whom the bank has obligations to provide funds on a returnable basis.

The meanings of terms "international financial organizations and development banks", "the countries of group A", "the countries of group C", "the countries of group D", "the countries of group E", "the banks of group A", "the banks of group C", "the banks of group D", "the legal entities of group C" and "the legal entities of group D" are defined by the Instructions on the specifications of safe functioning for the banks and non-banking credit and financial organizations, approved by the Decision of the Board of the National Bank of the Republic of Belarus No.137, September 28, 2006.

4. For the purposes of these Instructions, the norms applied to the indebtedness under the credits of legal entities are applied also to the indebtedness under the credits of individual entrepreneurs.

For the purposes of these Instructions, the securities, for which the banks form a special reserve against depreciation of securities, should include shares, bonds and other securities, except for bills and certificates of deposit.

5. The deductions to the special reserves for covering possible losses (hereinafter referred to as the reserves) are charged to the expenses of the bank in full, irrespective of the amount of revenue obtained, in accordance with the procedure established by the legislation of the Republic of Belarus.

6. The reserves are formed for the amount of the principal debt. The amount of the principal debt should not include the indebtedness under interest, forfeits (penalties, fines), commission charges and other similar payments stipulated by the terms and conditions of contract (hereinafter referred to as interest).

7. The reserves are formed in the Belarusian Rubles. For the assets, subject to the credit risk, and the securities (hereinafter referred to as the assets), and for the conditional obligations in a foreign currency, the reserves can be formed, at the discretion of the bank, in the currency of asset (conditional obligation).

8. The assets and conditional obligations should be classified, and the reserves should be formed by the banks at the time of appearing the asset (the conditional obligation), and thereupon, at the time of obtaining the information on appearing (or change of degree) of risk (change of financial position of the debtor, the security issuer or the counterpart in the conditional obligations, change of quality of the asset service, or availability of other information concerning risks of the debtor, the security issuer or the counterpart in the conditional obligations).

The total amount of reserves is regulated as a whole for the bank, depending on the amount of indebtedness under the assets and the conditional obligations, and on the risk group, to which this

indebtedness or the conditional obligations are attributed, at least once in a month, not later than at the last working day of the accounting month.

9. If there is an indebtedness under the assets and conditional obligations in a foreign currency, in case of change of an official exchange rate of the Belarusian Ruble, established by the National Bank, in relation to the appropriate foreign currency, the amount of actually formed reserves should be brought in accordance with the amount of estimated reserves under this indebtedness and conditional obligations not later than at the last working day of the accounting month.

Reduction (cancellation) of the amount of reserves under the assets and conditional obligations of the bank, formed (increased) in previous years and in the accounting year, is made in the same sequence as these reserves were formed (increased).

10. The monitoring over adequacy of classification of the assets and conditional obligations, and over formation and flow of reserves is implemented by the National Bank of the Republic of Belarus (hereinafter referred to as the National Bank) on the basis of the reports, submitted by the banks in accordance with the normative legal acts of the National Bank, and during the inspections of banks.

11. The requirements of these Instructions should not be applied to:

the indebtedness that has been incurred for the bank at purchasing the property for using in its activity, the accounts receivable (relating to the economic activities), the accrued incomes and other assets, and the conditional obligations relating to the activities for maintenance of the own needs of the bank;

(The second paragraph in Clause 11 of the Decision of the Board No.234, December 28, 2008).

obligations on providing the funds in the form of the loans, the loans given by the bank;

the repurchased securities of own issue;

the government bonds of the Republic of Belarus, the bonds of the National Bank, the bonds of the governments or the Central (National) Banks of the countries of group A or the banks of group A, the bonds of the international financial organizations and development banks;

the funds placed in the National Bank;

the shares not included in a trade portfolio;*

the securities recognized at fair value.

12. The classification is not implemented, and the reserves are not formed for the assets of the bank, that are interconnected, in accordance with the terms and conditions of contract(s) and (or) the legislation, with the obligations of bank in such a manner that performance of the obligation to return borrowed funds (other obligations) becomes necessary for the bank, only if the bank's appropriate claims are performed in the amount, sufficient for performance of its obligations.

The classification is not implemented, and the special reserve for covering possible losses is not formed for the conditional obligations, if, in case of performance thereof, the claims and obligations would appear for the bank, interconnected in such a way as it is provided by the first part of this Clause.

The bank's claims to the other bank, recognized by the latter, in accordance with this Clause, as the obligations interconnected with the claims to the third party, should be classified as the claims to this third party.

If there are several conditional obligations, connected between each other, that should be terminated subject to one payment, the special reserve for covering possible losses for conditional obligations should be formed for one of conditional obligations. If there is a claim, reflected under the balance account, and the conditional obligation, connected with it, and the claim and the conditional

* The criteria of attributing the securities as belonging to the trade portfolio are specified in the Instructions on the specifications of safe functioning for the banks and non-banking credit and financial organizations, approved by the Decision of the Board of the National Bank of the Republic of Belarus No.137, September 28, 2006.

obligation should be terminated subject to one payment, the banks should form a special reserve for covering possible losses under the assets, subject to the credit risk.

The classification is not implemented, and the special reserve for covering possible losses is not formed for the conditional obligations, if the performance of these obligations is secured by the money funds provided for the bank by the counterpart or by the third party, and the amount of these funds is not less than the amount of the conditional obligation.

(The fifth part of Clause 12 in the Decision of the Board No.234, December 28, 2008).

CHAPTER 2 GENERAL REQUIREMENTS FOR RISK ASSESSMENT

13. Formation of reserves is implemented on the basis of the assets and conditional obligations classification, carried out by the bank. The local normative legal acts, determining the procedure of the assets and conditional obligations classification by their reliability, carried out by the bank, the criteria, factors, procedures of making and performance of decisions on reserves formation and use (hereinafter referred to as the bank's local normative legal acts), should be developed, taking into consideration the requirements of these Instructions and other normative legal acts, regulating the activity of banks, and approved by the bank's authorized management body.

The bank's local normative legal acts should provide the procedure of documentary registration, accumulation and use (for the assets and conditional obligations classification) of the information concerning the ability of the debtor, the securities issuer or the counterpart in the conditional obligations to perform their contract obligations (including their accounting reports and other kinds of reports, the conclusion on the results of financial condition estimation, the information on the external factors influencing the ability of the debtor, the securities issuer or the counterpart in the conditional obligations to perform their contract obligations to the bank), the interval of drawing up the documents necessary for an adequate risk assessment in accordance with existing practice, that takes into consideration the features of debtors, securities issuers or counterparts in the conditional obligations (including their features relating to the branch of activity and other features), the procedure of application of motivated judgment concerning a risk level.

The bank's local normative legal acts should include the indications of financial imbalance of the debtor or the counterpart in the conditional obligations; the requirements for the content of other negative information, concerning the ability of the debtor or the counterpart in the conditional obligations to perform their contract obligations to the bank, used at classification of assets subject to the credit risk, and at classification of conditional obligations; additional criteria (based on the analysis of financial conditions of the debtor or the counterpart in the conditional obligations and other information concerning their ability to perform the obligations) used for the attribution of the urgent, prolonged and delayed indebtedness under the assets, subject to the credit risk, and conditional obligations as belonging to the risk group IV, and the bank's approaches to using such criteria at classification of the assets, subject to the credit risk, and conditional obligations.

The indications of financial imbalance of the debtor or the counterpart in the conditional obligations, additional criteria of attribution of the urgent, prolonged and delayed indebtedness under the assets, subject to the credit risk, and conditional obligations as belonging to the risk group IV, and the approaches to using such criteria at classification of the assets, subject to the credit risk, and conditional obligations, containing in the bank's local normative legal acts, and making any amendments therein, should be agreed with the National Bank.

