

GUIDELINES ON SOUND CREDIT RISK MANAGEMENT



BANGKO SENTRAL NG PILIPINAS

OUTLINE:

- **Implementation of the Credit Risk Management Framework**
- **Status of Compliance of Rural Banks**
- **BSP Guidelines on Credit Risk Management Framework**





Implementation of the Credit Risk Management Framework



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Circular 855 dated October 29, 2014:

- **Effective November 19, 2014**
- **Landmark Banking Regulation**
- **BSP Expectations – Comprehensive Credit Risk Management**



Circular 855 dated October 29, 2014:

- **Basel Core Principles on Sound Credit Risk Management**
- **4 Ps**
 - ✓ **Principles**
 - ✓ **Policies**
 - ✓ **Processes**
 - ✓ **Proportionality**
- **Flexibility**



MAJOR AREAS COVERED

Appropriate credit risk environment

Sound credit granting process

Appropriate credit administration, measurement, and monitoring process

Appropriate credit control process



Appropriate Credit Risk Environment

- **Role/Responsibilities of the Board and Senior Management**
- **Credit Risk Strategy**
- **Credit Policies**
- **Credit Risk Management Structure**



Appropriate Credit Risk Environment

- **Clear Lines of Authority**
- **Independent Credit Review**
- **Independent Assessment of System**
- **Credit Culture**



Sound Credit Granting Process

- **Credit Approval Process**
- **Credit Granting Criteria**
- **Renewal or Extension of Maturity Dates**
- **Loan Clean Up Policy**
- **Credit Limit and Credit Concentration**
- **Credit to Related Parties**



Appropriate Credit Administration, Measurement and Monitoring Process

- **Complete Credit Documentation**
- **Internal Credit Risk Rating System**
- **Credit Scoring Model**
- **Management Information System/
Reporting System**



Adequate Credit Control Process

- **Independent assessment of the Credit Risk Management Process**
- **Results communicated to the Board of Directors/ Senior Management**
- **System in place for remedial action, managing problem credit and work out solutions**





Status of Compliance of Rural Banks



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Status of Compliance of Rural Banks As of October 30, 2015

- **Data on Compliance – October 30, 2015**
 - ✓ **Rural Banks – 28 out of 499**
- **Need to Adopt Policies – Policy Gap Analysis**
- **Lack of Policy on Loan Clean up of Principal;
No action plan and specific timelines**
- **Lack of Contingency Plan**



Status of Compliance of Rural Banks As of October 30, 2015

- **Lack of MIS/Reporting System**
- **Lack of Standards for Renewal/Extension of Credit**
- **Lack of Policy on Use of Other Financial Information**
- **Lack of Policy on Credit Grading Criteria**
- **Lack of Policy on Credit Risk Strategy**



Regulations

Date Issued: 10.29.2014

CIRCULAR NO. 855
Series of 2014

Subject: Guidelines on Sound Credit Risk Management Practices;
Amendments to the Manual of Regulations for Banks and Non-Bank Financial
Institutions

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BSP Guidelines on Credit Risk Management Framework



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BSP Guidelines on Credit Risk Management Framework

- **BSFIs are required to conduct policy gap analysis vis -à-vis the Credit Risk Management Guidelines under Circular 855.**
- **BSFIs shall develop and document sound loan loss methodology that can reasonably estimate provisioning. BSFIs adopting/developing their own loan loss methodology can continue what they are using while enhancements to address identified gaps are being addressed. Appendix 18 is not the gold standard.**



BSP Guidelines on Credit Risk Management Framework

- **BSFIs adopting Appendix 18 may request regulatory relief particularly on the staggered booking of Allowance for Credit Losses for a period of more than two (2) years as a result of their impact analysis.**
- **During the pendency of the staggered booking of Allowance for Credit Losses, NO Cash Dividend shall be approved.**



BSP Guidelines on Credit Risk Management Framework

- **Soft enforcement shall be implemented during the transitory period of up to November 19, 2016.**
- **BSFIs that fail to submit the required qualitative action plan duly approved by their Board of Directors to address the gaps, impact analysis and if applicable, request for regulatory relief, shall not be given the flexibility to avail of the regulatory relief without prejudice to imposition of monetary and non-monetary sanctions.**



BSP Website

- <http://www.bsp.gov.ph/regulations/regulations.asp?id=3370>

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- <http://www.bsp.gov.ph/regulations/laws.asp>

Frequently Asked Questions (FAQ) on BSP Issuances

Issuance	Description
BSP Circ. 855	Guidelines on Sound Credit Risk Management Practices; Amendments to the Manual of Regulations for Banks and Non-Bank Financial Institutions



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Cir 855 should not be looked at merely as a compliance exercise but as an OPPORTUNITY to improve your performance and GAIN competitive advantage thru sound credit standards and practices.



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