BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 1046
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Subject: Enhanced Guidelines on Sound Credit Risk Management Practices for Non-Stock Savings and Loan Associations (NSSLAs); Amendments to the Manual of Regulations for Non-Bank Financial Institutions

The Monetary Board, in its Resolution No. 1204 dated 09 August 2019, approved the following enhanced guidelines on sound credit risk management practices for Non-Stock Savings and Loan Associations (NSSLAs) as well as the additional amendments/deletions of certain provisions in the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI).

Section 1. Section 4191S on Credit Risk Management; Policy Statement is hereby added to the MORNBFI to read, as follows:

Section 4191S Credit Risk Management; Policy Statement.

It is the policy of the Bangko Sentral to ensure that NSSLAs under its supervision have adequate and effective credit risk management systems commensurate to their lending operations. Towards this end, the following guidelines on credit risk management set forth the expectations of the Bangko Sentral with respect to the comprehensive management of credit risk. The guidelines convey the principles and sound practices that shall be embedded in the credit risk management framework of NSSLAs and shall cover the following areas:

a. establishing an appropriate credit risk environment;
b. operating under a sound credit granting process; and
c. maintaining appropriate credit administration, measurement, monitoring and control processes over credit risk.

While NSSLAs may employ different approaches in the management of their credit risk, the Bangko Sentral expects that all these areas are effectively addressed.

§ 4191S.1 Evaluation of credit risk management system. The Bangko Sentral shall evaluate the NSSLAs' credit risk management systems. It will not restrict the credit risk-taking activities of NSSLAs: *Provided,* That extension of credit is made to eligible members and credit risk is effectively managed. Consistent with the credit risk management guidelines, the Bangko Sentral expects that an NSSLA:

a. Understands, identifies, measures, monitors and controls all risks attendant to the NSSLA's credit risk-related activities;
b. Adopts a credit risk management system that provides assurance to the members, other stakeholders and the supervisory authority that good quality of the credit portfolio is maintained and that the NSSLA operates in a safe and sound manner; and
c. Maintains capital commensurate with the risk exposure assumed.

Otherwise, the Bangko Sentral may direct the NSSLAs to reduce its exposure to an appropriate level and/or to strengthen its risk management system.

In evaluating the above parameters, the Bangko Sentral shall consider the following factors:

a. The NSSLA's business strategies, operating environment and the competencies of its trustees, officers and personnel; and

b. The major sources of the NSSLA's credit risk exposure and the complexity and level of risk posed by the assets and liabilities.

A. Establishing an Appropriate Credit Risk Environment

§4191S.2 Role of the Board and Senior Management

a. Board of Trustees. The board of trustees shall ensure that it fully understand all the risks attendant to the NSSLA's credit activities and shall be responsible for the approval and regular review of credit risk strategy and credit policy, as well as the oversight of the implementation of a comprehensive and effective credit risk management system appropriate for the size, complexity and scope of operations of an NSSLA. The board shall ensure that the system provides for adequate policies, processes and procedures to identify, measure, monitor and control all credit risks inherent in an NSSLA's products and activities, both at the individual and portfolio levels on a consistent and continuing basis; and that an independent assessment of the system is periodically performed, the results of which shall be reported to it or to a board-level committee for appropriate action.

b. Senior Management. Senior management shall be responsible for ensuring that the credit risk-taking activities of an NSSLA are aligned with the credit risk strategy approved by the board of trustees. It shall also be responsible for developing and implementing an NSSLA's credit policies and procedures that lay down the conditions and guidelines for an effective credit risk management process, as well as proper channels of communication to ensure that these policies are clearly communicated and adhered to by all levels within the NSSLA.

NSSLAs shall conduct their lending operations with independence and fairness relative to their dealings with members, agents and entities employing their members or paymaster/cashier/ treasurer of such entities, as the case may be.

For new products and activities, the board of trustees and senior management shall ensure that it fully understand the risk involved therein and put in place adequate policies, procedures and controls to identify, measure, monitor and manage risks before being introduced or undertaken.

§4191S.3 Credit risk management structure. Senior management or an appropriate level of management shall implement a board-approved credit risk management structure that clearly delineates lines of authority, and establishes accountabilities and responsibilities of individuals involved in the different phases of the credit risk management process.

Depending on the size, complexity and scope of credit activities, and in addition to the roles and responsibilities of the board and senior management, an NSSLA's credit risk management organization may be broadly classified into the following functional lines of activities to properly segregate accountabilities, ensure that no individual is assigned conflicting responsibilities, and effectively monitor and control the risks being taken:

a. Front Office: credit origination, classification, provision of allowances for losses including changes thereon, when necessary and the monitoring of credit exposures of member-borrowers on a day-to-day basis;

b. Back Office: credit administration, including, among others: ensuring complete documentation, credit disbursement and recording of payments received; maintenance of credit and collateral files; and compilation of management information reports; and

c. Middle Office: credit review, problem loan management, and risk management/control.[1]

The structure shall likewise provide for independent audit of the credit risk management system of the NSSLA. The scope of internal audit shall include, among others, the evaluation of the independence and overall effectiveness of the credit review function.

For simple NSSLAs[2]: (1) the problem loan management function may still be performed by the credit originating function and/or unit responsible for monitoring the

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[1] The risk management function shall report directly to the Risk Management Committee (RMC) or appropriate board-level committee or the board.

[2] Simple NSSLAs shall refer to NSSLAs which, due to operational limitations, are not classified as Complex NSSLAs. Complex NSSLAs shall refer to institutions declared by the Bangko Sentral as such with total assets of at least P5 billion and having at least any one (1) of the following characteristics: (1)Extensive membership

quality of such credit; and (2) the independent credit review function may be concurrently performed by qualified personnel fulfilling other independent control oversight functions (e.g., compliance, internal audit).

All personnel or staff involved in the credit risk management process shall be qualified, competent and have the necessary training and experience to exercise prudent judgment in assessing, managing and/or controlling credit risk, and a solid understanding of an NSSLA's strategic direction, policies, procedures, risk tolerance and limits. Their qualification standards, roles and responsibilities shall be clearly defined in the credit operating policies and procedures manual of the NSSLA. The board and senior management shall ensure that adequate resources and appropriate level of staffing are allocated to execute all kinds of credit activities.

§4191S.4 Credit policies, processes and procedures. NSSLAs shall have in place sound, comprehensive and clearly defined credit policies, processes and procedures consistent with prudent standards, practices, applicable laws and relevant regulatory requirements adequate for their size, complexity and scope of operations. The board-approved policies, processes and procedures shall cover all phases of the credit risk management system.

The credit policy shall:

a. Articulate the credit culture which reflects the NSSLA's values, beliefs and behaviors;
b. Be periodically reviewed and changes thereon must be approved by the board; and
c. Have appropriate line of accountability.