The National Bank should consider the indications of financial imbalance of the debtor or the counterpart in the conditional obligations, additional criteria of attribution of the urgent, prolonged and delayed indebtedness under the assets, subject to the credit risk, and conditional obligations as belonging to the risk group IV, and the approaches to using such criteria at classification of the assets,

subject to the credit risk, and conditional obligations, and within 15 calendar days from the date of submission should approve these indications and criteria, or return them to the bank for improvement.

For the purposes of determination of the amount of formed reserves, within the limits established by Clauses 28 - 30, Subclauses 42.2 and 42.3, Clauses 51-53 of these Instructions, the bank has the right to determine independently, in its local normative legal acts, the criteria providing a real estimation of the credit risk level for the assets and conditional obligations.

(The sixth part of Clause 13 in the Decision of the Board No.234, December 28, 2008).

14. The ability of the debtor, the securities issuer or the counterpart in the conditional obligations to perform their obligations should be evaluated by the comprehensive and objective analysis of parameters of their financial conditions (the amount of net assets, parameters of financial result, liquidity ratios, solvency ratios, parameters of economic activity (the turnover and the profitability) etc.), and the external factors influencing the ability of the debtor, the securities issuer or the counterpart in the conditional obligations to perform their obligations to the bank (the information concerning the country-related risk, obligations to other persons or entities, the conjuncture of market where the debtor, the securities issuer or the counterpart in the conditional obligations works, their competitive position in the branch, their business reputation, technologies used by them, their dependence on suppliers, buyers, other counterparts, government subsidies, their involvement in court proceedings and other information, available for the bank, concerning the negative factors (tendencies) that can lead to appearing the financial problems for the debtor, the securities issuer or the counterpart in the conditional obligations).

The ability of the debtor or the counterpart, being the natural person, to perform the obligations should be evaluated by the comprehensive analysis of financial, social and other factors, including external factors, that can affect the ability of the debtor or the counterpart, being the natural person, to perform the contract obligations.

(The second part of Clause 14 in the Decision of the Board No.234, December 28, 2008).

For evaluation of ability of the debtor, the securities issuer or the counterpart in the conditional obligations, being non-residents of the Republic of Belarus, to repay the debt, the ratings, established and published (in printed media or websites) by the international rating agencies, should be also considered.

For evaluation of financial conditions of the debtor, the guarantor (warrantor), the securities issuer or the counterpart in the conditional obligations, the bank can use the criteria specified in the Instructions for the analysis and monitoring over financial conditions and solvency of entrepreneurial business entities, approved by the Decision No.81/128/65 (May 14, 2004) of the Ministry of Finance of the Republic of Belarus, the Ministry of Economics of the Republic of Belarus and the Ministry of Statistics and Analysis of the Republic of Belarus (the National Register of Legal Acts of the Republic of Belarus, 2004, No.90, 8/11057); also, the bank can form own evaluation system, using the approaches that are applied in the domestic and international banking practice.

For evaluation of financial conditions of counterpart bank, the parameters of profitableness and efficiency of its activity, observance of economic guidelines and other requirements, established by the supervising body of the country, where the bank is registered, the ratings, attributed to the counterpart bank by the international rating agencies, and other parameters describing the activity of the counterpart bank, can be used.

15. As the sources of the information concerning the debtor, the guarantor (warrantor), the securities issuer or the counterpart in the conditional obligations, their legal documents, the financial reports, other data concerning their activities (additionally presented or available for open access, including those on websites), the historical data concerning the bank's business relations with this person or entity, "Credit office" system, mass media and other sources, determined by the bank independently, can be used. The bank must ensure that the reliable information is obtained, necessary

for evaluation of ability of the debtor, the securities issuer or the counterpart in the conditional obligations to perform their obligations.

(The first statement in Clause 16 of Decision of the Board No.234, December 28, 2008).

16. Any information concerning the debtor, the securities issuer or the counterpart in the conditional obligations, including the information concerning their risks, should be registered by the bank in the file (using paper and (or) electronic media). The information, used by the bank for evaluation of quality of the assets and conditional obligations, must be accessible for the bank's management bodies, internal control departments, auditors, the National Bank and supervising bodies.

(The first statement in Clause 16 of Decision of the Board No.234, December 28, 2008).

CHAPTER 3 THE PROCEDURE OF FORMATION AND USE OF THE SPECIAL RESERVE FOR COVERING POSSIBLE LOSSES UNDER THE ASSETS SUBJECT TO THE CREDIT RISK

17. Classification of assets, subject to the credit risk, and the credit risk assessment are implemented by the bank on a comprehensive basis, depending on the debtor's ability to perform the obligations and on other criteria specified in Clauses 27-31 of these Instructions.

18. Classification and assessment of the credit risks for the indebtedness under the credits (except for the natural person's indebtedness under the credits) and the microcredits granted in accordance with the simplified procedure (hereinafter referred to as the microcredits), are implemented depending on the debtor's ability to perform the obligations, quality and sufficiency of securing, number of prolongations and duration of the delayed indebtedness.

Classification and assessment of the credit risks for the indebtedness under the credits of natural persons and microcredits, leasing and factoring are implemented depending on the debtor's ability to perform the obligations, number of prolongations and duration of the delayed indebtedness.

Classification and assessment of the credit risks for the funds placed in other banks are implemented depending on the debtor's (correspondent bank) ability to perform the obligations, application of prolongations and duration of payments non-performance.

Classification and assessment of the credit risks under the bills, the certificates of deposit, the performed obligations for the third parties, under other assets subject to the credit risk, are implemented depending on the debtor's ability to perform the obligations and duration of the delayed indebtedness.

19. The debtor's ability to perform the obligations should be assessed in accordance with Clause 14 of these Instructions.

20. Quality and sufficiency of securing of timely repayment of indebtedness under the credits, except for the indebtedness of natural persons under the credits, and except for microcredits, are determined by cost and liquidity of the pledge and (or) property, including property rights, for which the legal title is transferred to the bank, the amount of the guarantee money deposit, insurance compensation, the guarantee (warranty), solvency of the guarantor (warrantor), solvency of the insurance organization, that has concluded the insurance contract with the bank for insurance of risk of non-repayment and (or) delay of repayment of the credit.

If the obligation performance securing is the pledge of property (property rights), then availability of necessary documents, confirming the property right to a pledged property (belonging of a pledged right), opportunity of realization of a subject of pledge, sufficiency of money that would be obtained as a result of its realizations for covering the bank's claims on repayment of a principal amount of debt and payment of interest, absence of claims of previous pledge holders and other

restrictions following from contracts and (or) legislation, that can reduce its cost or hinder realization, should be taken into consideration.

If the obligation performance securing is transfer of the legal title (on the property, including the legal title on property rights) to the bank, then the opportunity of realization of this property (levying of execution on the property rights) and obtaining the sufficient money amount for covering the bank's claims on repayment of a principal amount of debt and payment of interest should be taken into consideration.

If the obligation performance securing is the guarantee (warranty), then solvency of the guarantor or the warrantor (financial stability, ability to perform the obligations in accordance with the guarantee or warranty contract), its business reputation, conditions of performance of the obligations by the guarantor (warrantor), securing the guarantee (warranty) by the pledge of the guarantor (warrantor) property, sufficiency of the amount of guarantees (warranties) for covering the bank's claims on repayment of a principal amount of debt and payment of interest should be taken into consideration.

