

**BASIC GUIDELINES IN SETTING UP OF ALLOWANCE FOR CREDIT LOSSES**  
**(Appendix to Sec. 143 on Credit Classification and Provisioning)**

BSFIs with credit operations that may not economically justify a more sophisticated loan loss estimation methodology or where practices fall short of expected standards shall, at a minimum, be subject to the following guidelines:

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.

**I. Individually Assessed Loans and Other Credit Accommodations<sup>1</sup>**

- Loans and other credit accommodations 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 Sec. 143 (*Credit Classification and Provisioning*) shall be provided with ACL, as follows:

Classification	Minimum ACL	Stage
Especially Mentioned	5%	2
Substandard - Secured	10%	2 or 3 <sup>2</sup>
Substandard - Unsecured	25%	2 or 3 <sup>3</sup>
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-five 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 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.

## II. Collectively Assessed Loans<sup>4</sup> and Other Credit Exposures

1. Current “Pass” loans and other credit accommodations should be provided with a reasonable level of collective allowance, using historical loss experience adjusted for current conditions.
2. Loans and other credit accommodations 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
31 - 60 days/1 <sup>st</sup> restructuring	Substandard	25%	2 or 3 <sup>5</sup>
61 - 90 days	Doubtful	50%	3 <sup>6</sup>
91 days and over/2 <sup>nd</sup> restructuring	Loss	100%	3

\*PAR for microfinance loans

For secured loans and other credit accommodations:

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.

*(Circular Nos. 1011 dated 14 August 2018, 903 dated 29 February 2016, 890 dated 02 November 2015, M-2015-035 dated 07 October 2015, M-2015-009 dated 28 January 2015, M-2015-005 dated 20 January 2015, 855 dated 29 October 2014, M-2014-039 dated 01 October 2014, M-2014-031 dated 08 August 2014, M-2014-006 dated 12 February 2014, M-2013-050 dated 15 November 2013, M-2013-046 dated 30 October 2013, M-2013-045 dated 23 October 2013, M-2013-040 dated 03 September 2013, M-2013-001 dated 14 January 2013, M-2012-060 dated 27 December 2012, M-2012-051 dated 09 November 2012, M-2012-044 dated 24 August 2012, M-2012-042 dated 17 August 2012, M-2012-001 dated 03 January 2012, M-2011-059 dated 22 November 2011, M-2011-056 dated 21 October 2011, M-2011-055 dated 17 October 2011, M-2011-043 dated 12 August 2011, M-2011-007 dated 04 February 2011, M-2010-039 dated 03 October 2010, M-2010-007 dated 23 April 2010, M-2009-040 dated 30 October 2009, M-2009-038 dated 08 October 2009, M-2009-037 dated 15 October 2009, M-2009-036 dated 06 October 2009, 622 dated 16 September 2008, 603 dated 03 March 2008,*

and 520 dated 20 March 2006)

#### Footnotes

1. 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.
2. The stage depends on whether the accounts are classified as non-performing (Stage 3) or underperforming (Stage 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.
5. The stage depends on whether the accounts are classified as non-performing (Stage 3) or underperforming (Stage 2)
6. Sec. 304 (*Accounts considered non-performing*) provides that doubtful accounts are considered as non-performing hence, shall be classified under Stage 3 notwithstanding the number of missed amortizations.