These policies, processes and procedures shall be documented in sufficient detail, and periodically reviewed and updated to take into account new activities and products, as well as new lending approaches. To promote constant awareness and guidance within the NSSLA, these shall be communicated and disseminated to all levels of the NSSLA.

B. Operating Under a Sound Credit Granting Process

§4191S.5 Credit granting and loan evaluation/analysis process and underwriting standards. Consistent with safe and sound lending practice, NSSLAs shall grant credit to eligible members in allowable amounts and periods of time, and after ascertaining that the member-borrowers are capable of fulfilling their commitment to the NSSLA. Towards this end, an NSSLA shall establish well-defined credit-granting criteria and underwriting standards, which shall duly consider the purpose and structure of the credit, source of repayment and collection cycle.

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base such as those which membership extends to employees/retirees of two or more companies/ agencies/institutions, and/or their relatives, and/or with serious issue on the "well-defined" group requirement under R.A. No. 8367 (Revised NSSLA Act of 1997); or (2)Use of non-conventional business model, such as those using non-traditional delivery platform such as electronic platforms and agents.

An NSSLA shall conduct its credit assessment in a holistic and prudent manner, taking into account all relevant factors that could influence the prospect for the loan to be repaid according to its terms and conditions. This shall include an appropriate consideration of the member-borrowers' existing debt obligations with the NSSLA and other financial institutions/credit granting entities and repayment history, as well as an assessment of whether the loan can be expected to be repaid without causing undue hardship and over-indebtedness. NSSLAs shall ensure that their credit policies and underwriting standards still consider reasonable cost of living, while the terms and conditions of the loans do not prejudice members' welfare.

NSSLAs shall factor into their credit-granting decisions, the likelihood of providing allowance for credit losses and holding adequate capital to absorb unexpected losses for credits with apparent weaknesses.

NSSLAs may utilize collaterals (e.g., real estate, capital contribution, deposits), and other financial instruments (e.g., insurance) to help mitigate risk in credit exposures. However, these shall not substitute for a comprehensive assessment of the member-borrower's creditworthiness or fully compensate for insufficient information. NSSLAs shall establish:

a. adequate policies in determining the acceptability of various forms of credit risk mitigants and appropriate collateral value limits;
b. procedures for regularly assessing the value of physical collaterals and availability of financial guarantees; and
c. a process to ensure that said collaterals are, and continue to be, enforceable, realizable and marketable.

§4191S.6 Credit approval process. The approval process for new credits as well as the amendment, renewal and restructuring of existing credit exposures shall be aligned with the credit risk management structure and clearly articulated in an NSSLA's written credit policy. It shall also include an escalation process where approval for restructuring of credits, policy exceptions or excesses in internal limits, is escalated to units/officer with higher authorities, as approved by the board of trustees.

The said policies must also cover the escalation processes and procedures, including approving authorities, in resolving cases of re-billing and handling of accounts falling under extra-ordinary circumstances that may adversely affect the quality of the individual loan account and total loan portfolio.

§4191S.7 Renewal. NSSLAs shall put in place policies and procedures on renewal of loans. A loan renewal shall supersede the original loan. Credits and other accommodations shall only be renewed:

a. Upon re-establishment of the creditworthiness of the borrower using the same credit-granting criteria for the evaluation and approval of new loans; and
b. When the corresponding accrued interest receivable has been paid.

C. Maintaining an Appropriate Credit Administration Process

§4191S.8 Credit Administration. NSSLAs shall have in place a system for the ongoing administration of their various credit portfolios. Credit administration refers to activities that support and control extension and maintenance of credit. NSSLAs shall ensure the efficiency and effectiveness of the following credit administration functions:

a. *Credit documentation.* Policies and procedures shall be put in place to ensure completeness of documentation, including a file documentation tickler system, execution of the loan transaction, and enforceability of documents.

   For each loan granted by an NSSLA, a promissory note must be executed by the member-borrower in favor of the NSSLA expressing particulars such as the amount of the loan, date granted, due date, interest rate and other similar information. In addition, member-borrowers must execute an authorization requiring the payroll or its equivalent to make deduction from their salary the amount specified in the contractual obligation and remit such deduction to the NSSLA;

b. *Disbursement.* Proper approval shall be obtained and complete documentation shall be ensured prior to disbursement. Exceptions, if any, shall be duly approved;

c. *Billing and repayment.* Payments received shall be properly recorded. Measures shall be in place to ensure that late payments are tracked and collected; and

d. *Maintenance of credit files.* Credit files shall include sufficient and updated information necessary to ascertain the financial condition of the member-borrower and include documents covering the history of an NSSLA's relationship with the borrower. All loan and collateral documents shall be kept in a secured area in NSSLA premises under joint custody.

For billing and repayment, on the basis of properly executed authorization to deduct from member-borrowers, the billing policies shall expressly provide information on the methodologies, timing and frequency, and bases of billing through the salary or pension remittance systems. In the case of loans payable over-the-counter or means other than through salary-deduction scheme, the policies shall also provide for the mechanics and requisites thereof, specifically on the use of collection agents/representatives or its equivalent.

For each loan granted, the NSSLA expects repayment based on terms agreed upon with member-borrowers. Upon receipt of the first amortization, it is assumed that the succeeding periodic amortizations are collected continuously thereafter. Accordingly, normal collection period (NCP) shall be defined as the period from the date of loan release to the date the NSSLA is able to collect the first periodic amortization of a loan payable by installment, or full settlement in the case of loans payable by balloon payment. The NCP shall be incorporated in the NSSLA's credit policies and considered in its loan review and monitoring system in order to reflect the true status of loan accounts and ensure that adequate loss provisioning is provided.

For repayments remitted through payroll or pension systems, the NCP shall be set by the NSSLA's board of trustees based on the recent collection history (e.g., last three years) and/or remittance periods specified in contracts with private companies or government units required to deduct and remit amounts due from employee- or retiree-members of such NSSLAs. This should be supported by documentary evidences that sufficiently justify the length of time identified as the NCP. In no case, however, shall the NCP exceed four (4) months from the date of release of the loan. For over-the-counter payments, the cure period as specified under Subsection 4306S.1 shall apply instead of the NCP.

However, when repayments of loans through payroll/pension systems are beyond the established NCP and/or there are shortfalls in contracted amortizations, the NSSLA needs to determine whether these situations may be considered as extra-ordinary circumstances. Extra-ordinary circumstances are triggered by events or conditions beyond the control[3] of the NSSLA; the effect of which may apply to a specific product or group of members rather than on an individual basis; and there is reasonable basis to assess that the member-borrowers' repayment capacity is not impaired.

For these extra-ordinary circumstances, the board of trustees shall adopt and implement:

a. Policies and mechanism towards the proper identification and declaration of situations considered as extra-ordinary given their operating environment;

b. Commensurate policies and processes of measuring, monitoring and controlling the risks falling under extra-ordinary circumstance; and

c. Effective Management Information System (MIS) towards adequate and timely generation of data, reports and feedback on extra-ordinary accounts.