If the obligation performance securing is the guarantee money deposit, then the term of placing of the guarantee deposit, that must exceed the term of respective asset, absence of obstacles for the obligations termination by the set-off under the guarantee deposit, including absence of the provision in the contract, providing possibility of the deposit return (demanding and obtaining) before the specified time, and sufficiency of the guarantee deposit amount for covering the bank's claims on repayment of a principal amount of debt and payment of interest should be taken into consideration.

If the bank has concluded the contract of insurance of risk of non-repayment and (or) delay of repayment of the credit, then solvency of the insurance organization, its business reputation, and sufficiency of the insured amount for covering the bank's claims on repayment of a principal amount of debt, the method, procedure and terms of its payment should be taken into consideration. For an assessment of solvency of the insurance organization, the bank can use data of the reports, represented in accordance with the Rules of Assessment of Insurance Organizations Solvency, approved by the Decision of the Committee on Supervision of Insurance Activities under the Ministry of Finance of the Republic of Belarus No.3 (December 13, 2000) (see the National Register of Legal Acts of the Republic of Belarus, 2001, No.12, 8/4687).

21. Depending on the quality and sufficiency of securing, the indebtedness under the credits, except for the indebtedness under the credits of natural persons or under the microcredits, is subdivided into categories: secured, insufficiently secured, unsecured.

22. The indebtedness should be attributed to be secured, if it is secured in the form of the pledge, guarantee (warranty), transfer of the legal title on the property (property rights), that can be realized without any doubts, to the bank, except for the indebtedness listed in Clauses 23 and 24 of these Instructions. For these purposes:

the amount of money, received from realization of the property or the property rights, transferred to the bank as the pledge or under the legal title, according to its real (market) cost, determined at the time of a risk assessment for the specific indebtedness under the credit, taking into consideration the encumbrance of this property or property right by the previous pledge obligations, must be sufficient for covering the bank's claims on repayment of a principal amount of debt and payment of interest (for the credits granted in accordance with the initial contract for the period exceeding 12 months, the interest due in accordance with the contract within the next 12 months), possible losses, the costs relating to the maintenance of pledged property or the property (including property rights), for which the legal title is transferred to the bank, the costs for demanding and obtaining; also, in the concluded contracts and (or) the legislation, there should be no restrictions on levying the execution on this property in case of non-performance of the obligations to the bank by the debtor;

the amount of received guarantee (warranty), determined at the time of a risk assessment for the specific indebtedness under the credit, must be sufficient for covering the bank's claims on repayment of a principal amount of debt and payment of interest (for the credits granted in accordance with the initial contract for the period exceeding 12 months, the interest due in accordance with the contract within the next 12 months); reception of payment from the guarantor (warrantor) must be unconditional and be carried out irrespective from implementation of preliminary legal operations by the bank, except for submission of the payment claims to the debtor's accounts for the indebtedness recovery, and sending the notice to the debtor concerning the debt repayment.

The indebtedness should also be considered as secured, if it is secured by the guarantee money deposit in convertible currency (irrespective of the currency of asset) or in Belarusian Rubles, partially convertible currency (if the currency of the guarantee deposit is the same as the currency of asset), and the amount of received guarantee deposit determined at the time of a risk assessment for the specific indebtedness under the credit is sufficient for covering the bank's claims on repayment of a principal amount of debt and payment of interest (for the credits granted in accordance with the initial contract for the period exceeding 12 months, the interest due in accordance with the contract within the next 12 months).

23. The indebtedness should be considered as insufficiently secured, if it has partial securing, provided by Clause 22 of these Instructions, with the real (market) value exceeding 70 per cent of the amount of indebtedness, taking the interest (for the credits granted in accordance with the initial contract for the period exceeding 12 months, the interest due in accordance with the contract within the next 12 months) into consideration.

The indebtedness should also be considered as insufficiently secured, if the risk of non-repayment and (or) delayed repayment for this indebtedness is insured by the bank, and it is completely secured by:

the guarantees (warranties), for which, in order to receive payment, the bank must implement some preliminary legal operations (except for submission of the payment claims to the debtor's accounts for the indebtedness recovery, and sending the notice to the debtor concerning the debt repayment);

the pledge or transfer of the legal title on property (including property rights) to the bank, if the contracts concluded and (or) the legislation include any restrictions for levying the execution on this property or property rights;

the guarantees (warranties) of the governments, the Central (National) banks of the countries of group C and the banks of group C;

the pledge of securities of the governments, the Central (National) banks of the countries of group C, banks of group C, and by other methods of securing with these securities; bills, guaranteed and (or) accepted by the governments, the Central (National) banks of the countries of group C, banks of group C;

the guarantee deposit of money resources in the Belarusian Rubles or partially convertible currency (if the currency of the guarantee deposit is not the same as the currency of asset).

24. The indebtedness should be attributed to be unsecured, if it has no securing, provided by Clauses 22 and 23 of these Instructions, or has the securing with the real (market) value equal to 70 per cent or less (for the securing provided by the second part of Clause 23, less than 100 per cent) of the amount of indebtedness, taking the interest (for the credits granted in accordance with the initial contract for the period exceeding 12 months, the interest due in accordance with the contract within the next 12 months) into consideration, and (or) the opportunity of the securing realization is doubtful.

The indebtedness should also be considered as unsecured, if it is secured by:

the guarantees (warranties) of the governments, the Central (National) banks of the countries of group D and group E, banks of group D, legal entities of group C and group D;

the pledge of securities of the governments, the Central (National) banks of the countries of group D and group E, banks of group D, and by other methods of securing with these securities; bills, guaranteed and (or) accepted by the governments, the Central (National) banks of the countries of group D and group E, banks of group D.

25. In case of availability of several kinds of securing, the indebtedness under the credits should be attributed as secured, insufficiently secured or unsecured, taking into consideration the assessment of their total cost.

26. The assets, subject to the credit risk, should be classified by the degree of reliability, depending on the level of the credit risk. Depending on the level of the credit risk, the assets, subject to the credit risk, are subdivided into five risk groups.

27. The risk group I should include:

the indebtedness under the funds, placed in other banks, still not due to repayment, prolonged once or more, without any indications of financial imbalance of the debtor and any other negative information concerning the debtor's ability to perform the obligations;

the secured indebtedness under the credits, except for the indebtedness under the credits of natural persons and microcredits, still not due to repayment (hereinafter referred to as the terminal indebtedness), and prolonged at most once, without any indications of financial imbalance of the debtor and any other negative information concerning the debtor's ability to perform the obligations;

the terminal indebtedness and indebtedness prolonged at most once, under the credits of natural persons and microcredits, without any other negative information concerning the debtor's ability to perform the obligations;

the terminal indebtedness and indebtedness prolonged at most once, under leasing, without any indications of financial imbalance of the debtor and any other negative information concerning the debtor's ability to perform the obligations;

the terminal indebtedness and indebtedness prolonged at most once, under factoring, if the bank has the right of demand for indemnification (regression), without any negative information concerning the debtor's ability to perform the obligations;

the terminal indebtedness and indebtedness prolonged at most once, under factoring, when the debtors are the natural persons, whose ability to perform the obligations is investigated by the bank (hereinafter referred to as the natural persons indebtedness under factoring), if the bank has no right of demand for indemnification (regression), without any other negative information concerning the debtor's ability to perform the obligations;

(The seventh paragraph of Clause 27 in the Decision of the Board No.234, December 28, 2008).

the indebtedness under the bills, certificates of deposit without any other negative information concerning the debtor's ability to perform the obligations;

the indebtedness under other assets, subject to the credit risk, without any other negative information concerning the debtor's ability to perform the obligations.

For this risk group, the special reserve for covering possible losses under the assets, subject to the credit risk, is not formed.

