

December 29, 2021
Circular N° SBP-DR-0136-2021

General Manager

Subject: Record of Pass Modified Loans

Dear General Manager:

In observance of the provisions for reporting modified loans established in Board of Directors' General Resolution SBP-GJD-0003-2021 dated 11 June 2021, the Superintendency deems it important to reiterate to banks to properly record "Modified Pass" loans, so that the reporting of these loans is made in accordance with the regulatory guidelines and parameters, since in practice we have observed that some loans that do not correspond to it have been recorded in this category.

In accordance with the provisions of Article 3 (1) of Board of Directors' General Resolution SBP-GJD-0003-2021 and for reporting to the Superintendency, banks are responsible for recording the following loans under the "Modified Pass" category:

"ARTICLE 3. REPORTING PARAMETERS FOR MODIFIED LOANS: For the purposes of the provisions contained herein, banks will report modified loans following the parameters established in this Article.

1. **MODIFIED PASS.** The modified loans on which the bank has modified their terms and conditions until 30 June 2021 and that, upon the entry into force of Rule 2-2021, the debtor has complied with the new terms and conditions without having been returned to the provisions of Rule 4-2013 will be recorded in this category. These loans, if they show the fulfillment of their payments consecutively during the period of six (6) months, may be returned to the pass category in accordance with Rule 4-2013.

If these loans fail to comply with their terms and conditions, they may be restructured only once and recorded as modified substandard loans."

In this regard, banks must only keep recorded in this category those modified loans that until 30 June 2021 were subject to modification in their terms and conditions, but that upon the entry into force of Rule 2-2021 they could not complete the required three- (3) month period, in compliance with their payments, to be able to be returned to the provisions of Rule 4-2013. Therefore, it will not be appropriate to record in the "Modified Pass" loan category those loans that have undergone restructuring as of 1 July 2021 and that as of today remain in compliance with their obligations, since these loans must remain recorded in the "Modified Substandard" loan category.

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In this regard, we remind banks that the “Modified Pass” loan category is a decreasing category, since considering the date on which the loans belonging to this category were modified (until 30 June 2021), the required maximum period of six (6) months, in consecutive fulfillment of their payments, for its reinstatement to Rule 4-2013 would be completed by 31 December 2021.

It should also be noted that the loans recorded in the “Modified Pass” category that have not consecutively fulfilled their payments must be recorded in the “Modified Loss” loan category and, once there they could be subject to restructuring, as long as they comply with the characteristics established in Article 7 of Rule 2-2021, which in this case, must be recorded in the “Modified Substandard” loan category, in accordance with the provisions of Board of Directors’ General Resolution SBP-GJD-0003-2021.

Therefore, banks must make sure that they properly record modified loans classified in the risk category called “Modified Special Mention” to properly report the modified loan portfolio, in accordance with the guidelines issued by the Superintendency.

Best regards,

Digitally signed by [S]
NAME CASTILLO CHANG,
AMAURI ARIEL – ID 8-238-386
Date: 2021.12.29 11:37:11 - 05'00'
Amauri A. Castillo
Superintendent

ARV/vc