



CENTRAL BANK OF BELIZE

INTERNATIONAL BANKING ACT

Circular No. 2 of 2011

Loan Loss Reserves, 2011

Title and Commencement

This Circular shall be called International Banking Act (IBA) Circular #2/2011 and shall come into effect on 1 December 2011.

Authority

This Circular is made in exercise of the authority conferred on the Central Bank of Belize (the Central Bank) by Section 45(1) of the IBA.

Summary

This Circular prescribes procedures for the establishment and maintenance of loan loss reserves for licensed banks.

Definitions

1. Specific Loan Loss Reserves is an account funded through charges to income as a provision expense for charging off loans and other assets or portions of such loans and other assets which have been adversely classified. For reporting purposes, this contra account shall be separately reported on the balance sheet as a deduction from loans.
2. General Loan Loss Reserves is an account funded through charges to income as a provision expense. This reserve shall be established as cover for loans that have not been adversely classified. For reporting purposes, this account shall be reported on the balance sheet as a capital account.
3. Other assets are overdrafts and other credit facilities, or any other asset that does not have a pre-established repayment term.

REQUIREMENTS

A. Calculation of Loan Loss Reserves for Loans and Other Assets

1. Specific Loan Loss Reserves

SPECIFIC LOAN LOSS RESERVES shall be established and maintained by licensees for all loans and other assets which are classified as "substandard", "doubtful" or "loss" in the following manner:

- (i) For all loans and other assets classified "substandard", specific reserves equivalent to twenty percent (20%) of such loans and other assets shall be maintained.
- (ii) For all loans and other assets classified "doubtful", specific reserves equivalent to fifty percent (50%) of such loans and other assets shall be maintained.
- (iii) For all loans and other assets classified "loss" which are fully unsecured, specific reserves equivalent to one hundred percent (100%) of such loans and other assets shall be maintained.

For all loans and other assets classified "loss" which are fully collateralized by marketable security, specific reserves equivalent to seventy percent (70%) of the outstanding loan balance shall be maintained.

Specific Loan Loss Reserves for loans which were previously classified may be built either through appropriations from profit and/or transfers from unimpaired, unencumbered and unappropriated retained earnings within a period of three years commencing on the day this Circular comes into effect. Thereafter, these reserves shall be built as specified under "Definitions".

2. General Loan Loss Reserves

GENERAL LOAN LOSS RESERVES shall be established and maintained by licensees in an amount equivalent to one percent (1%) of all loans which are not adversely classified. These reserves shall be built as specified under "**Definitions**".

B. Frequency and Reporting of Specific Loan Loss Reserves

Specific loan loss reserves must be evaluated at least on a quarterly basis concurrent with the quarterly loan classification review and reported to the Central Bank on the prescribed Bank Return.

C. Write Off of Loans and Other Assets

1. Loans and other assets which are uncollectible and of such little value that their continued reporting as bankable assets is no longer warranted shall be written off immediately.
2. Unsecured loans classified "loss" shall be written off within twelve months of the loan being classified as "loss". Licensees may be allowed to defer write off of uncollectible loans over a longer period but this longer period shall not normally exceed twenty-four months.
3. Loans classified as "loss" which are collateralized by marketable security shall be written off within four years of the loan being classified as "loss".
4. Charge-offs shall be made against the Specific Loan Loss Reserve account. If the amount of the loan to be charged off exceeds the balance of the Specific Loan Loss Reserves account, additional reserves shall be established to cover the shortfall through charges to income or transfers from the General Loan Loss Reserves account.
5. Recoveries on loans and other assets previously written off shall be recorded in the financial period during which such recovery occurs.

D. Relationship to Other Circulars

This Circular should be read in conjunction with the companion Circulars on **Classification of Loans and Other Assets, 2011** and **Treatment of Interest on Loans and Other Interest-Bearing Assets, 2011**.

1 December 2011