28. The risk group II should include:

the indebtedness under the funds placed in other banks, still not due to repayment and prolonged once or more, in case of availability of the negative information concerning the debtor's ability to perform the obligations;

the secured terminal indebtedness and indebtedness prolonged at most once, under the credits, except for the indebtedness under the credits of natural persons and microcredits, in case of availability of the negative information concerning the debtor's ability to perform the obligations;

the insufficiently secured terminal indebtedness and indebtedness prolonged at most once, under the credits, except for the indebtedness under the credits of natural persons and microcredits,

without any indications of financial imbalance and any other negative information concerning the debtor's ability to perform the obligations;

the insufficiently secured terminal indebtedness and indebtedness prolonged at most once, under the credits, except for the indebtedness under the credits of natural persons and microcredits, in case of availability of the negative information concerning the debtor's ability to perform the obligations;

the unsecured terminal indebtedness and indebtedness prolonged at most once, under the credits, except for the indebtedness under the credits of natural persons and microcredits, without any indications of the debtor's financial imbalance and any other negative information concerning the debtor's ability to perform the obligations;

the terminal indebtedness and indebtedness prolonged at most once, under the credits of natural persons and microcredits, in case of availability of the negative information concerning the debtor's ability to perform the obligations;

the terminal indebtedness and indebtedness prolonged at most once, under leasing, in case of availability of the negative information concerning the debtor's ability to perform the obligations;

the indebtedness under factoring, if the bank has the right of demand for indemnification (regression), without any negative information concerning the debtor's ability to perform the obligations, prolonged more than once;

the terminal indebtedness and indebtedness prolonged at most once, under factoring (except for the indebtedness of natural persons under factoring), if the bank has no right of demand for indemnification (regression), without any negative information concerning the debtor's ability to perform the obligations;

(The tenth paragraph in the first part of Clause 28 in the Decision of the Board No.234, December 28, 2008).

the indebtedness of natural persons under factoring, terminal and prolonged at most once, if the bank has no right of demand for indemnification (regression), in case of availability of the negative information concerning the debtor's ability to perform the obligations;

(The eleventh paragraph in the first part of Clause 27 in the Decision of the Board No.234, December 28, 2008).

the terminal indebtedness and indebtedness prolonged at most once, under factoring, if the bank has the right of demand for indemnification (regression), in case of availability of the negative information concerning the debtor's ability to perform the obligations;

the indebtedness under the bills and the certificates of deposit, in case of availability of the negative information concerning the debtor's ability to perform the obligations;

the indebtedness under other assets subject to the credit risk, in case of availability of the negative information concerning the debtor's ability to perform the obligations.

For this risk group, the special reserve for covering possible losses under the assets, subject to the credit risk, must be formed equal to 10...30 per cent from a total amount of the indebtedness.

(The second part of Clause 28 in the Decision of the Board No.234, December 28, 2008).

29. The risk group III should include:

the indebtedness under the funds placed in other banks, still not due to repayment and prolonged once or more, in case of availability of indications of the debtor's financial imbalance;

the indebtedness under the funds placed in other banks, not repaid within 30 days from the due date;

the secured and insufficiently secured indebtedness under the credits, except for the indebtedness under the credits of natural persons and microcredits, without any indications of financial imbalance of the debtor and any other negative information concerning the debtor's ability to perform the obligations, prolonged more than once;

the unsecured indebtedness under the credits, except for the indebtedness under the credits of natural persons and microcredits, without any indications of financial imbalance of the debtor and any other negative information concerning the debtor's ability to perform the obligations, prolonged more than once;

the secured indebtedness under the credits, except for the indebtedness under the credits of natural persons and microcredits, in case of availability of the negative information concerning the debtor's ability to perform the obligations, prolonged more than once;

the insufficiently secured indebtedness under the credits, except for the indebtedness under the credits of natural persons and microcredits, in case of availability of the negative information concerning the debtor's ability to perform the obligations, prolonged once or more;

the unsecured terminal indebtedness under the credits, except for the indebtedness under the credits of natural persons and microcredits, in case of availability of the negative information concerning the debtor's ability to perform the obligations;

the secured and insufficiently secured indebtedness, terminal and prolonged once or more, under the credits, except for the indebtedness under the credits of natural persons and microcredits, in case of availability of indications of the debtor's financial imbalance;

the secured indebtedness under the credits, except for the indebtedness under the credits of natural persons and microcredits, delayed for the period up to 90 days;

the indebtedness under the credits of natural persons and microcredits without any other negative information concerning the debtor's ability to perform the obligations, prolonged more than once;

the indebtedness under the credits of natural persons and microcredits in case of availability of the negative information concerning the debtor's ability to perform the obligations, prolonged more than once;

the indebtedness under the credits of natural persons and microcredits, delayed for the period up to 90 days;

the indebtedness under leasing, without any indications of financial imbalance of the debtor and any other negative information concerning the debtor's ability to perform the obligations, prolonged more than once;

the indebtedness under leasing, in case of availability of the negative information concerning the debtor's ability to perform the obligations, prolonged more than once;

the indebtedness under leasing, terminal and prolonged once or more, in case of availability of indications of the debtor's financial imbalance;

the indebtedness under factoring, if the bank has the right of demand for indemnification (regression), in case of availability of the negative information concerning the debtor's ability to perform the obligations, prolonged more than once;

the indebtedness under factoring, if the bank has no right of demand for indemnification (regression), without any other negative information concerning the debtor's ability to perform the obligations, prolonged more than once;

the indebtedness under factoring, terminal and prolonged at most once (except for the indebtedness of natural persons under factoring), if the bank has no right of demand for indemnification (regression), in case of availability of the negative information concerning the debtor's ability to perform the obligations;

(The nineteenth paragraph of Clause 29 in the Decision of the Board No.234, December 28, 2008).

the indebtedness under factoring, if the bank has no right of demand for indemnification (regression), in case of availability of the negative information concerning the debtor's ability to perform the obligations, prolonged more than once;

the indebtedness of natural persons under factoring, if the bank has no right of demand for indemnification (regression), not repaid within the period up to 90 days;

(The twentieth and twenty first paragraph of Clause 29 in the Decision of the Board No.234, December 28, 2008).

the indebtedness under leasing, bills or certificates of deposit, not repaid within 90 days from the due date;

the indebtedness under factoring, if the bank has the right of demand for indemnification (regression), not repaid within 90 days from the due date;

the indebtedness under the performed obligations for the third parties, if the bank has the right of regressive demand to the debtor, during 90 days from the date of performance;

the indebtedness under other assets subject to the credit risk, not repaid within 30 days from the due date.

For this risk group, the special reserve for covering possible losses under the assets, subject to the credit risk, must be formed equal to 30...50 per cent from a total amount of the indebtedness.

(The second part of Clause 29 in the Decision of the Board No.234, December 28, 2008).

