BANKING COMMISSION
P.O. Box 1408
Majuro, Marshall Islands 96960
PHONE: (692) 625-6310 FAX: (692) 625-6309

INSTRUCTIONS AND REPORTING FORMS 3

REPORT OF NON-CURRENT AND NON-PERFORMING ASSETS

PURPOSE

The month-end "Non-Current and Non-Performing Assets" return is to ensure that management and the Banking Commissioner remain current and well informed on adverse asset classification trends. It is also intended to prompt management to review existing written or implied policies and practices, including credit approval procedures, lending limits and the loan administration practices

STATUTORY REFERENCE

Under Section 37 (1), the Commissioner is obligated to notify banks in writing of regulatory reporting requirements intended to strengthen supervision of the RMI banks.

The Report of Non-Current and Non-Performing Assets is a monthly report used for administering the prudential classification and provisioning standards codified in Directive 3 "Asset and Reserve Adequacy."

Banks that fail to submit timely and accurate Monthly Non-Current and Non-Performing Assets Reports may be subject to fines under Section 37 (3).

FREQUENCY/SUBMISSION DATE

All licensed banks are required to submit the Monthly Non-Current and Non-Performing Asset Reports within 30 days after the last business day of each month.

RECEIPIENT

Banking Commission, Capital Building, Floor 2 Room 268, Majuro.

Phone: (692) 625-6310; Fax (692) 625-6309: E-mail: bankcom@ntamar.net

SIGNING AUTHORITY

The Senior RMI Officer of the institution concerned, or in his absence a designated officer must sign the completed return, to certify the accuracy of the information submitted.

INSTRUCTIONS 3
REPORT OF NON-CURRENT AND NON-PERFORMING ASSETS

This new returns is to provide a monthly report update of the inventory of non-current and non-performing assets. It replaces the "Month-end Non-Current Loan Report" applicable in 1995, which include comparable asset information but did not pick up the related specific provisions.

In-depth credit reviews by management will generally be less frequent than monthly, in which case the between times changes in principal and specific provisions may be minor. Hence, this return will help monitor the frequency of each bank's credit review process, and ensure that the resulting provisioning, income recognition and reserve standards are being appropriately met.

Directive 3 "Asset Classification and Reserve Adequacy" explains the principles governing the content of this return.

In this regard, two points deserve emphasis. First, management may apply more sever classification standards for recognition of non-performing credits than those set in Directive 3, but there is little if any scope for delaying classifications. Second, the minimum specific provision standards set in Directive 3 are applicable to the sum total of a bank's exposure, which in the case of non-accrual loans includes principal plus accrued interest arrears to date.

COLUMN HEADS

Report non-current and non-performing PRINCIPAL and related SPECIFIC PROVISIONS per the following Directive 3 references:

Non-Current Assets- Report principal exposures in arrears at 30 to 89 days inclusive (Para 2).

Non-Accrual Assets:

(a) Substandard

Includes principal classified "substandard," plus any non-accrual credits at between 90 and 179 days in arrears (Para 8) providing that such exposures have not already been classified as "doubtful" or "loss."

The bank is to report specific provisions that it has recorded on the above credit exposure classified as "substandard." The minimum prudential standard set for supervisory purposes on such exposure is 30% (Para 13a) of the principal plus interest arrears.

(b) Doubtful

Include principal classified as "doubtful," plus any other non-accrual credits at between 180 days and less than one year in arrears (Para 10) providing that such exposures have not already been classified as "loss."

The bank is to report specific provisions that it has recorded on the above credit exposures classified as "doubtful." The minimum supervisory provisioning requirement on such credits is 50% (Para 13b).

(c) Loss

Include principal classified as "loss," plus any other non-accrual credits outstanding for one year or more (Para 11).

The minimum supervisory provisioning requirement on such credits is 100% (Para 13c).

Please note that any "loss" exposure that has been classified non-accrual for one year, namely when past due one year and 90 days, must be written off and removed from the bank's books (Para 14).

Restructured Assets – Report principal exposures. Owing to the preconditions for a credit to qualify in this category (Para 5), no specific will apply.

The final column on the reporting form is a "Total Non-Performing" asset. This is to record the component line entries for "Total Non-Accrual" plus "Restructured" assets.

LINE ITEMS

The line entries represent a streamlined version of the loan breakdown required for the Instructions 1 "Statement of Assets and Liabilities," initially for non-current and non-performing credits and repeated for the applicable specific provisions.

In practice, based on recent returns, lending has to-date been confined to "Business" and "Individuals" risk exposures. Accordingly, the only additional line items of significance at present are the "Private Sector" subtotals.

OFFICE OF THE BANKING COMMISSIONER

FEBRUARY 1996