December 14, 2021
Circular N° SBP-DR-0132-2021

General Manager

Subject: Modified Loans Write-offs

Dear General Manager:

Following up on the credit risk management and administration processes that banks must implement for their loan operations and, specifically for the recovery and normalization processes of modified loans classified as “Modified Special Mention,”, the Superintendency deems it appropriate to indicate that each bank is responsible for developing, within their internal policies, the criteria and processes applicable to write-off the “Modified Doubtful” and “Modified Loss” loans as provided for in Board of Directors’ General Resolution SBP-GJD-0003-2021.

In this regard, banks must submit to the Superintendency by the end of February 2022 the operational plan adopted and approved by the Board of Directors to write-off said operations, to know and follow up the strategies and policies implemented by each bank for the proper management of the loans registered in the aforementioned categories, which in turn will work as a reference for the regulation that the Superintendency may develop on the matter.

For such purposes, banks must ensure that the application of the operational plan for “Modified Doubtful” and “Modified Loss” loans write-offs is based on suitable policies and procedures, clear responsibilities, and appropriate corporate governance structures, including the approving authorities in case of changes and/or adjustments and that said plan contains, as a minimum, the information described in the document attached hereto.

Likewise, it is important that banks have a technological infrastructure that allows that all data related to loans registered in the “Modified Doubtful” and “Modified Loss” categories are appropriately stored and updated.

Banks must periodically monitor, at least quarterly, the strategies developed in their write-off plan and notify the Superintendency in advance of any change or deviation they make to the actions included in said plan, for which banks must submit the corresponding preventive and/or corrective actions that will be applied in such cases.

On the other hand, banks may consider within their governance structure the appointment of a specialized management unit for said loans and separate from the loan-originating units, to prevent potential conflicts of interests and to permit optimizing the proper management and treatment of loans registered in the “Modified Doubtful” and “Modified Loss” categories.

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The Superintendency of Banks will make a thorough examination of credit risk best practices applied by banks to the loans registered in the categories, taking into consideration the evolution of the behavior of said loans regarding the obligations made by clients.

Best regards,

Digitally signed by [S]
NAME CASTILLO CHANG,
AMAURI ARIEL – ID 8-238-386
Date: 2021.12.15 10:52:32 - 05’00’

Amauri A. Castillo
Superintendent

Enc.: A/s

ARV/vc

APPENDIX

The operational plan for writing-off loans registered in the “Modified Doubtful” and “Modified Loss” categories must include, as a minimum, the following:

- A clear description of the purposes and objectives of the plan, as well as the chronogram for its fulfillment;
- The activities to be made by portfolio segments;
- The write-off strategy to be conducted between 1 and 3 years. The strategy must include aspects related to Settlement/Transfer of clients for whom there are no viable refinancing or restructuring solutions due to their financial situation or level of cooperation. Thus, banks must have a cost/benefit analysis of the different settlement options, including judicial and extrajudicial proceedings;
- The specific budgetary requirements to implement the strategy to the loans registered in the “Modified Doubtful” or “Modified Loss” loans categories;
- The future capital needs;
- The design of sufficient internal controls for the management processes of loans registered in the “Modified Doubtful” or “Modified Loss” categories, with special emphasis on the activities related to the classification of said loans, provisioning, the valuation of collateral, and the sustainability of refinancing or restructuring solutions.