30. The risk group IV should include:

the unsecured indebtedness under the credits, except for the indebtedness under the credits of natural persons and microcredits, in case of availability of the negative information concerning the debtor's ability to perform the obligations, prolonged once or more;

the unsecured indebtedness, terminal and prolonged once or more, under the credits, except for the indebtedness under the credits of natural persons and microcredits, in case of availability of indications of the debtor's financial imbalance;

the unsecured indebtedness under the credits, except for the indebtedness under the credits of natural persons and microcredits, delayed for the period up to 90 days;

the insufficiently secured indebtedness under the credits, except for the indebtedness under the credits of natural persons and microcredits, delayed for the period up to 180 days;

the secured indebtedness under the credits, except for the indebtedness under the credits of natural persons and microcredits, delayed for the period from 91 up to 180 days;

the indebtedness under the credits of natural persons and microcredits, delayed for the period from 91 up to 180 days;

the indebtedness under the funds placed in other banks, not repaid during the period from 31 up to 90 days from the due date;

the indebtedness under leasing, bills and certificates of deposit, not repaid during the period from 91 up to 180 days from the due date;

the indebtedness under factoring, if the bank has the right of demand for indemnification (regression), not repaid during the period from 91 up to 180 days from the due date;

the indebtedness under factoring (except for the indebtedness of natural persons under factoring), if the bank has no right of demand for indemnification (regression), not repaid within 90 days from the due date;

(Eleventh paragraph in the first part of Clause 30 in the Decision of the Board No.234, December 28, 2008).

the indebtedness of natural persons under factoring, if the bank has no right of demand for indemnification (regression), not repaid during the period from 91 up to 180 days;

(Twelfth paragraph in the first part of Clause 30 in the Decision of the Board No.234, December 28, 2008).

the indebtedness under the performed obligations for the third parties, if the bank has no right of regressive demand to the debtor, up to 90 days from the date of performance;

the indebtedness under the performed obligations for the third parties, if the bank has the right of regressive demand to the debtor, from 91 up to 180 days from the date of performance;

the indebtedness under other assets subject to the credit risk, not repaid during the period from 31 up to 90 days from the due date;

the indebtedness under the assets, subject to the credit risk, if there is no information, allowing to evaluate financial conditions of debtors and their ability to perform their obligations, or the information available is insufficient for reliable assessment;

the terminal, prolonged and delayed indebtedness under the assets, subject to the credit risk, relegated by the bank to the risk group IV in accordance with the additional criteria, established by the bank's local normative legal acts, within 90 days from the date when it was relegated to the risk group IV.

For this risk group, the special reserve for covering possible losses under the assets, subject to the credit risk, must be formed equal to 50...100 per cent from a total amount of the indebtedness.

(The second part of Clause 30 in the Decision of the Board No.234, December 28, 2008).

31. The risk group V should include:

the unsecured indebtedness under the credits, except for the indebtedness under the credits of natural persons and microcredits, delayed for over 90 days;

the secured and insufficiently secured indebtedness under the credits, except for the indebtedness under the credits of natural persons and microcredits, delayed for over 180 days;

the indebtedness under the credits of natural persons and microcredits, delayed for over 180 days;

the indebtedness under the funds placed in other banks, not repaid within over 90 days from the due date;

the indebtedness under leasing, bills, certificates of deposit, not repaid within over 180 days from the due date;

the indebtedness under factoring, if the bank has the right of demand for indemnification (regression), not repaid within over 180 days from the due date;

the indebtedness under factoring (except for the indebtedness of natural persons under factoring), if the bank has no right of demand for indemnification (regression), not repaid within over 90 days from the due date;

(Eighth paragraph in the first part of Clause 31 in the Decision of the Board No.234, December 28, 2008).

the indebtedness of natural persons under factoring, if the bank has no right of demand for indemnification (regression), not repaid within over 180 days;

(Ninth paragraph of Clause 31 in the Decision of the Board No.234, December 28, 2008).

the indebtedness under the performed obligations for the third parties, if the bank has no right of regressive demand to the debtor, over 90 days from the date of performance;

the indebtedness under the performed obligations for the third parties, if the bank has the right of regressive demand to the debtor, over 180 days from the date of performance;

the terminal, prolonged and delayed indebtedness on the assets, subject to the credit risk, relegated by the bank to the risk group IV in accordance with the additional criteria established by the bank's local normative legal acts, over 90 days from the date when it was relegated to the risk group IV

the indebtedness of the debtors, liquidated in accordance with the procedure, established by the legislation, under the assets, subject to the credit risk;

the indebtedness under the assets, subject to the credit risk, if the debtors are declared economically insolvent (bankrupts) in accordance with the procedure, established by the legislation, and the liquidating proceedings are initiated concerning these debtors;

the indebtedness on the assets, subject to the credit risk, in case of force majeure circumstances, specified in the contract, if these circumstances have resulted in damage for the debtor, making it impossible for the debtor to continue the activity;

the indebtedness on the assets, subject to the credit risk, of the legal entities of group D (except for the cases when the securing of the obligation performance is available in the form of guarantees of the governments of the countries of group A, the international financial organizations and development banks, banks of group A, the guarantee money deposit in convertible currency, in partially convertible currency (if the currency of the guarantee deposit is the same as the currency of the obligation), the pledge of the state securities of the countries of group A, and in the form of bills, guaranteed and (or) accepted by the governments of the countries of group A and/or by the banks of group A);

the indebtedness on the assets, subject to the credit risk, of non-resident legal entities (except for the banks), not having the rating (except for the cases when the securing of the obligation performance is available in the form of guarantees of the governments of the countries of group A, the international financial organizations and development banks, banks of group A, the guarantee money deposit in convertible currency, in partially convertible currency (if the currency of the guarantee deposit is the same as the currency of the obligation), the pledge of the state securities of the countries of group A, and in the form of bills, guaranteed and (or) accepted by the governments of the countries of group A and/or by the banks of group A);

the indebtedness under the funds, placed in the banks of group D (except for the cases when the securing of the obligation performance is available in the form of guarantees of the governments of the countries of group A, the international financial organizations and development banks, banks of group A, the guarantee money deposit in convertible currency, in partially convertible currency (if the currency of the guarantee deposit is the same as the currency of the obligation), the pledge of the state securities of the countries of group A, and in the form of bills, guaranteed and (or) accepted by the governments of the countries of group A and/or by the banks of group A);

the indebtedness under the funds, placed in the banks of group C, if there are no annual accounts, confirmed by the external audit, demonstrating break-even activity of the bank during at least two last financial years (except for the cases when the securing of the obligation performance is available in the form of guarantees of the governments of the countries of group A, the international financial organizations and development banks, banks of group A, the guarantee money deposit in convertible currency, in partially convertible currency (if the currency of the guarantee deposit is the same as the currency of the obligation), the pledge of the state securities of the countries of group A, and in the form of bills, guaranteed and (or) accepted by the governments of the countries of group A and/or by the banks of group A);

the indebtedness under other assets, subject to the credit risk, not repaid within over 90 days from the due date.

For this risk group, the special reserve for covering possible losses under the assets, subject to the credit risk, must be formed equal to 100 per cent from a total amount of the indebtedness.

31¹. The bank should use the differentiated amount of deductions to the special reserve for covering possible losses under the assets, subject to the credit risk, if the criteria, provided by the sixth part of Clause 13 of these Instructions, are specified in the bank's local normative legal acts. If there are no such criteria in the bank's local normative legal acts, the deductions to the special reserve for covering possible losses under the assets, subject to the credit risk, should be equal to 10, 30 and 50 per cent for the risk groups II, III and IV respectively.

(Clause 31¹ in the Decision of the Board No.234, December 28, 2008).

32. On the basis of the full set of factors, taken into consideration for the purposes of classification of the assets, subject to the credit risk, including the debtor's ability to perform the obligations, the indebtedness, considered for classification, can be relegated, by the decision of the

bank's authorized body, to the group with higher level of risk, than it follows from the criteria specified in Clauses 27-31 of these Instructions.

33. Banks must calculate and form a special reserve for covering possible losses under the assets, subject to the credit risk, for the full amount of the indebtedness, that appeared within the limits of the specific contract, agreement etc., in accordance with the amount established for the respective risk group. If the part of the indebtedness, in accordance with the criterion of duration of the delayed indebtedness, must be relegated to the group with higher level of risk, then the indebtedness in full must be relegated to this risk group.

