



BANKING COMMISSION

P.O. Box 1408

Majuro, Marshall Islands 96960

PHONE: (692) 625-6310

FAX: (692) 625-6309

INSTRUCTIONS AND REPORTING FORM 4

QUARTERLY REPORT ON LOAN CLASSIFICATIONS AND RESERVE ADEQUACY

PURPOSE

This Report is to ensure that bank management and the Banking Commission remain current and well informed on the adequacy of a bank's Allowance for Credit Losses account in relation to changes in the risk profile of the loan portfolio. As such, this Report uses the asset classification and reserve adequacy requirements as provided in Directive 3 to monitor trends in the level and severity of problem loans and assess the adequacy of provisions for losses on loans.

Instructions and Reporting Forms 3, dated February 1996, and Instructions and Reporting Forms 3(A), dated August 17, 2001, are hereby rescinded. This Instructions and Reporting Form 4 also updates and replaces the Instructions and Reporting Form 4 dated February 22, 1996.

STATUTORY REFERENCE

Under Section 137 (1), the Commissioner is obligated to notify banks in writing of regulatory reporting requirements intended to strengthen supervision of the banks in the Republic of Marshall Islands.

Information in this Report monitors a bank's compliance with prudential loan classification and provisioning requirements provided in Directive 3, "Asset Classification and Reserve Adequacy."

Banks that fail to submit timely and accurate reports may be subject to fines as provided under Section 137 (3).

FREQUENCY/SUBMISSION DATE

All licensed banks are required to prepare as of the end of each calendar quarter a report on Loan Classifications and Minimum Reserve Adequacy and to submit the report to the Banking Commission within 30 days after the last business day of the calendar quarter end.

RECIPIENT

Banking Commission, MIDB Building, Floor 5 Room 501, Majuro.

Phone: (692) 625-6310; Fax: (692) 625-6309; E-mail: bankcomm@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 4

This Report consolidates the information previously required to be submitted by banks under Instructions and Reporting Forms 3, 3(A) and 4. The revised Report also reduces the regulatory burden on banks by extending the reporting frequency for past due loans from monthly to quarterly. The revised Report, however, maintains the quarterly reporting requirement on changes in the composition of the Allowance for Credit Losses account.

While banks will be reporting to the Banking Commission on a less frequent basis, the Board of Directors and management should continue to monitor the level and severity of past due loans and the adequacy of the Allowance for Credit Losses account on a regular and frequent basis.

In classifying assets and assessing the adequacy of the Allowance for Credit Losses account, banks may use more stringent standards for recognizing non-performing credits than those set forth in Directive 3, but there is little if any scope for delaying classifications. Any credit past due 90 days or more for the payment of principal or interest must be placed on non-accrual in accordance with Directive 2, Accounting for Non-Performing Credits. Banks, however, are reminded that the minimum provision requirements outlined 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.

All amounts reported in this Quarterly Report on Classified Loans and Reserve Adequacy are to be reported in thousands of U.S. Dollars (US\$ 000).

PART A: CLASSIFICATION OF LOANS

Column Heads:

(a) Item

- Loans categories listed in Lines 1. through 5. and 7. through 13. are the same as those defined in Instruction and Reporting Form 1, Statement of Assets and Liabilities.

(b) Current Less Than 30 Days Past Due

- Report in the appropriate lines all loans as categorized in Instruction 1, Monthly Statement of Assets and Liabilities, Lines 13 through 24, which are performing in accordance with their contractual repayment terms or on which the payment of principal or interest is in arrears for less than 30 days.

(c) Non-Current 30 to 89 Days Past Due

- Report in the appropriate lines all loans which are past due for the payment of principal or interest 30 days or more but less than 90 days.

(d) Restructured

- Report in the appropriate lines all loans which have had their terms modified by

the bank due to the weakened financial condition of the borrower and which do not yet qualify for return to performing status in accordance with Directive 2, Accounting for Non-Performing Credits.

(e) Substandard 90 to 179 Days Past Due

- Report in the appropriate lines all loans classified Substandard in accordance with Directive 3, Asset Classification and Reserve Adequacy, paragraph 9, or on which principal or interest is past due for 90 days or more but less than 180 days.

(f) Doubtful 180 to 360 Days Past Due

- Report in the appropriate lines all loans classified Doubtful in accordance with Directive 3, Asset Classification and Reserve Adequacy, paragraph 10, or on which principal or interest is past due for 180 days or more but less than one year.

(g) Loss Over 360 Days Past Due

- Report in the appropriate lines all loans classified Substandard in accordance with Directive 3, Asset Classification and Reserve Adequacy, paragraph 11, or on which principal or interest is past due for one year or more.

(h) Total

- Horizontally sum the amounts reported for each Line in Columns (b) through (g).