[3] For example collective delay in remittance due to payroll or pension system issues, unilateral move by employers or by law to increase net-take home pay requirements

The Board and Management are expected to adequately support by documentary evidences the identification of extra-ordinary circumstances and that the loans are not impaired. The Bangko Sentral is not precluded from validating the said identification and non-impairment for the purpose of ascertaining the condition of the loans.

Occurrence of events beyond the control of the NSSLA which have indications that member-borrowers' repayment capacity is compromised and may result in impairment of loans (e.g., member-borrower's absence without official leave, termination from employment, early retirement, etc.) shall not be considered as falling under extra-ordinary circumstances. In which case, the loans shall be subject to appropriate work-out strategy, adverse classification and loss provisioning.

D. Maintaining an Appropriate Credit Measurement, Monitoring and Control Process

§4191S.9 Credit Risk Measurement. NSSLAs shall adopt sound and appropriate risk measurement methodologies which shall provide a framework to control and monitor the quality of credit as well as total loan portfolio. To ensure adherence to the NSSLA's risk tolerance, it shall implement an internal credit grading system that enables the identification of the credit behavior and measurement of the risk profile of member-borrowers.

NSSLAs shall develop a contingency plan for scenarios and outcomes that involve credit risk in excess of the NSSLAs' established risk tolerance. This plan may include increasing monitoring, limiting portfolio growth and exit strategies for both significant individual transactions and key portfolio segments.

§4191S.10 Credit Risk Management Information and Reporting Systems. NSSLAs shall render accurate, reliable and timely information and reports relating to credit risk management. Thus, adequate management information and reporting systems shall be in place to support the identification, measurement and monitoring of credit risk and the overall effectiveness risk management process. The information generated from such systems shall enable the board and all levels of management to fulfill their respective oversight roles, including determining the level of capital commensurate with the credit risk exposure of the NSSLA.

a. At a minimum, an effective MIS shall enable NSSLAs to:

    (1) Provide adequate information on the quality and composition of the credit portfolio (including off-balance sheet accounts);
    (2) Determine accurately the level of credit risk exposures of an NSSLA through its various activities (e.g. renewal and extension of loans, collection process, status of delinquent accounts, write-offs, provisioning, among others);

(3) Timely identify and monitor credit risk concentrations, exposures approaching risk limits, exceptions to credit risk limits and overrides to ensure that policy and underwriting deviations as well as breaches and other potential problems are promptly reported to the board and management for appropriate corrective action;

(4) Aggregate credit exposures to individual borrowers and family group; and

(5) Permit additional analysis of the credit portfolio, including stress testing;

b. Maintain a database for research and use of analytical techniques, report exposures, track quality and account performances, and maintain limits; The credit policy shall clearly define the types of information and reports to be generated, frequency of reporting, deadline of submission, and the users/ recipients of and personnel responsible for the preparation of such information and reports; and

c. NSSLAs shall provide sufficient controls to ensure the integrity of the MIS. Reports shall be periodically reviewed to ensure adequacy of scope and reliability and accuracy of the information generated. Internal audit shall also periodically assess the controls over MIS.

§4191S.11 Credit Monitoring. To ensure that timely and adequate board/management action is taken to maintain the quality of the NSSLA's credit portfolio and other risk assets, and that adequate loss provisioning is set up and maintained at a level sufficient to absorb the loss inherent in the credit accounts, an NSSLA shall establish an effective monitoring system appropriate to its risk profile. The said system, which shall be clearly articulated in the policies and procedures, shall consist of processes and information systems to effectively monitor the condition and quality of individual loan/risk asset and the entire portfolio, and determine the appropriate allowance for credit losses (ACL).

This shall include criteria that identify and report problem credits to reasonably assure that they are appropriately monitored as well as administered and provided for.

The system should be able to, among others, provide measures to ensure that: a. the board and management are kept informed of the current financial condition of the member-borrowers and the various credit portfolios; b. loan covenants are consistently adhered to; c. cash flow projections meet repayment requirements; d. prudential and internal limits are not exceeded; and e. potential problem credits and other transactions are identified. Exceptions, breaches and potential problems noted shall be promptly reported to board/management for corrective action, possible classification and/or provisioning and more frequent monitoring.

NSSLAs shall monitor compliance with prudential and internal limits on a regular basis. Substantial exposures, as the NSSLA may set, shall be subject to more intensive monitoring. For this purpose, NSSLAs shall maintain a central liability ledger system for each borrower. This system shall allow monitoring of: a. exposures against prescribed and internal limits on a daily basis; b. asset quality indicators (e.g., non-performing loans, collateral values, etc.); and c. trends in loan growth to identify potential weaknesses in the portfolio.

§4191S.12 Credit Review Process.

a. NSSLAs shall implement an independent and objective credit review process to determine: (1) that credits are granted in accordance with the NSSLA's policies and procedures; (2) overall asset growth and quality (e.g., PD/NPL, write-offs and recoveries), including appropriateness of classification and adequacy of booked loss reserves and loan-loss provisioning consistent with the minimum standards required in Appendix S-9;(3) trends in the portfolio (segmentation as to loans to employee-members, retiree-members and immediate family-members); and (4) emerging problems (e.g., risk concentration, risk migration, and deficiencies in credit administration, measurement and monitoring processes).

b. NSSLAs may employ an appropriate sampling methodology to determine the scope of credit review. At a minimum, credit review shall be conducted on all individual borrowers with substantial exposures, and on a group basis to factor in the connections among related parties in a borrowing group. Credit review for credits that are similar in purpose or risk characteristics may be performed on a portfolio basis. The portfolio sample selected for review shall provide reasonable assurance that all major credit risk issues have been assessed and valid conclusions can be drawn. Moreover, sampling methodology shall be documented and periodically reviewed to ensure its quality and minimize bias.

c. Credit review shall also evaluate credit administration function and ensure that credit files are complete and updated, and that all loan approvals and other necessary documents have been obtained.

d. Credit reviews shall be performed at least annually, and more frequently for substantial exposures, new accounts and classified accounts. Assessments shall be promptly discussed with the officers responsible for the credit activities and escalated to senior management.

e. Results of the credit review shall be regularly and promptly reported to the board of trustees or the proper board-level committee for their appropriate action. The board shall mandate and track the implementation of corrective action/s in instances of unresolved deficiencies and breaches in policies and procedures. Deficiencies shall be addressed in a timely manner and monitored until resolved/corrected.

§4191S.13 Credit Classification and Provisioning.

a. *Classification of Loans and Other Credit Accommodations*[4]. NSSLAs shall have in place a reliable credit classification system to promptly identify credit exposures with potential or existing problem and determine appropriate ACL. All credit classifications, not only those reflecting severe credit deterioration, shall be considered in determining the appropriate ACL.

[4] Other credit accommodations include accounts receivables, sales contract receivables, accrued interest receivables and advances.