Classification of the indebtedness under leasing and under the credits, for which, at the date of classification, the remaining period before the final date of repayment exceeds 12 months, by the criterion of duration of the delayed indebtedness, and formation of a special reserve, relating to such indebtedness, for covering possible losses under the assets, subject to the credit risk, can be implemented for the total amount of the indebtedness or for its parts, in accordance with the schedules of repayment of these credits or the indebtedness under leasing. If there are indications of the debtor's financial imbalance and (or) other negative information concerning the debtor's ability to perform the obligations, or in case of prolongations of the indebtedness, change of quality and (or) sufficiency of securing, the indebtedness should be classified, and the special reserve, relating to such indebtedness, for covering possible losses under the assets, subject to the credit risk, should be formed for the total amount of the indebtedness that appeared within the specific contract, agreement etc.

34. In case of consortial crediting, each bank, that has granted the credit resources for consortial credit (hereinafter referred to as the participant bank), including the agent bank, should form a special reserve for covering possible losses under the assets, subject to the credit risk, within the limits of its share in the funds provided in accordance with the contract for joint activities relating to the consortial credit, applying the criteria of indebtedness classification to the borrower.

In the contract between the agent bank and the participant bank does not include the provisions, specified by Clause 87 of the Instructions on the specifications of safe functioning for the banks and non-banking credit and financial organizations (approved by the Decision of the Board of the National Bank of the Republic of Belarus No.137, September 28, 2006), the agent bank should form a special reserve for covering possible losses under the assets, subject to the credit risk; the amount of this reserve should be determined on the basis of the amount of consortial credit, provided for the borrower. The participant banks should form such reserves within the limits of their shares in the consortial credit, applying the criteria of indebtedness classification to the agent bank.

35. The special reserve for covering possible losses under the assets, subject to the credit risk, concerning the performed obligations for the third parties should be formed from the time of the obligation performance, irrespective of the terms and conditions of contract.

The indebtedness should be classified, and the special reserve for covering possible losses under the assets, subject to the credit risk, should be formed, for the open factoring, in relation to the buyer (debtor), or, for the hidden factoring, in relation to the supplier (creditor).

36. Making the decisions on change of due dates for repayment of the debtor's delayed indebtedness (the installments, deferrals etc.), and appearing of the indebtedness as a result of conversion of delayed (unpaid) debt to bills or other obligations of the debtor should not be considered as the basis for re-classification of the indebtedness by the bank. In case of the indebtedness conversion with change of the debtor in the obligation, the indebtedness should be classified in accordance with Clause 18 of these Instructions, taking into consideration the new debtor's ability to perform the obligations.

In case of making the decision by the President of the Republic of Belarus on change of the due dates or re-structuring the indebtedness of legal entities under the assets, subject to the credit risk, it should be re-classified on the basis of the debtor's ability to perform the obligations and newly established due dates.

37. The special reserve for covering possible losses under the assets, subject to the credit risk, should be used for writing-off the indebtedness, subject to the credit risk, relegated to the risk group V (hereinafter referred to as the uncollectible indebtedness).

The uncollectible indebtedness should be written-off, at the expense of the special reserve formed (for this indebtedness) for covering possible losses under the assets, subject to the credit risk, after one year from the date of its relegation to the risk group V. In case of making the decision on granting the installment or deferral to the debtor for repayment of an uncollectible indebtedness, the unpaid indebtedness should be written-off, at the expense of the special reserve formed for this indebtedness for covering possible losses under the assets, subject to the credit risk, after expiration of the term of the installment or deferral (taking into consideration the established period of the delayed indebtedness repayment).

38. When the uncollectible indebtedness is written-off at the expense of the special reserve formed for covering possible losses under the assets, subject to the credit risk, writing-off from the delayed incomes balance is carried out.

(Clause 38 in the Decision of the Board No.234, December 28, 2008).

39. Uncollectible indebtedness writing-off at the expense of the special reserve formed for covering possible losses under the assets, subject to the credit risk, should not be considered as a ground for termination of the debtor's obligations.

The uncollectible indebtedness, written-off at the expense of the special reserve formed for covering possible losses under the assets, subject to the credit risk, should be recorded on the off-balance accounts until the date of termination of the debtor's obligations on the grounds provided by the legislation of the Republic of Belarus.

CHAPTER 4 THE PROCEDURE OF FORMATION AND USE OF SPECIAL RESERVE AGAINST DEPRECIATION OF SECURITIES

40. The level of risk for the securities should be assessed regularly by making motivated considerations.

41. The factors, used by the bank as the basis for making motivated consideration on the level of risk, related to the issuer's ability to serve the securities, are determined by the bank independently, taking into consideration the requirements of these Instructions, and should be specified in the bank's local normative legal acts.

At making motivated consideration and determining the amount of the special reserve against depreciation of securities, the bank must take into consideration the securities issuer's ability (assessed in accordance with Clause 14 of these Instructions) to perform the obligations, and any information, available for the bank, about the issuer's risk, including the degree of performance of obligations by the issuer in relation to the issued securities and other factors, if they are considered by the bank as essential for classification of the issuer's ability to serve the securities.

42. For determination of the amount of the special reserve against depreciation of securities, the bank, on the basis of motivated considerations about the level of risk, must classify the issuer's ability to serve the securities and liquidity of securities on the secondary market by its relegation to one of the following four risk groups:

42.1. risk group I: the issuer's unconditional ability to perform the obligations. For this risk group, the special reserve against depreciation of securities should not be formed;

42.2. risk group II: no obvious indications of significant decrease of price and (or) appearing of probability of the obligations non-performance by the issuer. For this risk group, the special reserve against depreciation of securities is formed, equal to 25...50 per cent of the securities acquisition price;

(Subclause 42.2 in the Decision of the Board No.234, December 28, 2008).

42.3. risk group III: there are tendencies demonstrating essential decrease of price and (or) probability of the obligations non-performance by the issuer.

This group should also include the securities of issuers, for which there is no information, allowing to make motivated consideration concerning a risk level, or the information is insufficient for making adequate consideration.

For this risk group, the special reserve against depreciation of securities is formed, equal to 50...100 per cent of the securities acquisition price;

(Third part of Subclause 42.3 in the Decision of the Board No.234, December 28, 2008).

42.4. risk group IV: high probability of the obligations non-performance by the issuer. The main criteria, that must be considered by the banks in relegation of the securities to this group, are as follows:

availability of grounds, allowing to make the conclusions that the structure of the issuer's balances is unsatisfactory;

delay of payments of the income (interest, discount, dividends) for more than 90 days, and (or) default to pay off the securities in due terms by the issuer;

The following securities should be relegated to the risk group IV, irrespective of the assessment of the issuer's ability to serve the securities:

the securities of the legal entities of group D (except for the cases when the securing of the obligation performance is available in the form of guarantees of the governments of the countries of group A, the international financial organizations and development banks, banks of group A, the guarantee money deposit in convertible currency, in partially convertible currency (if the currency of the guarantee deposit is the same as the currency of the obligation), the pledge of the state securities of the countries of group A, and in the form of bills, guaranteed and (or) accepted by the governments of the countries of group A and/or by the banks of group A);

the securities of non-resident legal entities (except for the banks), not having the rating (except for the cases when the securing of the obligation performance is available in the form of guarantees of the governments of the countries of group A, the international financial organizations and development banks, banks of group A, the guarantee money deposit in convertible currency, in partially convertible currency (if the currency of the guarantee deposit is the same as the currency of the obligation), the pledge of the state securities of the countries of group A, and in the form of bills, guaranteed and (or) accepted by the governments of the countries of group A and/or by the banks of group A);

the securities of the banks of group D (except for the cases when the securing of the obligation performance is available in the form of guarantees of the governments of the countries of group A, the international financial organizations and development banks, banks of group A, the guarantee money deposit in convertible currency, in partially convertible currency (if the currency of the guarantee deposit is the same as the currency of the obligation), the pledge of the state securities of the countries of group A, and in the form of bills, guaranteed and (or) accepted by the governments of the countries of group A and/or by the banks of group A);

the securities of the banks of group C, if there are no annual accounts, confirmed by the external audit, demonstrating break-even activity of the bank during at least two last financial years (except for the cases when the securing of the obligation performance is available in the form of guarantees of the governments of the countries of group A, the international financial organizations and development banks, banks of group A, the guarantee money deposit in convertible currency, in partially convertible currency (if the currency of the guarantee deposit is the same as the currency of the obligation), the pledge of the state securities of the countries of group A, and in the form of bills, guaranteed and (or) accepted by the governments of the countries of group A and/or by the banks of group A);

the securities of the governments or the Central (National) Banks of the countries of group E.

