



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 941 Series of 2017

Subject: Amendments to the Regulations on Past Due and Non-Performing Loans

The Monetary Board in its Resolution No. 39 dated 5 January 2017, approved the amendments to the regulatory definitions of past due accounts, restructured loans and non-performing loans in the Manual of Regulations for Banks (MORB) and the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) as well as the revisions of other related provisions.

Section 1. Section X306 of the MORB is hereby amended and renamed to Past Due Accounts and Non-Performing Loans as follows:

"Section X306 Past Due Accounts and Non-Performing Loans. The following regulations shall guide BSP-supervised financial institutions (BSFIs) in determining their past due accounts and non-performing loans.

Definition of terms. For purposes of this Section, the following definitions shall apply:

- a. *Restructured loans* shall refer to loans and other credit accommodations the original contractual terms and conditions of which have been modified in accordance with a formal restructuring agreement that sets forth a revised schedule of payments for the purpose of lessening the financial difficulty of the borrower and maximizing collection and realizable economic value on an obligation within a reasonable period of time. The modification may include, but is not limited to, change in principal due, maturity, interest rate and other charges, collateral, or other terms and conditions.
- b. *Items in litigation* shall refer to loans or other credit accommodations for which cases, such as collection or foreclosure, have been filed in court or sheriff's office, as the case may be. The loan or other credit accommodation shall remain in this account during the pendency of the proceedings, until full payment, restructuring of the obligation, foreclosure of the collateral, or such other disposition is made as would cause such proceedings to cease."

Section 2. The entire provision of Subsection X306.1 of the MORB on accounts considered past due are hereby amended to read as follows:

“§X306.1 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, BSFIs may provide a cure period on a credit product-specific basis, not to exceed thirty (30) days within which to allow the obligors or 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 BSFIs shall regularly review the reasonableness of its cure period policy. For microfinance and other small loans that feature high frequency payments, the cure period allowable by policy shall not exceed ten (10) days.”

Section 3. The entire provision of Subsection X306.2 of the MORB on demand loans is hereby deleted. Accordingly, this Subsection is renamed to non-performing loans and the provisions shall read as follows:

“§X306.2 Accounts considered non-performing. Loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards¹, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due.

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

¹ Applicable accounting standard is Philippine Accounting Standards (PAS) 39 until 31 December 2017 and International Financial Reporting Standards (IFRS) 9 starting 1 January 2018. A financial asset or a group of financial assets is impaired when there is objective evidence that its recoverable value is less than its carrying amount, as a result of one or more loss events that occurred after the initial recognition of the asset and that the loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather, the combined effect of several events may have caused the impairment.

Non-performing loans, investments, receivables, or any financial asset (and/or any replacement loan) shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least six (6) months; or (b) written-off.”

Section 4. Applicability to non-bank financial institutions (NBFI). The provisions under Sections 1, 2 and 3 above shall likewise apply to NBFIs as follows:

- a) The amendment to Section X306 of the MORB under Section 1 above shall also be adopted under Sections 4306Q and 4306S of the MORNBF. A new Section 4306N shall be added in the MORNBF and shall also adopt the provisions of Section X306 of the MORB above.
- b) The amendment to Subsection X306.1 of the MORB under Section 2 above shall also be adopted under Subsections 4306Q.1 and 4306S.1 of the MORNBF.
- c) Subsections 4306Q.2 and 4306S.2 of the MORNBF on demand loans and extension/renewal of loans, respectively, shall be renamed to non-performing loans and shall adopt the provisions of Subsection X306.2 of the MORB under Section 3 above.
- d) New Subsections 4306N.1 and 4306N.2 of the MORNBF on accounts considered as past due and non-performing loans, respectively, shall be added in the MORNBF and shall adopt the provisions of Subsections X306.1 and X306.2 of the MORB under Sections 2 and 3 above, respectively.

Section 5. Subsection X192.9 of the MORB on publication/posting of balance sheet is hereby amended to read as follows:

“x x x

c. *Additional information required.* Banks shall disclose the following information in the quarterly published/posted BS:

(1) Solo BS (Head Office and Branches/Other Offices)

(a) x x x

(b) x x x

(c) Non-performing loans (NPLs);

(i) Gross NPLs;

(ii) Ratio of gross NPLs to gross TLP (%);

(iii) Net NPLs. This shall refer to gross NPLs less specific allowance for credit losses on NPLs;

(iv) Ratio of net NPLs to gross TLP (%);

(v) Ratio of total allowance for credit losses to gross NPLs (%);

(vi) Ratio of specific allowance for credit losses on the gross TLP to gross NPLs (%);

x x x”

Section 6. The following Section and Subsections are hereby deleted:


Section/ Subsection	Title/Description	Covered By or Transferred To
X309/4309Q	Non-Performing Loans	X306/4306Q
X309.1/4309Q.1	Accounts considered non-performing; definitions	X306.2/4306Q.2
Section/ Subsection	Title/Description	Covered By or Transferred To
X309.5	Reportorial Requirement	X191.2 (Schedules 11H1 and 11H2 of the FRP)
X320.5/4309Q.2/ 4320Q.5/4301N.5	Interest accrual on past due loans	X305.4/4305Q.4/4312N.6
4309Q.3	Allowance for uncollected interest on loans	4305Q.4
X361.1 Items "b" and "c"	Definition of past due/portfolio-at-risk (PAR), restructured loans	X306.1 X306

Section 7. Transitory Provision. The following provision shall be incorporated as a footnote to Section X306 of the MORB and Section 4306Q/4306S/4306N of the MORNBFi on Past Due Accounts and Non-Performing Loans.

Upon the effectivity of this Circular up to 31 December 2017, BSFIs shall make the necessary revisions in their management information and reporting systems relating to past due and non-performing loans. Effective 01 January 2018, past due and NPLs shall be mandatorily reported in accordance with the requirements of this Section.

Section 8. 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:


AMANDO M. TETANGCO, JR.
 Governor

20 January 2017