PROVISION/ALLOWANCE FOR PROBABLE LOAN LOSSES

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Pursuant to Monetary Board Resolution No. 509 dated April 1, 1998, the provisions of the Manual Regulations for Banks and Other Financial Intermediaries (Books I to IV) are hereby amended as follows:

SECTION 1.The first paragraph of Subsecs. __306.5 (Books I to III) and 4605Q.5 (Book IV) regarding allowance for probable losses is hereby amended so as to provide for 5% allowance for "Loans Specially Mentioned", regardless of collateral and 25% allowance for secured loans classified as "Substandard", as follows:

> Allowance for probable losses. An allowance for probable losses on loan accounts and other risk assets should be set up in accordance with the following:
>
> Classification Allowance
>
> a. Unclassified 0%
>
> b. Loans specially mentioned 5%
>
> c. Substandard 25%
>
> d. Doubtful 50%
>
> e. Loss 100%

SECTION 2. Subsecs. __306.6 (Books I to III) and 4306Q.6 (Book IV) are hereby amended to read as follows:

> Transitory provision. The two percent (2%) general provision for probable loan losses shall be fully set up within two (2) years, as follows:
>
> 1% by 1 October 1998;
> 1½% by 1 April 1999; and
> 2% by 1 October 1999

THE TWENTY FIVE PERCENT (25%) AND THE FIVE PERCENT (5%) ALLOWANCE FOR PROBABLE LOSSES ON SECURED LOANS CLASSIFIED AS "SUBSTANDARD" AND "LOANS ESPECIALLY MENTIONED", RESPECTIVELY SHALL BE FULLY SET-UP, AS FOLLOWS:

BY

> 12/13/98 4/15/99
>
> SECURED LOANS CLASSIFIED AS "SUBSTANDARD" 12.5% 25%
>
> LOANS ESPECIALLY MENTIONED 2.5% 5%

Provided That where the total amount of allowance to be set up would impair a bank's net worth, the period may be extended by the Monetary Board as it may deem appropriate."

Allowance for probable losses and other risk assets classified as Substandard (UNSECURED), Doubtful and Loss

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as required by the Bangko Sentral shall be set up immediately.

SECTION 3. Item b.1 of Subsec. __306.3 (Books I to III) and 4306Q.3 (Book IV) is hereby amended so as to delete the last sentence thereof which provides: "The portion so secured are not subject to classification."

SECTION 4. Item c of Subsecs. __306.7 (Books I to III) and 4306Q.7 (Book IV) is hereby amended to read as follows:

> c. Fine of P 10,000 a day for Expanded Commercial Banks and Regular Commercial Banks, P 5,000 for Thrift Banks and Non-bank Financial Intermediaries with Quasi-banking Functions (NBQBs) and P 500 for Rural Banks, counted as follows:
>
> 1. From the date the bank has been informed that the recommendation of the appropriate supervising and examining department of SES has been confirmed by the Monetary Board up to the date that said recommended valuation reserves had been actually booked, in case of the allowance for probable losses for loans and other risk assets classified as Substandard (UNSECURED), Doubtful and Loss as required by the Bangko Sentral; and
>
> 2. FROM THE DATES PRESCRIBED UNDER THE PRECEDING SUBSECTION UP TO THE DATE OF ACTUAL BOOKING IN CASES of the 2% general provision for probable loan losses, THE 25% ALLOWANCE FOR PROBABLE LOSSES ON SECURED LOANS CLASSIFIED AS SUBSTANDARD, AND THE 5% ALLOWANCE FOR PROBABLE LOSSES ON LOANS ESPECIALLY MENTIONED.

This Circular shall take effect immediately.

Adopted: 13 April 1998

(SGD.) GABRIEL C. SINGSON
Governor

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