For this risk group, the special reserve against depreciation of securities is formed, equal 100 per cent of the securities acquisition price.

42¹. The bank should use the differentiated amount of deductions to the special reserve against depreciation of securities, if the criteria, provided by the sixth part of Clause 13 of these Instructions, are specified in the bank's local normative legal acts. If there are no such criteria in the bank's local normative legal acts, the deductions to the special reserve against depreciation of securities should be equal to 25 and 50 per cent for the risk groups II and III respectively.

(Clause 42¹ in the Decision of the Board No.234, December 28, 2008).

43. The special reserve against depreciation of securities should be formed for each separately acquired lot (package) of the securities, having the same registration number.

44. In case of repayment of securities, loss of the right of ownership on the securities (including such loss at sale), and in cases when the requirements of these Instructions become non-applicable to the securities, the special reserve against depreciation of securities should be restored on the bank's incomes (charges), except for the funds used in accordance with Clauses 45 and 46 of these Instructions.

45. The special reserve against depreciation of securities is used for covering the losses, appearing as a result of the securities sale (repayment) at the price that is lower than the acquisition price, and for writing-off the indebtedness under the securities, being in the bank's ownership and relegated to the risk group IV.

The indebtedness under the securities, relegated to the risk group IV, except for the securities still not due to repayment, should be written-off after one year from the date of their relegation to this risk group. For the securities still not due to repayment, the indebtedness should be written-off after one year from the due date of repayment.

The other grounds for using the special reserve against depreciation of securities include the documents confirming the fact of termination of the right of ownership on the securities (as a result of sale, repayment etc.), and (or) the fact of impossibility to exercise the rights certified by the securities.

46. Writing-off the indebtedness under the securities, relegated to the risk group IV, from the balance to the off-balance accounts should not be considered as a ground for termination of the securities issuer's obligations.

The indebtedness, written-off at the expense of the special reserve against depreciation of securities, should be recorded on the off-balance accounts until the date of termination of the securities issuer's obligations on the grounds provided by the legislation of the Republic of Belarus.

CHAPTER 5

THE PROCEDURE OF FORMATION AND USE OF THE SPECIAL RESERVE FOR COVERING POSSIBLE LOSSES UNDER CONDITIONAL OBLIGATIONS

47. The conditional obligations should be classified by the bank on the basis of the comprehensive and objective analysis of the counterpart's activity, depending on the counterpart's ability to perform the contract obligations, quality and sufficiency of securing, and any other information, available for the bank, concerning any risks of the counterpart, including data on the external obligations, on the legal conditions of performance of the obligations provided by the terms and conditions of contract and (or) by the legislation, and other factors established by the bank's local normative legal acts.

In relation to the counterparts, being the natural persons, and for the microcredits, the credit risks under conditional obligations should be classified and assessed, depending on the counterpart's ability to perform the obligations.

(Second part of Clause 47 in the Decision of the Board No.234, December 28, 2008).

48. For the purposes of classification of conditional obligations, the counterpart's ability to perform the obligations should be assessed in accordance with Clause 14 of these Instructions.

The conditional obligations with the securing, provided by Clause 22 of these Instructions, should be considered as secured. For the purposes of these Instructions, the conditional obligations, for which the contract of insurance of financial risks is concluded by the bank, should be considered as secured.

(The second statement in the second part of Clause 48 in the Decision of the Board No.234, December 28, 2008).

49. Depending on the level of the credit risk, the conditional obligations are subdivided into five risk groups.

50. The risk group I should include:

the conditional obligations, concerning which, the bank can refuse to perform at any time without the prior notification of the counterpart in accordance with the contract or the accepted obligation unconditionally or in connection with the indications of financial imbalance of the counterpart and (or) other negative information, concerning the counterpart's ability to perform the obligations to the bank;

the conditional obligations concerning the counterpart natural persons and the microcredits, in case of absence of the negative information concerning the counterpart's ability to perform the obligations to the bank;

(The third paragraph in the first part of Clause 50 in the Decision of the Board No.234, December 28, 2008).

the secured conditional obligations, except for the obligations concerning the counterpart natural persons and the microcredits, without any indications of financial imbalance of the counterpart and other negative information concerning the counterpart's ability to perform the obligations to the bank;

(The fourth paragraph in the first part of Clause 50 in the Decision of the Board No.234, December 28, 2008).

the unsecured guarantee obligations with the right of regression, granted in favor of other bank, without any indications of financial imbalance of the counterpart and other negative information concerning the counterpart's ability to perform the obligations to the bank;

(The fifth paragraph in the first part of Clause 50 in the Decision of the Board No.234, December 28, 2008).

the unsecured obligations concerning provision of funds, except for the obligations concerning the counterpart natural persons and the microcredits, without any indications of financial imbalance of the counterpart and other negative information concerning the counterpart's ability to perform the obligations to the bank.

(The sixth paragraph in the first part of Clause 50 in the Decision of the Board No.234, December 28, 2008).

For this risk group, the special reserve for covering possible losses under conditional obligations is not formed.

51. The risk group II should include:

the secured guarantee obligations with the right of regression, except for the obligations concerning the counterpart natural persons and the microcredits, in case of availability of indications of the counterpart's financial imbalance and (or) other negative information concerning the counterpart's ability to perform the obligations to the bank;

(The second paragraph in the first part of Clause 51 in the Decision of the Board No.234, December 28, 2008).

the unsecured guarantee obligations with the right of regression, except for the obligations concerning the counterpart natural persons, counterpart banks and the microcredits, without any

indications of financial imbalance of the counterparty and other negative information concerning the counterparty's ability to perform the obligations to the bank;

(The third paragraph in the first part of Clause 51 in the Decision of the Board No.234, December 28, 2008).

the unsecured guarantee obligations with the right of regression, except for the obligations concerning the counterparty natural persons and the microcredits, in case of availability of negative information concerning the counterparty's ability to perform the obligations to the bank;

(The fourth paragraph in the first part of Clause 51 in the Decision of the Board No.234, December 28, 2008).

the secured guarantee obligations without the right of regression, except for the obligations concerning the counterparty natural persons and the microcredits, in case of availability of negative information concerning the counterparty's ability to perform the obligations to the bank;

(The fifth paragraph in the first part of Clause 51 in the Decision of the Board No.234, December 28, 2008).

the unsecured guarantee obligations without the right of regression, granted in favor of other bank, without any indications of financial imbalance of the counterparty and other negative information concerning the counterparty's ability to perform the obligations to the bank;

(The sixth paragraph in the first part of Clause 51 in the Decision of the Board No.234, December 28, 2008).

the guarantee obligations with the right of regression, concerning the counterparty natural persons and the microcredits, in case of availability of negative information concerning the counterparty's ability to perform the obligations to the bank;

(The seventh paragraph in the first part of Clause 51 in the Decision of the Board No.234, December 28, 2008).