During a transitory period of three (3) years upon the effectivity of this Circular, NSSLAs shall be subject to the regulatory guidelines in setting up ACL prescribed in Appendix S-9.

(1) All NSSLAs shall map their classification of loans and other credit accommodations against the regulatory classification criteria provided below. However, NSSLAs are encouraged and not precluded from using additional criteria provided they are consistent with the regulatory classification, as follows:

(a) *Pass*. These are loans and other credit accommodations that do not have a greater-than-normal credit risk. The member-borrowers has the apparent ability and willingness to satisfy their obligations in full.

(b) *Especially Mentioned (EM)*. These are loans and other credit accommodations that have potential weaknesses that deserve management's close attention. If left uncorrected, such weakness/(es) may affect the repayment of the loan. Some degree of structural weakness may be found in virtually any aspect of the loan arrangement or type of loan, and the presence of one (or more) need not be indicative of an overall credit weakness deserving criticism. Instead, the NSSLA must evaluate the relative importance of such factors in the context of the member-borrower's overall financial capacity and relationship with the NSSLA. Basic characteristics include, but are not limited to, any of the following:

(i) Deficiencies in underwriting, documentation, structure and/or credit administration that can compromise an NSSLA's ability to control credit relationship if economic or other events adversely affect the borrower;

(ii) Continuous renewal without reduction in principal, except when the capacity to pay of the borrower has been clearly re-established;

(iii) Adverse economic or market conditions, that in the future may affect the member-borrower's ability to meet scheduled repayments. Loans and other credit accommodations affected by these characteristics may retain the EM classification in the next examination should the same adverse conditions persist: *Provided,* That the loans remain current; or

(iv) Intermittent delays or inadequate repayment of principal, interest or periodic amortizations of loans and other credit accommodations granted by the NSSLA or by other financial institutions, where such information is available.

(c) *Substandard*. These are loans and other credit accommodations that have well-defined weakness/(es), which may jeopardize repayment/liquidation in full, either in respect of the cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the member-borrower. Basic characteristics include any of the following:

(i) Weak financial condition and results of operation of the employer that leads to the member-borrower's inability to generate sufficient cash flow for debt servicing;
(ii) Past due secured loans and other credit accommodations where properties offered as collateral have been found with defects as to ownership or with other adverse information;
(iii) Breach of any key financial covenants/ agreements that will adversely affect the capacity to pay of the borrower; or
(iv) Classified "Especially Mentioned" as of the last credit review without adequate corrective action.

(d) *Doubtful.* These are loans and other credit accommodations that exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however the exact amount remains undeterminable as yet. Classification as "Loss" is deferred because of specific pending factors that may strengthen the assets. Some basic characteristics include any of the following:

(i) Secured loans and other credit accommodations where property/ies offered as collateral are (aa) either subject to an adverse claim rendering settlement of the loan through foreclosure doubtful, or (bb) whose value have materially declined without the borrower offering additional collateral for the loan/s to cover the deficiency; or
(ii) Loans and other credit accommodations wherein the possibility of loss is extremely high but because of certain important and reasonable pending factors that may work to the advantage and strengthening of the loan, its classification as an estimated loss is deferred until the next credit review.

(e) Loss. These are loans and other credit accommodations that are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. This shall be viewed as a transitional category for loans and other credit accommodations that have been identified as requiring write-off during the current reporting period even though partial recovery may be obtained in the future. Their basic characteristics include any of the following:

(i) When the borrower's and co-makers'/guarantors' whereabouts are unknown, or they are insolvent, or their earning power is permanently impaired; or
(ii) Where the collateral securing the loans are without recoverable value.

(2) Split classification may apply for non-performing secured loans and other credit accommodations, depending on the recoverability and liquidity of the collateral. The secured portion may be classified as "substandard" or "doubtful", as appropriate, while the unsecured portion shall be classified as "loss" if there is no other source of payment other than the collateral.

(3) NSSLAs may upgrade a classified loan or restore it to a "pass" rating: *Provided,* That it does so on the basis of a written policy on the upgrading of classification or rating and the credit review function is reliable and effective. Such policy shall include a comprehensive analysis of the repayment capability/financial strength of the borrower and the corrective actions made on the weaknesses noted to support the upgrade in classification. Upgrading may be supported by the following developments:

(a) When all arrears or missed payments on principal and interests including penalties have been cleared rendering the account to be fully compliant with the original terms of the loan;
(b) Upon establishing that the weaknesses were substantially addressed and that the borrower has exhibited a sustained trend of improvement and willingness and capability to fully pay its loans and advances in a timely manner to justify the upgrade;
(c) Offering of new or additional collateral security; or
(d) In the case of restructured loans, the classification shall only be upgraded after establishing a satisfactory track record of at least six (6) consecutive payments of the required amortization of principal and interest, or until the borrower has sufficiently exhibited that the loan will be fully repaid (continued collection in accordance with the terms of the loans is expected) and the loan meets the criteria of lower loan classification.

b. *Transitory period to develop loan loss estimation methodology.*

After three (3) years from the effectivity of this circular, NSSLAs may develop and adopt a sound loan loss estimation methodology that: (1) can reasonably estimate provisions for loans and other credit accommodations and risk assets in a timely manner, using their experience and research and this guidance to ensure that the ACL[5] are adequate and (2) is fundamentally anchored on the principle of recognizing expected credit loss (ECL) in accordance with the provisions of Philippine Financial Reporting Standards 9 (PFRS 9). In such case, NSSLAs shall refer to Appendix Q-56 of the MORNBFI. Otherwise, NSSLAs shall remain subject to the regulatory guidelines in setting up ACL prescribed in Appendix S-9.

c. *Loan Loss Estimation Methodology, Provisioning and ACL*

(1) An NSSLA's loan loss methodology shall consider the following:

[5] ACL represents the aggregate amount of individual and collectively assessed probable credit losses.

(a) Written policies and procedures for the credit risk management systems and controls inherent in the methodology, including roles and responsibilities of the NSSLA's board of trustees and senior management;

(b) A detailed analysis of the entire loan portfolio performed on a regular basis;

(c) Accounting of the NSSLA's lending activities which adequately consider a realistic view of the uncertainty and risks inherent in these activities. Loan accounting policies and practices shall be selected and applied in a consistent way that reasonably assures that loan and loan loss provision information is reliable and verifiable;

(d) Identification of loans to be evaluated individually and segmentation of the remaining portfolio into groups of loans with similar credit risk characteristics for collective assessment.

(i) *Individually assessed loans.* NSSLAs shall establish a materiality threshold for significant credit exposures that will warrant an individual assessment, which threshold shall be regularly reviewed.

