



INTERNATIONAL BANKING ACT
Circular No. 2 of 2018

Loan Loss Provisions and Reserves

Authority

This Circular is made in exercise of the authority conferred on the Central Bank of Belize (Central Bank) by Section 45 (1) of the International Banking Act (IBA) and replaces the previously issued IBA Circular No. 2 of 2011.

Summary

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

Definitions

1. Specific Loan Loss Provisions 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 classified as non-performing. 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 the appropriation of retained earnings. 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 an equity account.
3. Other assets are overdraft and other credit facilities, or any other asset that does not have a pre-established repayment term.

REQUIREMENTS

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

1. Specific Loan Loss Provisions

SPECIFIC LOAN LOSS PROVISIONS 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 classified "substandard", specific provisions equivalent to twenty percent (20%) of such loans and other assets shall be maintained.
- (ii) For all loans classified "doubtful", specific provisions 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 provisions equivalent to one hundred percent (100%) of such loans and other assets shall be maintained.
- (iv) For all loans and other assets classified "loss" which are fully secured by mortgages, specific provisions equivalent to fifty percent (50%) of the outstanding loan balance shall be maintained.

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 Provisions

Specific loan loss provisions 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 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 twenty-four months of the loan being classified as "loss".
3. Loans classified as "loss" which are collateralized by mortgages shall be written off as follows:
 - (i) 60% of secured loans shall be written-off by the end of year four of being classified as "loss" and the 40% will remain on the bank's books until the collateral is sold.
 - (ii) If the collateral is not sold within two years of the initial write-off of 60%, the bank will be required to write-off the 40% remaining on its books, by which time provisions for the 40% must be made to accommodate the write-off. Therefore banks will be allowed a total of six years to fully write-off secured non-performing loans.
4. Write-offs shall be made against the Specific Loan Loss Provisions account. If the amount of the loan to be charged off exceeds the balance of the Specific Loan Loss Provisions account, additional provisions shall be established to cover the shortfall through charges to income.
5. Recoveries on loans and other assets previously written off shall be recorded as income in the financial period during which such recovery occurs.

D. Relationship to Other Circulars

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

1 November 2018