the secured obligations concerning provision of funds, except for the obligations concerning the counterparty natural persons and the microcredits, in case of availability of indications of the counterparty's financial imbalance and (or) other negative information concerning the counterparty's ability to perform the obligations to the bank;

(The eighth paragraph in the first part of Clause 51 in the Decision of the Board No.234, December 28, 2008).

the unsecured obligations concerning provision of funds, except for the obligations concerning the counterparty natural persons and the microcredits, in case of availability of negative information concerning the counterparty's ability to perform the obligations to the bank;

(The ninth paragraph in the first part of Clause 51 in the Decision of the Board No.234, December 28, 2008).

the obligations concerning provision of funds, concerning the counterparty natural persons and the microcredits, in case of availability of negative information concerning the counterparty's ability to perform the obligations to the bank;

(The tenth paragraph in the first part of Clause 51 in the Decision of the Board No.234, December 28, 2008).

other secured conditional obligations, in case of availability of indications of the counterparty's financial imbalance and (or) other negative information concerning the counterparty's ability to perform the obligations to the bank;

other unsecured conditional obligations, without any indications of financial imbalance of the counterparty and other negative information concerning the counterparty's ability to perform the obligations to the bank;

other unsecured conditional obligations, in case of availability of negative information concerning the counterparty's ability to perform the obligations to the bank.

For this risk group, the special reserve for covering possible losses under conditional obligations is formed, equal to 10...30 per cent from a total amount of the conditional obligation.

(The second part of Clause 51 in the Decision of the Board No.234, December 28, 2008).

52. The risk group III should include:

the unsecured guarantee obligations with the right of regression, except for the obligations concerning the counterpart natural persons and the microcredits, in case of availability of indications of the counterpart's financial imbalance;

(The second paragraph in the first part of Clause 52 in the Decision of the Board No.234, December 28, 2008).

the secured guarantee obligations without the right of regression, except for the obligations concerning the counterpart natural persons and the microcredits, in case of availability of indications of the counterpart's financial imbalance;

(The third paragraph in the first part of Clause 52 in the Decision of the Board No.234, December 28, 2008).

the unsecured guarantee obligations without the right of regression, except for the obligations concerning the counterpart natural persons, counterpart banks and the microcredits, without any indications of financial imbalance of the counterpart and other negative information concerning the counterpart's ability to perform the obligations to the bank;

(The fourth paragraph in the first part of Clause 52 in the Decision of the Board No.234, December 28, 2008).

the unsecured guarantee obligations without the right of regression, except for the obligations concerning the counterpart natural persons and the microcredits, in case of availability of negative information concerning the counterpart's ability to perform the obligations to the bank;

(The fifth paragraph in the first part of Clause 52 in the Decision of the Board No.234, December 28, 2008).

the guarantee obligations without the right of regression, concerning the counterpart natural persons and the microcredits, in case of availability of negative information concerning the counterpart's ability to perform the obligations to the bank;

(The sixth paragraph in the first part of Clause 52 in the Decision of the Board No.234, December 28, 2008).

the unsecured obligations concerning provision of funds, except for the obligations concerning the counterpart natural persons and the microcredits, in case of availability of indications of the counterpart's financial imbalance;

(The seventh paragraph in the first part of Clause 52 in the Decision of the Board No.234, December 28, 2008).

other unsecured conditional obligations, in case of availability of indications of the counterpart's financial imbalance.

For this risk group, the special reserve for covering possible losses under conditional obligations is formed, equal to 30...50 per cent from a total amount of the conditional obligation.

(The second part of Clause 52 in the Decision of the Board No.234, December 28, 2008).

53. The risk group IV should include:

the unsecured guarantee obligations without the right of regression, except for the obligations concerning the counterpart natural persons and the microcredits, in case of availability of indications of the counterpart's financial imbalance;

(The second paragraph in the first part of Clause 53 in the Decision of the Board No.234, December 28, 2008).

the conditional obligations concerning the counterparts, for which there is no information, allowing to assess the financial conditions of counterparts and their ability to perform their obligations to the bank, or the information is insufficient for adequate assessment;

the conditional obligations, relegated by the bank to the risk group IV in accordance with additional criteria, established by the bank's local normative legal acts.

For this risk group, the special reserve for covering possible losses under conditional obligations is formed, equal to 50...100 per cent from a total amount of the conditional obligation.

(The second part of Clause 53 in the Decision of the Board No.234, December 28, 2008).

54. The risk group V should include:

the conditional obligations concerning the counterparts, that are declared economically insolvent (bankrupts) in accordance with the procedure, established by the legislation, and the liquidating proceedings are initiated;

the conditional obligations concerning the counterparts, in case of force majeure circumstances, specified in the contract, if these circumstances have resulted in damage for the counterpart, making it impossible for the counterpart to continue the activity;

the conditional obligations concerning the counterparts, liquidated in accordance with the procedure, established by the legislation;

the conditional obligations concerning the legal entities of group D (except for the cases when the securing of the obligation performance is available in the form of guarantees of the governments of the countries of group A, the international financial organizations and development banks, banks of group A, the guarantee money deposit in convertible currency, in partially convertible currency (if the currency of the guarantee deposit is the same as the currency of the obligation), the pledge of the state securities of the countries of group A, and in the form of bills, guaranteed and (or) accepted by the governments of the countries of group A and/or by the banks of group A);

the conditional obligations concerning non-resident legal entities (except for the banks), not having the rating (except for the cases when the securing of the obligation performance is available in the form of guarantees of the governments of the countries of group A, the international financial organizations and development banks, banks of group A, the guarantee money deposit in convertible currency, in partially convertible currency (if the currency of the guarantee deposit is the same as the currency of the obligation), the pledge of the state securities of the countries of group A, and in the form of bills, guaranteed and (or) accepted by the governments of the countries of group A and/or by the banks of group A);

the conditional obligations concerning the banks of group D (except for the cases when the securing of the obligation performance is available in the form of guarantees of the governments of the countries of group A, the international financial organizations and development banks, banks of group A, the guarantee money deposit in convertible currency, in partially convertible currency (if the currency of the guarantee deposit is the same as the currency of the obligation), the pledge of the state securities of the countries of group A, and in the form of bills, guaranteed and (or) accepted by the governments of the countries of group A and/or by the banks of group A);

the conditional obligations concerning the banks of group C, if there are no annual accounts, confirmed by the external audit, demonstrating break-even activity of the bank during at least two last financial years (except for the cases when the securing of the obligation performance is available in the form of guarantees of the governments of the countries of group A, the international financial organizations and development banks, banks of group A, the guarantee money deposit in convertible currency, in partially convertible currency (if the currency of the guarantee deposit is the same as the currency of the obligation), the pledge of the state securities of the countries of group A, and in the form of bills, guaranteed and (or) accepted by the governments of the countries of group A and/or by the banks of group A).

For this risk group, the special reserve for covering possible losses under conditional obligations is formed, equal to 100 per cent from a total amount of the conditional obligation.

54¹. The bank should use the differentiated amount of deductions to the special reserve for covering possible losses under the conditional obligations, if the criteria, provided by the sixth part of

Clause 13 of these Instructions, are specified in the bank's local normative legal acts. If there are no such criteria in the bank's local normative legal acts, the deductions to the special reserve for covering possible losses under the conditional obligations should be equal to 10, 30 and 50 per cent for the risk groups II, III and IV respectively.

(Clause 54 in the Decision of the Board No.234, December 28, 2008).

55. After performance of the conditional obligation by the bank, or in case of termination of the conditional obligation, the special reserve for covering possible losses under conditional obligations should be restored on the bank's incomes (charges).

I hereby certify authenticity of the translation with the original. Translator N.V.Batin.