The loan loss estimates shall reflect consideration of the facts and circumstances that affect the repayment of each individual loan as of the evaluation date. The following factors are relevant in estimating loan losses for individually assessed loans:

(aa) Significant financial difficulty of the borrower;
(bb) Probable bankruptcy or other financial reorganization of the borrower;
(cc) Breach of contract, such as a default or delinquency in interest or principal payments; or
(dd) Concession granted by the NSSLA, for economic or legal reasons relating to the borrower's financial difficulty, which would not otherwise be considered.

The methodology shall include procedures describing the determination and measurement of the amount of any impairment, the impairment measurement techniques available and steps performed to determine which technique is most appropriate in a given situation; or

(ii) *Collectively assessed loans.* NSSLAs may use different methods to group loans for the purpose of assessing credit risk and valuation considering the following characteristics: loan type, product type, market segment, credit risk grading and classification, collateral type, geographical location and past-due status. Estimated credit losses shall reflect consideration of the NSSLA's historical net

charge-off rate[6] of the groups, adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans in such groups as of the evaluation date, and applied consistently over time;

(e) The quality and net realizable values of physical collateral and other guarantees and credit risk mitigants incorporated in the loan agreement, where applicable;

(f) Address the methods used to validate models, if any, for credit risk assessment;

(g) The analyses, estimates, reviews and other provisioning methodology functions shall be performed by competent and well-trained personnel and be well documented, with clear explanations of the supporting analyses and rationale; and

(h) Use experienced credit judgment. Assessment of expected losses shall be based not only on prescriptive rules or formula but must be complemented with experienced credit judgment by the appropriate levels of management. The scope for actual discretion shall be prudently within the following constraints:

(i) Experienced credit judgments shall be subject to established policies and procedures;
(ii) With approved and documented analytical framework for assessing loan quality applied consistently over time;
(iii) Estimates shall be based on reasonable and verifiable assumptions and supported by adequate documentation; and
(iv) Assumptions concerning the impact on borrowers of changes in general economic activity, both favorable and unfavorable, shall be made with sufficient prudence.

The method of determining loan loss provisions shall reasonably assure the timely recognition of loan losses. While historical loss experience and recent economic conditions are reasonable starting point for the institution's analysis, these factors are not, by themselves, sufficient basis to determine the appropriate level of aggregate loan loss provisions. Management shall also consider any current factors that are likely to cause loan losses to differ from historical loss experience, including changes in the following:

[6] The historical net charge-off rate is generally based on the annualized historical gross loan charge-offs, less recoveries, recorded by the NSSLA.

(i) Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices;
(ii) National and local economic and business conditions and developments, including the condition of various market segments;
(iii) Trend, volume and severity of past due loans and loans graded as low quality, as well as trends in the volume of impaired loans, troubled debt restructurings and other loan modifications;
(iv) The experience, ability, and depth of management and staff of lending operations/department/unit;
(v) Changes related to new market segments and products;
(vi) Quality of the NSSLA's loan review system and the degree of oversight by senior management and board of trustees;
(vii) The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
(viii) Credit risk profile of the loan portfolio as a whole as well as the effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the NSSLA's current portfolio.

Experienced credit judgment shall also be used to determine an acceptable period that will yield reliable historical loss rates, as loss rate periods shall not be restricted to a fixed time period to determine the average historical loss experience for any group of loans with similar credit risk characteristics. An NSSLA shall maintain sufficient historical loss data over a full credit cycle to provide robust and meaningful statistical loan loss estimates for establishing the level of collective impairment losses for each group of loans with similar credit risk characteristics. When applying experienced credit judgment, an NSSLA shall provide a sound rationale for excluding any historical loss data that is deemed not representative of the performance of the portfolio.

(i) NSSLAs shall set up general loan loss provision (GLLP) equivalent to one percent (1%) of the outstanding balance of assessed loans for which no specific provisions are made and/or for which the estimated loan losses are less than one percent (<1%), less loans which are considered non-risk under existing laws, rules and regulations.

(j) NSSLAs shall ensure the adequacy of the ACL for the entire loan portfolio. They shall have a policy for the regular review of the ACL, which shall be conducted at least semi-annually after considering results of the credit review, level of classified loans, delinquency reports, historical losses and market conditions. Failure to make adequate provisions for estimated future losses, if any, may result in material misrepresentation of an NSSLA's financial condition.

§4191S.14 Credit Workout and Remedial Management of Problem Credits. NSSLAs shall develop and maintain a disciplined and vigorous process for the early identification and intervention for potential or existing problem credits. The process shall ensure that timely and adequate management action is taken to maintain the quality of the credit portfolio, prevent further deterioration, and minimize the likelihood of future losses.

a. Problem credits refer to credits that display signs of potential problems and/or well-defined weaknesses such as those not performing according to the terms of the contract, or with credit quality impairment, or deficiencies relating to their approval and/or conduct that are not in keeping with sound and prudent credit policies. These shall include past due loans, non-performing loans and restructured loans.
b. NSSLAs shall adopt appropriate and cost effective workout, restructuring or remedial management policies, processes and strategies to revive and recover problem credits. The strategies shall take into account the specific condition of the obligor and the NSSLA's interest, and shall be approved by the board of trustees or management, in accordance with internal policy.

c. At a minimum, the policies and strategies shall cover the following areas:

   (1) authority and responsibilities of officers and staff in managing problem credits;
   (2) collection strategy to be adopted for different types of loans;
   (3) restructuring and handling of restructured accounts and/or loans for workout;
   (4) supervision and monitoring of loan recovery performance;
   (5) management and disposal of real and other properties acquired (ROPA), including appraisal process;
   (6) management information system to support the reporting, monitoring and decision making processes;
   (7) defined timelines and provision for regular monitoring; and
   (8) other strategies, such as the use of collection agencies, and criteria for hiring a consultant on problem credits.

d. Restructuring strategies

   (1) Restructuring may be resorted to for the purpose of lessening the financial difficulty of the borrower towards full settlement of his obligation, and restructuring agreements shall always take into account the borrower's capacity to pay his obligation and available credit enhancements such as financial guarantees and physical collateral. Thus, NSSLAs shall have full discretion on whether to restructure loans in order to provide flexibility in arranging the repayment of such loans without impairing or endangering the NSSLA's interest.

   (2) Accounts shall not be restructured unless the financial capacity of the obligor to repay has been re-established, the events or crises that triggered the financial stress had been identified, and the nature and extent of protection of

the NSSLA's exposure had been determined, to justify the need for restructuring.

(3) At a minimum, the classification and provisioning of a loan, prior to the execution of the restructuring agreement shall be retained until the borrower has sufficiently exhibited that the loan will be fully repaid.

(4) A second restructuring of a loan shall be allowed only if there are reasonable justifications: *Provided,* That it shall be considered a non-performing loan and classified, at least, *"Substandard"*. The restoration to a performing loan status and/or upgrading of loan classification, e.g., from *"Substandard"* to *"Especially Mentioned",* may be allowed if circumstances warrant an upgrading in accordance with this Subsection.

