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PROVISIONS ON LOAN LOSSES

CIRCULAR NO. 313, S. 2001, December 27, 2001

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Pursuant to Monetary Board Resolution No. 1871 dated 22 November 2001, the provisions of the Manual of Regulations for Banks and Non-Bank Financial Institutions are hereby amended as follows:

SECTION 1. Subsections X302.1 and 4302Q.1 of the Manual of Regulations are hereby amended to read as follows:

Allowance for Probable Losses; booking

a. Specific allowance for probable losses for classified loans and other risk assets as required in the guidelines shall be set up immediately.

b. A general provision for loan losses shall also be set up as follows:

1. Five percent (5%) of the outstanding balance of unclassified restructured loans less the outstanding balance of restructured loans which are considered non-risk UNDER EXISTING LAWS/RULES/REGULATIONS;

2. ONE PERCENT (1%) of the outstanding balance of unclassified loans other than restructured loans less loans which are considered non-risk under existing laws/rules/regulations.

c. The excess of the booked general loan loss provisions over the amount required as a result of the reduction of the amount required to be set up to 1% shall first be applied to unbooked specific valuation reserves, whether authorized to be booked on a staggered basis or not and only the remainder can be considered as income.

d. The general loan loss provision shall be computed as follows:

For Loans Not Restructured

Gross Loan Portfolio (Excluding

Restructured Loans) PXXX

Less: Classified Loans (based on

latest BSP examination)

Loans especially mentioned PXXX

Substandard

Secured XXX

Unsecured XXX

Doubtful XXX

Loss XXX XXX

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_____ _____

Unclassified Loans PXXX

Less: Loans considered non-risk

under existing regulations XXX

_____

Loan Portfolio, net of exclusions PXXX

General Loan Loss Provision (1% of

net loan portfolio) PXXX

_____

For Restructured Loans

Restructured Loans (Gross) PXXX

Less: Classified Loans (based on

latest BSP examination)

Loans especially mentioned PXXX

Substandard

Secured XXX

Unsecured XXX

Doubtful XXX

Loss XXX XXX

_____ _____

Unclassified Restructured Loans PXXX

Less: Loans considered non-risk

under existing regulations XXX

_____

Restructured Loans, net of

exclusions PXXX

General Loan Loss Provision (5% of

net restructured loans) PXXX

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SECTION 2. Item III of Appendix 18 and item 3 of Appendix Q-10 of the Manual of Regulations are hereby amended to read as follows:

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"Allowance for probable losses. An allowance for probable losses on the loan accounts and other risk assets should be set-up as follows:

Classification

Allowances

1. Unclassified

0%

2. Loans especially mentioned

5%

3. Substandard

Secured

10%

Unsecured

25%

4. Doubtful

50%

5. Loss

100%

The allowance for probable losses shall be adjusted accordingly for additional allowance required by the BSP: PROVIDED, THAT IN CASES OF PARTIALLY SECURED LOANS, ONLY 10% ALLOWANCE SHALL BE REQUIRED FOR THE PORTION THEREOF WHICH ARE COVERED BY THE APPRAISED VALUE OF THE COLLATERAL: PROVIDED FURTHER, THAT SAID COLLATERAL IS RE-APPRAISED AT LEAST ANNUALLY.

Management is, however, encouraged to provide additional allowance as it deems prudent and to formulate additional specific guidelines within the context of the herein described system.

This Circular shall take effect immediately.

Adopted: 27, Dec. 2001

(SGD.) RAFAEL B. BUENAVENTURA
Governor

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