[BSP CIRCULAR NO. 463, S. 2004, December 29, 2004]

AMENDMENTS TO SUBSECTION X306.5 OF THE MANUAL OF REGULATIONS (MOR) AND SUBSECTION 4308Q.5 OF THE MANUAL OF REGULATIONS FOR NON-BANK FINANCIAL INSTITUTIONS (NBQBS) TO IMPLEMENT SECTION 49 OF THE GENERAL BANKING LAW OF 2000

The Monetary Board, in its Resolution No. 1785 dated 9 December 2004, approved the following amendments to Subsection X306.5 of the Manual of Regulations (MOR) and Subsection 4308Q.5 of the Manual of Regulations for Non-Bank Financial Institution (NBQBs) to implement Section 49 of Republic Act (R.A.) No. 8791, otherwise known as the General Banking Law of 2000.

SECTION 1. Provisions for losses. The board of directors of banks and NBQBs are responsible for ensuring that their institutions have controls in place to determine the allowance for probable losses on loans, other credit accommodations, advances and other assets consistent with the institutions' stated policies and procedures, generally accepted accounting principles (GAAP), the BSP rules and regulations and the safe and sound banking practices. The board of directors, in fulfilling this responsibility, shall require management to develop and maintain an appropriate, systematic and uniformly applied process consistent and in compliance with existing BSP rules and regulations to determine the amount of reserves for bad debts or doubtful accounts or other contingencies.

SECTION 2. Write-off. Banks, upon approval by their board of directors, may write-off loans, other credit accommodations, advances and other assets against allowance for probable losses (valuation reserves) or current operations as soon as they are satisfied that such loans, other credit accommodations, advances and other assets are worthless as follows:

1. In the case of secured loans, banks and NBQBs may write-off loans, other credit accommodations and other assets in an amount corresponding to the booked valuation reserves, provided that the balance of the secured loans, other credit accommodations, advances and other assets shall remain in the books.

2. In the case of unsecured loans, other credit accommodations, advances and other assets, banks and NBQBs shall write-off said loans, other credit accommodations, advances and other assets in full amount outstanding.

However, write-off of loans, other credit accommodations, advances and other assets considered transactions with DOSRI shall be with prior approval of the Monetary Board.