(5) When restructuring of exposures is pursued, this shall not be under terms more favorable than those transacted with others and shall be approved by the board, excluding the trustee-borrower, if any.

(6) Physical collaterals offered, such as real estate, shall be appraised by an independent appraisal company (not a subsidiary or an affiliate of the NSSLA) acceptable to the Bangko Sentral at the time of restructuring and every year thereafter to ensure that current market values are being used. A credit exposure benchmark of ₱1.0 million for simple FIs and ₱5.0 million for all other NSSLAs shall be observed, such that physical collaterals for credit exposures beyond this amount will require an independent appraisal.

e. Problem credits, including restructured accounts, shall be subjected to more frequent review and monitoring. Regular reports on the status of loan accounts and progress of any remedial plan shall be submitted to management to facilitate an informed decision whether escalated remedial actions are called for.

§4191S.15 Writing Off Problem Credits. Policies for writing off problem credits must be approved by the board of trustees in accordance with existing rules and regulations, and shall incorporate, at a minimum, well-defined criteria (i.e., circumstances, conditions and historical write-off experience) under which credit exposures may be written off. Procedures shall explicitly narrate and document the necessary operational steps and processes to execute the policies.

Policies and procedures shall be periodically reviewed and if necessary, revised in a timely manner to address material internal changes (e.g., change in business focus) or external circumstances (e.g., changes in economic conditions).

NSSLAs shall write-off problem credits, regardless of amount, against ACL or current operations within a reasonable period as soon as such problem credits are determined to be worthless as defined in the NSSLAs' written policies.

Policies shall define and establish the reasonable period of time within which to write-off loans already classified as "loss". There shall be no undue delay in implementing write-offs. Notice for write-off of problem credits shall be submitted in the prescribed form (*Appendix S-13*) to the appropriate supervising department of the Bangko Sentral within forty-five (45) calendar days after every write-off, with a sworn statement signed by the President of the NSSLA or officer of equivalent rank that the write-off did not include transactions with trustees and officers, direct or indirect, and was undertaken in accordance with board-approved internal credit policy.

An effective monitoring and reporting system shall be in place to monitor debts written off and future recoveries. Progress on recovery shall be periodically reported to the board of trustees. A database of loan accounts written off shall be maintained and must be periodically reviewed for updates on individual loan borrower's information, including the effects of write-offs to membership eligibility.

§ 4191S.16 Enforcement Actions. The Bangko Sentral reserves the right to deploy its range of supervisory enforcement actions to promote adherence to standards and principles set forth in these guidelines, bring about timely corrective actions and compliance with Bangko Sentral directives and ensure that NSSLAs operate in a sound, lawful and orderly manner. Non-observance of the provisions of Section 4191S and its subsections may subject the NSSLA, its trustees and officers to appropriate sanctions.

Enforcement actions shall be based on a holistic assessment to determine if NSSLAs adopt appropriate credit risk management practices and/or maintain capital commensurate with the risk assumed based on existing rules and regulations. These may include, but are not limited to, the following:

a. Corrective Actions. These are measures intended to primarily require NSSLAs to rectify any deviations from the standards and principles expected in the conduct of their credit risk-taking activities to address the negative impact of such deviation. Corrective actions generally include issuance of specific directives to address supervisory concerns within a reasonable timeframe.

b. Sanctions. The Monetary Board (MB) may impose sanctions on an NSSLA and/or its Board, trustees and officers, as provided under existing laws, Bangko Sentral rules and regulations proportionate to the gravity/seriousness of offense.

c. Other Enforcement Actions. Subject to prior MB approval, the Bangko Sentral, when warranted, may deploy other enforcement actions such as:

i. Initiation into the prompt corrective action (PCA) framework whenever grounds for PCA exist;
ii. Requiring the NSSLA to gross up the amount of required allowance for credit losses based on the examination of a representative sample of loans, if in the course of the Bangko Sentral examination, a high incidence of non-reporting/concealment of past due and/or problem loans is noted; or
iii. Other appropriate non-monetary enforcement actions that the MB may impose.

§ ***4191S.17* Transitory Provision.** NSSLAs shall be given six (6) months from the effectivity of this Circular to: (1) perform a gap analysis of their current credit practices and processes vis-à-vis the standard provided in this Circular and (2) submit an action plan to the Bangko Sentral for addressing such gaps duly approved by the board of trustees to achieve full compliance within a reasonable period of time but in no case longer than two (2) years from effectivity of this Circular.

All action plans shall be subject to acceptance through the Sub-Sector Head of the appropriate sub-sector of the Bangko Sentral. Should an NSSLA fail to submit aforecited action plan within the specified period or the same is deemed not acceptable, it shall be subject to the immediate application of the supervisory standards of Section 4191S.

Any NSSLA that fails to comply with the foregoing shall be subject to the imposition of appropriate monetary and/or non-monetary sanctions.

Section 2. Section 4394S and its Subsections on acquired assets in settlement of loans is hereby added to the MORNBFI to read, as follows:

Section 4394S Acquired Assets in Settlement of Loans. The following rules shall govern assets acquired in settlement of loans.

§4394S.1 Posting and Maintaining Acquired Assets. NSSLAs shall post at all times in a conspicuous place in the premises of their head office and each of their service unit a list of acquired assets together with the corresponding lowest price at which the NSSLA is willing to sell such property. Any real property acquired shall be disposed of by the NSSLA within a period of five (5) years: Provided, however, That the NSSLA may, after said period, continue to hold the property for its own use, subject to the limitations of Section 18(b) of R.A. No. 8367.

§4394S.2 Booking.

a. Real and Other Properties Acquired (ROPA) in settlement of loans through foreclosure or dation in payment shall be booked under the ROPA account as follows:
(1) Upon entry of judgment in case of judicial foreclosure;

(2) Upon execution of the Sheriff's Certificate of Sale in case of extrajudicial foreclosure; and

(3) Upon notarization of the Deed of Dacion in case of dation in payment (*dacion en pago*).

ROPA shall be booked initially at the carrying amount of the loan (i.e., outstanding loan balance adjusted for any unamortized premium or discount less allowance for credit losses computed based on Philippine Accounting Standard (PAS) 39 provisioning requirements, which take into account the fair value of the collateral) plus booked accrued interest less allowance for credit losses (computed based on PAS 39 provisioning requirements) plus transaction costs incurred upon acquisition (such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real estate property).

b. The carrying amount of ROPA shall be allocated to land, building, other non-financial assets and financial assets (e.g., deposits or capital contribution in the NSSLA) based on their fair values, which allocated carrying amounts shall become their initial costs.

c. The non-financial assets portion of ROPA shall remain in ROPA and shall be accounted for as follows:

(1) Land and building shall be accounted for using the cost model under PAS 40 "Investment Property";

(2) Buildings shall be depreciated over the remaining useful life of the assets, which shall not exceed ten (10) years from the date of acquisition; and

(3) Land and buildings shall be subject to the impairment provisions of PAS 36 "Impairment".

d. Financial assets shall be accounted for in accordance with the provisions of PAS 39.

e. Claims arising from deficiency judgments rendered in connection with the foreclosure of mortgaged properties shall be judged under the real account "Deficiency Judgment Receivable"; while probable claims against the borrower arising from the foreclosure of mortgages properties shall be lodged under the contingent account "Deficiency Claims Receivable".

f. Before foreclosing or acquiring any property in settlement of loans, it must be properly appraised to determine its true economic value. If the amount of ROPA to be booked exceeds P5.0 million, the appraisal must be conducted by an independent appraiser acceptable to the Bangko Sentral. An in-house appraisal of all ROPAs shall be made at least every other year: *Provided*, That immediate re-appraisal shall be conducted on ROPAs which materially decline in value.

