

UPDATED GUIDELINES ON SOUND CREDIT RISK MANAGEMENT



BANGKO SENTRAL NG PILIPINAS

RATIONALE

- **Strengthen credit risk management practices and provide minimum set of standards**
- **Further align existing BSP regulations with the Basel Core Principles for effective bank supervision**
- **Allow banks greater flexibility of defining appropriate CRM standards for their desired credit products**



HIGHLIGHTS:

- ❑ Roles and responsibilities of the board and senior management toward prudent and sound credit environment
- ❑ Sound practices on –
 - ❖ Credit granting process
 - ❖ Credit grading system
 - ❖ Credit classification and provisioning
- ❑ Re-definition of:
 - ❖ Large exposures and concentration risk
 - ❖ Secured lending



HIGHLIGHTS:

- ❑ **Roles and responsibilities of the board and senior management toward prudent and sound credit environment**
 - ✓ Credit risk strategy
 - ✓ Credit risk management structure
 - ✓ Prudent credit policies, processes and procedures
 - ✓ Clear policies on transactions with DOSRI and related parties



HIGHLIGHTS: Sound practices on -

❖ Credit granting process

- Primarily based on **cash flow**
- Option to use financial data **other than AFS/ ITR** provided justified and documented
- Submission of AFS/ITR under SS X304.1 is retained **except** for:
 - Loan exposures of **up to P3 million**;
 - Loans to **start up enterprise borrowers** during the **first 3 years** of their operations or banking relationship
- For renewal/extension, creditworthiness should be re-established (**redo process**)



HIGHLIGHTS: Sound practices on -

❖ Credit grading system (All banks)

- ICRRS for banks with complex credit transactions
- Simple grading system for banks with simple credit operations
- Credit scoring models for retail credits



HIGHLIGHTS: Sound practices on -

❖ Credit grading system (All banks)

- In all cases, banks should:

- ✓ Sufficiently differentiate the grades (creditworthiness) among obligors based on:
 - Capacity and willingness to pay
 - Quantitative and qualitative factors
- ✓ Match bottom grades with the definition of the credit classification system
- ✓ Use experienced credit judgment
- ✓ Regularly validate and stress-test the system



HIGHLIGHTS: Sound practices on -

- Credit classification and provisioning

- ❖ **Loan-loss provisioning**

- Develop their own loan-loss methodology using historical loss experience
- Based on expected loss model
- Segmentation of loans for:
 - ✓ Individual assessment
 - ✓ Collective Assessment
- For simple banks- revised Appendix 18
- Floor for provisioning is still 1%



HIGHLIGHTS: Re-definition -

➤ Large exposures and concentration risk

- **Connected counterparties** to be treated as a single counterparty.
- Connected thru:
 - ✓ Direct or indirect control
 - ✓ Economic interdependence – counterparties are reliant on each other
- Banks are expected to observe SBL limits lower than the required 25% of NW.



HIGHLIGHTS: Re-definition -

➤ Secured Loans

- “secured to the extent the estimated value of net proceeds at disposition of such collateral can be used without legal impediment to settle the principal and accrued interest of such loan”, provided:
 - ✓ Has an established market
 - ✓ Sound valuation methodology
- For REM: 60% LTV and appraised by an appraiser acceptable to the BSP



Enforcement Actions:

- Based on a holistic assessment of the FI's credit risk management practices
- Range of supervisory tools:
 - Corrective Actions – require FIs to rectify any deviations from standards and principles thru:
 - ✓ BSP directives
 - ✓ Letter of Commitment
 - Sanctions proportionate to the gravity of offense
 - Others
 - ✓ Initiation into PCA
 - ✓ Issuance of cease and desist order (CDO)
 - ✓ Additional capital infusion



TRANSITION

- ✓ **6 months (from effectivity of circular) to:**
 - **perform gap analysis (current practice vs. CRMG); and**
 - **submit an action plan to fully comply with the CRMG - subject to the acceptance by the BSP thru the DG, SES**
- ✓ **2 years to achieve full compliance**



Thank You!



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