Line Items:

1. **Central Government** – The payment status of loans categorized as Central Government and reported in Columns (b) through (g) report in the appropriate Columns (b) through (g) the payment status of loans categorized as Central Government. The total loans categorized as Central Government and reported in Column (h) of this Form must equal the amount reported in Form 1, Monthly Statement of Assets and Liabilities, Line 13.
2. **Local Government** – report in the appropriate Columns (b) through (g) the payment status of all loans categorized as Local Government. The total loans categorized as Local Government and reported in Column (h) of this Form must equal the amount reported in Form 1, Monthly Statement of Assets and Liabilities, Line 14.
3. **MIDB** – report in the appropriate Columns (b) through (g) the payment status of all loans categorized as Marshall Islands Development Bank. The total loans categorized as Marshall Islands Development Bank and reported in Column (h) of this Form must equal the amount reported in Form 1, Monthly Statement of Assets and Liabilities, Line 15.
4. **Non-Financial Public Enterprises** - report in the appropriate Columns (b) through (g) the payment status of all loans categorized as Non-Financial Public Enterprises. The total loans categorized as Non-Financial Public Enterprises and reported in Column (h) of this Form must equal the amount reported in Form 1, Monthly Statement of Assets and Liabilities, Line 16.

5. **Sub-total – Public Sector** – Sub-total vertically the amounts reported in lines 1. through 4. for Columns (b) through (h)
6. **Businesses – Non-Bank Financial** – report in the appropriate Columns (b) through (g) the payment status of all loans categorized as Businesses – Non-Bank Financial. The total loans categorized as Businesses – Non-Bank Financial and reported in Column (h) of this Form must equal the amount reported in Form 1, Monthly Statement of Assets and Liabilities, Line 18.
7. **Businesses – Commercial** - report in the appropriate Columns (b) through (g) the payment status of all loans categorized as Business – Commercial. The total loans categorized as Non-Financial Public Enterprises and reported in Column (h) of this Form must equal the amount reported in Form 1, Monthly Statement of Assets and Liabilities, Line 19.
8. **Nonprofit Institutions** - report in the appropriate Columns (b) through (g) the payment status of all loans categorized as Nonprofit Institutions. The total loans categorized as Nonprofit Institutions and reported in Column (h) of this Form must equal the amount reported in Form 1, Monthly Statement of Assets and Liabilities, Line 20.
9. **Individuals – Installment Credit** - report in the appropriate Columns (b) through (g) the payment status of all loans categorized as Individuals – Installment Credit. The total loans categorized as Individuals – Installment Credit and reported in Column (h) of this Form must equal the amount reported in Form 1, Monthly Statement of Assets and Liabilities, Line 21.
10. **Individuals – Residential Mortgages** - report in the appropriate Columns (b) through (g) the payment status of all loans categorized as Individuals – Residential Mortgages. The total loans categorized as Individuals – Residential Mortgages and reported in Column (h) of this Form must equal the amount reported in Form 1, Monthly Statement of Assets and Liabilities, Line 22.
11. **Individuals – Other** - report in the appropriate Columns (b) through (g) the payment status of all loans categorized as Individuals - Other. The total loans categorized as Individual Other and reported in Column (h) of this Form must equal the amount reported in Form 1, Monthly Statement of Assets and Liabilities, Line 23.
12. **Overdrafts** - report in the appropriate Columns (b) through (g) the payment status of all Overdrafts. The total Overdrafts and reported in Column (h) of this Form must equal the amount reported in Form 1, Monthly Statement of Assets and Liabilities, Line 19.
13. **Sub-total Private Sector** - Sub-total vertically the amounts reported in lines 6. through 12. for Columns (b) through (h)
14. **Total** – Total vertically the amounts reported in lines 5. and 13. for Columns (b) through (h).

PART B: MINIMUM RESERVE ADEQUACY

General Instructions for completing Line 16 – AFCL Target this Quarter

- For Columns (b) through (g), multiply the amount reported in Line 14 by the respective percentage listed in Line 15.

PART C: CHANGES IN THE ALLOWANCE FOR CREDIT LOSSES

The balance of the Allowance for Credit Losses account should be sufficient to absorb all identified and potential but unidentified losses associated with a bank's on and off-balance sheet risk exposures.

In order to accurately record the results of a bank for any given reporting period, management must decide what or how much "Provision for Loan Losses" will be charged against current earnings. In considering how much, if any, charge is needed to current earnings, the balance of the Allowance for Credit Losses should be compared with the minimum provision requirements as reflected in Line 16 of this Report.

On this basis, the "Provision for Loan Losses" charged to earnings is a residual and significant adjustment necessary for the appropriate reporting of a bank's operating results.

Column Heads:

This part of the return is designed to be updated as of the end of each calendar quarter commencing with the calendar quarter ending 31 March. As such, the Year-to-Date Column will represent the accumulation of information submitted for each calendar quarter end.

Line Items:

17. Balance at Prior Quarter End

- Report the balance of the Allowance for Credit Losses as of the end of the last calendar quarter end. For the calendar quarter ending 31 March, the balance at prior quarter end will be derived from the immediately preceding calendar year end.

18. New Provisions this Quarter

- Report the amount of Provisions for Loan Losses charged to earnings during the current calendar quarter.

19. Recoveries this Quarter

- Report the amount of loans written off in previous reporting periods but collected during the current calendar quarter.

20. Write-offs this Quarter

- Report the amount of loans written off _____ in the current calendar quarter.

21. Other Increases (Decreases)

- Report all other increases and (decreases) to the Allowance for Credit Losses accounts which cannot otherwise be reported in lines 18., 19. or 20.

22. Ending Balance

- For each calendar quarter, add amounts reported in Lines 17., 18., 19. and 21 less amounts reported in line 20.

BANKING COMMISSION

JUNE 2009