The provisions of this Subsection shall be applied to all outstanding ROPAs and sales contract receivables (SCR): *Provided*: That for properties acquired before 01 January 2005, the carrying amount of the acquired properties when initially booked under ROPA shall be the cost subject to depreciation and impairment testing, which shall be reckoned from the time of acquisition.

§4394S.3 Sales contract receivable.

a. SCR shall be recorded based on the present value of the installments receivables discounted at the imputed rate of interest. Discount shall be accreted over the life of the SCR by crediting interest income using the effective interest method. Any difference between the present value of the SCR and the derecognized assets shall be recognized in profit or loss at the date of sale in accordance with the provisions of PAS 18 *"Revenue"*: *Provided, furthermore,* That SCR shall be subject to impairment provision of PAS 39.

   The provision of this Subsection shall be applied to all outstanding ROPAS and SCRs: *Provided,* That for properties acquired before 01 January 2005, the carrying amount of the acquired properties when initially booked under ROPA shall be the cost subject to depreciation and impairment testing, which shall be reckoned from the time of acquisition.

b. SCRs which meet all the requirements/conditions enumerated below are considered performing assets and not subject to classification:

   (1) That there has been a down payment or installment payments on the principal of at least twenty percent (20%) of the agreed selling price;
   (2) That payment of the principal must be in equal installments or in diminishing amounts and with maximum intervals of one (1) year;
   (3) That any grace period in the payment of principal shall not be more than one (1) year; and
   (4) That there is no installment payment in arrear either on principal or interest: *Provided,* That an SCR account classified "Substandard" may only be upgraded to pass/unclassified/performing status after a satisfactory track record of at least three (3) consecutive payments of the required amortization of principal and/or interest has been established.

The Bangko Sentral however, reserves the right to require that specific provision on ROPA and SCR be made, if based on its assessment, the NSSLA is unable to make the necessary impairment provisioning.

Section 3. The entire Appendix S-9 is hereby deleted and replaced by the "Guidelines on the Adoption of Philippine Reporting Standards (PFRS) 9 – Impairment and in Setting Up of Allowance for Credit Losses" as shown in Attachment 1.

Section 4. Appendix S-13 is hereby created, which shall contain the "Notice/Application for Write-Off of Loans, Other Credit Accommodations, Advances and Other Assets" as shown in Attachment 2.

Section 5. The entire provision of Sections 4301S on Lending Policies, including its Subsections, and 4302S on Basic Requirements in Granting Loans are hereby deleted and replaced as follows:

Section 4301S Limitations on lending authority. NSSLAs shall not commit to make any loan for amounts in excess of the total of the following amounts:

a. Amount of cash available for loan purposes;

b. Amount of cash which can be readily realized upon the sale or redemption of permissible investments made by NSSLAs; and

c. Amount of credit available for loan purposes from government or private NSSLAs.

Section 4302S Maximum loan maturity. No loan granted by NSSLAs shall have a maturity date of more than five (5) years, except loans on the security of unencumbered real estate for the purpose of home building and home development which may be granted with maturities not exceeding twenty-five (25) years and medium or long-term loans to finance agricultural projects.

Section 6. Subsection 4306S.1 on Accounts considered past due is hereby amended to read, as follows:

"**§ 4306S.1 Accounts considered past due**. As a general rule, loans, investments, receivables, or any financial asset, including restructured loans, shall be considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual due date, in which case, the total outstanding balance thereof shall be considered as past due. However, NSSLAs may provide a cure period on a credit product-specific basis for loans with over-the-counter payment arrangement, not to exceed thirty (30) calendar days within which to allow the borrowers to catch up on their late payment without being considered as past due: *Provided,* That any cure period policy shall be based on verifiable collection experience and reasonable judgment that support tolerance of occasional payment delays: *Provided*, further, That the observance of a cure period policy shall not preclude the timely adverse classification of an account that has developed material credit weakness/es, and that NSSLAs shall regularly review the reasonableness of its cure period policy.

Section 7. The title of Item E of Part III. Loans and Investments should read, as follows:

"E. Loans/Credit Accommodations to Trustees and Officers"

Section 8. The following Sections/Subsections are hereby deleted and the applicable provisions are incorporated in the guidelines under Section 1 hereof:

Section	Title/Description	Covered By
4306S.3	Write-off of loans as bad debts	4191S.15
4308S	Restructured Loans; General Policy	4191S.14 and 4306S
4309S	Renewals of loans	4191S.7
4392S	Loan Portfolio and Other Risk Assets Review System	4191S.12

Section 9. Effectivity. This Circular shall take effect fifteen (15) calendar days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:

CHUCHI G. FONACIER
Officer-In-Charge

29 August 2019

GUIDELINES ON THE ADOPTION OF PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS) 9 – IMPAIRMENT AND IN SETTING UP OF ALLOWANCE FOR CREDIT LOSSES
(*Appendix to Subsection 4191S.13*)

NSSLAs with the capacity to adopt loan loss methodologies fundamentally anchored on the principle of recognizing expected credit loss (ECL) in accordance with the provisions of PFRS 9 may opt to develop the same. In this respect, these NSSLAs shall refer to the Appendix Q-56 of the MORNBFI for guidance and compliance.

However, NSSLAs with credit operations that may not economically justify adoption of said loan loss estimation methodology shall, at a minimum, be subject to the following guidelines:

Section 1. Stages of Credit Impairment

a) Credit impairment is recognized in three stages under PFRS9:

Stage of credit impairment	Characteristics
Stage 1	- Credit exposures that are considered "performing" and with no significant increase in credit risk since initial recognition or with low credit risk
Stage 2	- Credit exposures that are considered "under-performing" or not yet non-performing but with significant increase in credit risk since initial recognition
Stage 3	- Credit exposures with objective evidence of impairment, thus, considered as "non-performing"

b) NSSLAs shall promptly recognize and maintain adequate allowance for credit losses at all times. It shall adopt the principles provided under the enhanced guidelines on sound credit risk management practices for NSSLAs[1] in implementing sound and robust credit risk measurement methodologies that adequately considers ECL. In this respect, the ECL methodology shall not be considered as a separate and distinct process but as an important element of the entire credit risk management process.

As a general rule, Especially Mentioned and Substandard – Underperforming [e.g., substandard accounts that are unpaid or with missed payment of less than ninety (90) days] shall be considered as Stage 2 accounts, while Substandard Non-performing, Doubtful, and Loss accounts shall be considered as Stage 3 accounts.

[1] Section 4191S Credit Risk Management; Policy Statement of the MORNBFI.

Section 2. Individually Assessed Credit Exposures[2]

1. Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with allowance for credit losses (ACL) based on the number of days of missed payments as follows:

   For unsecured loans and other credit exposures:

No. of Days Unpaid/with Missed Payment	Classification	Minimum ACL	Stage
31 – 90 days	Substandard (underperforming)	10%	2
91 – 120 days	Substandard (non-performing)	25%	3
121 – 180 days	Doubtful	50%	3
181 days and over	Loss	100%	3

   For secured loans and other credit exposures:

No. of Days Unpaid/with Missed Payment	Classification	Minimum ACL	Stage
31 – 90 days*	Substandard (underperforming)	10%	2
91 – 180 days*	Substandard (non-performing)	10%	3
181 – 365 days	Substandard (non-performing)	25%	3
Over a year – 5 years	Doubtful	50%	3
Over 5 years	Loss	100%	3

   ** When there is imminent possibility of foreclosure and expectation of loss, ACL shall be increased to 25%.*

   Provided, That where the quality of physical collaterals or financial guarantees securing the loans and advances are determined to be insufficient, weak or without recoverable values, such loans and advances shall be treated as if these are unsecured.

2. Loans and other credit exposures that exhibit the characteristics for classified accounts described under Subsection 4191S.13 shall be provided with ACL as follows:

[2] Other credit exposures include exposures under the scope of PFRS 9, such as investments in debt securities measured at fair value through other comprehensive income and amortized cost, loan commitments, sales contract receivables, accounts receivables, accrued interest receivables, and advances.

Classification	Minimum ACL	Stage
Especially Mentioned	5%	2
Substandard – Secured	10%	2 or 3[3]
Substandard – Unsecured	25%	2 or 3[2]
Doubtful	50%	3
Loss	100%	3

3. Unsecured loans and other credit accommodations classified as *"Substandard"* in the last two (2) internal credit reviews which have been continuously renewed/extended without reduction in principal and is not in process of collection, shall be downgraded to *"Doubtful"* classification and provided with a fifty percent (50%) allowance for credit losses.

4. Loans and other credit accommodations under litigation which have been classified as *"Pass"* prior to the litigation process shall be classified as *"Substandard"* and provided with twenty percent (25%) allowance for credit losses.

5. Loans and other credit accommodations that were previously classified as *"Pass"* but were subsequently restructured shall have a minimum classification of Especially Mentioned (EM) and provided with a five percent (5%) allowance for credit losses, except for loans which are considered non- risk under existing laws, rules and regulations.

6. Classified loans and other credit accommodations that were subsequently restructured shall retain their classification and provisioning until the borrower has sufficiently exhibited that the loan will be fully repaid.

Section 3. Collectively Assessed Loans[4] and Other Credit Exposures

1. Current *"Pass"* loans and other credit exposures should be provided with a reasonable level of collective allowance, using historical loss experience adjusted for current conditions

2. Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with ACL based on the number of days of missed payments as follows:

For unsecured loans and other credit exposures:

No. of Days Unpaid/with Missed Payment*	Classification	Minimum ACL	Stage
1 – 30 days	Especially Mentioned	2%	2

[3] The stage depends on whether the accounts are classified as non-performing (Stage 3) or underperforming (Stage 2).

[4] This includes microfinance loans, micro enterprises and small business loans and consumer loans such as salary loans, credit card receivables, auto loans, housing loans and other consumption loans, and other loan types which fall below the FI's materiality threshold for individual assessment.

No. of Days Unpaid/with Missed Payment*	Classification	Minimum ACL	Stage
31 – 60 days / 1st restructuring	Substandard	25%	2 or 3[5]
61 – 90 days	Doubtful	50%	3[6]
91 days and over / 2nd restructuring	Loss	100%	3

** Par for microfinance loans*

For secured and other credit exposures:

No. of Days Unpaid/with Missed Payment	Classification	ACL %		Stage
		Other types of collateral	Secured by real estate	
31 – 90 days	Substandard (underperforming)	10	10	2
91 – 120 days	Substandard (non-performing)	25	15	3
121 – 360 days	Doubtful	50	25	3
361 days – 5 years	Loss	100	50	3
Over 5 years	Loss	100	100	3

Provided, that where the quality of physical collaterals or financial guarantees securing the loans and advances are determined to be insufficient, weak or without recoverable values, such loans and advances shall be treated as if these are unsecured.

Section 4. General and Specific Provisions for Loan Accounts

a) NSSLAs shall treat Stage 1 provisions for loan accounts as General Provision (GP), while Stages 2 and 3 provisions shall be treated as Specific Provisions (SP).

b) NSSLAs shall set up general loan loss provision (GLLP) equivalent to 1 percent (1%) of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. NSSLAs are not required to provide a 1 percent (1%) GP on other credit exposures covered by PFRS 9 such as off-balance sheet accounts and investments.

c) Allowance for credit losses for Stages 1, 2, and 3 accounts shall be recognized in the profit or loss statement. NSSLAs that shall use the guidelines provided under this Appendix (S-9) in determining allowance for credit losses shall book the entire amount of General Provision (GP), in profit or loss.

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[5] The stage depends on whether the accounts are classified as non-performing (Stage 3) or underperforming (Stage 2).

[6] Subsection X306.2/4306Q.2/4306N.2 provides that doubtful accounts are considered as non-performing hence, shall be classified under Stage 3 notwithstanding the number of missed amortizations.

NOTICE/APPLICATION FOR WRITE-OFF OF LOANS
OTHER CREDIT ACCOMMODATIONS, ADVANCES AND OTHER ASSETS
(*Appendix to Subsection 4191S.15*)
Formerly SES Form 6H (CBP 7-16-21)

____
Name of Non-Stock Savings and Loan Association (NSSLA)

____
Address

____
Date

Name of Borrower (1)	Date of Membership (2)	Loan and Advances Details							Deposit + Capital Contribution (10)	Amount to be Written-Off (₱) (11)	Recommending Body/Officer (12)	Justification for Write-Off (13)
		Approving Officer (3)	Date Granted (4)	Original Amount (₱) (5)	Outstanding Balance (₱) (6)	Maturity Date (7)	Date of Last Payment (8)	Accrued Interest (₱) (9)				

Total Amount to be Written-Off: __________

I certify that the foregoing loans and advances aggregating ₱ __________ were authorized to be written-off by the Board of Trustees of this Association in its Resolution No. _______________ dated _______________.

____
(Signature of Authorized Officer over Printed Name)