

The Republic of the Union of Myanmar

Central Bank of Myanmar

Notification No. (17/2017)

14th Waxing Day of Waso 1379 ME

July 7, 2017

In exercise of the powers conferred under Section 39 and 184 of the Financial Institutions Law, the Central Bank of Myanmar hereby issues the following Regulations:

1. These Regulations shall be called Asset Classification and Provisioning Regulations.
2. These Regulations shall apply to all banks.

Definition

3. The expressions contained in these Regulations are to have same meaning in the Financial Institutions Law. Moreover, the following expressions shall have the meanings given hereunder:

- (a) “Loans” means debt extended by the banks under repayment terms and conditions with prescribed term. “Advances” means cash advances allowed by the banks to repay within one year. “Loans and advances” includes any loan, discount, advance, overdraft, export bills purchased, other bills receivable or purchased, import bills, a customer’s liability on acceptances or any other credit facilities, and all off-balance sheet items;
- (b) “other assets” means assets other than loans and advances including receivables, investments, accrued interests and any other assets.
- (c) “day past due” means the number of days passed since a mandatory date of payment including principal and interest payments or interest payments alone;
- (d) “non-performing” means a loan or advance that is no longer generating income and which is classified doubtful or loss;
- (e) “rescheduling” in relation to a loan or advance means the modification of the terms of the loan or advance intended to induce repayment.

4. A bank shall make adequate provisions for impairment of loans, advances and other assets on and off-balance sheet whenever the impairment occurs. The specific provisions for the impairment is to be made against all outstanding balance (principle and interest) of the loans and advances, not just the past due portion.

Classification of loans and advances and specific provisions

5. A bank shall classify and make specific provisions in the following manner:

Sr. No.	Classification of loans/ advances	Days past due	Provisions on shortfall in security value
(a)	Standard	30 days past due	0%
(b)	Watch	31 to 60 days past due	5%
(c)	Substandard	61 to 90 days past due	25%
(d)	Doubtful	91 to 180 days past due	50%
(e)	Loss	Over 180 days past due	100%

6. For the purposes of paragraph 5, valuation of the securities and provisioning for any other assets shall be in accordance with annexure.

Specific Provisions

7. The specific provision shall be recorded in the bank's accounts and charged to the profit and loss account in the month in which it occurs and shall not be spread over future periods except as allowed under paragraph 20.

General Provisions

8. Banks are required to maintain general loan loss reserve by making general provisions up to 2% of total outstanding loans and advances.

Treatment of interest

9. All interest accrued (but uncollected) from the date a loan or advance is classified as doubtful shall be suspended and any interest already accrued shall be reversed.

10. Interest earned on loans and advances which are classified as doubtful or loss shall only be recognized as income when the interest has been collected by the bank.

Treatment of overdraft

11. A bank shall ensure that all overdraft loans in its books are cleared/ paid in full for a period of two consecutive weeks annually.

12. If an overdraft loan is not cleared/paid in full, such loan must be immediately classified in accordance with paragraph 5.

Rescheduling of Loans and Advances

13. A bank may reschedule a non-performing loan provided that the rescheduled loan remains classified in the same category.

14. A bank may reclassify the rescheduled loan if, the borrowers has complied with the terms of rescheduled loan for 6 consecutive months.

Reclassification of Non-Performing Loans

15. Upon full settlement of all arrears in interest or principal, the bank may reclassify the loan as a performing loan: Provided that the funds for the repayment of the arrears are not obtained from the creation of new loans or debt instruments from the same bank.

General

16. Banks shall maintain adequate records supporting their evaluations of potential loan losses and the entries made to ensure adequacy of the provisioning for loan losses.

17. These Regulations set out the minimum requirements in respect of classification and provisioning of loans and advances. Banks may adopt a more stringent standard.

18. Failure to comply with these Regulations constitute a violation and is subject to corrective actions or sanctions as may be imposed under section 94 and 96 of the Financial Institutions Law and administrative penalties under section 154 of the said Law.

19. The following instruction and memorandum are hereby repealed:

- (a) Central Bank of Myanmar Instruction No.6 dated August 31, 1995; and
- (b) Memorandum Letter Number MaBaBa-1/111(FIS)/(1903/2016) dated December 21, 2016.

20. These Regulations shall come into effect six months from the date of these Regulations. However, banks can stagger the shortfall in the specific provisioning in equal amounts over a period of three years from the date of these Regulation.

Sd./ xxxxxxxxxxxx
(Kyaw Kyaw Maung)
Governor

Criteria for valuation of Security/Collateral

In relation to paragraph 6 of these regulations:

- (a) The past due status for non-performing loan is not changed based on the value of the security.
- (b) In regards to cash collateral, the amount of cash security can be deducted from the outstanding balance of the loan before specific provisions are calculated.
- (c) Charge/Lienholder's caveat over real estate property-
 - (1) Where court proceeding are not yet instituted, forced sale value (FSV) is used.
 - (2) Where auction is pending and reserve price (RP) has been fixed, RP is to be used.
 - (3) Where auction has been aborted and FSV of the property is lower than RP, and in the absence of new PR, FSV is to be used.
 - (4) Where aborted RP is based on FSV, and in the absence of new RP, a 10% discount should be made on the aborted RP.
Note: the FSV should be as valued by independent professional valuers.
- (d) Debenture - No value can be given unless it is certified by an independent receiver/ liquidator/ auditor/professional valuer.
- (e) Assignment of book debts - No value can be given unless the bank can prove that the debtors are worth the value quoted.
- (f) Pledge of shares
 - (1) Quoted - The latest market price
 - (2) Unquoted -Value may be given provided the test of marketability is met. The condition of marketability would be considered based on the merit of each case. If it can be demonstrated that the shares are marketable, the basis of valuation applied should be the net tangible asset per share.
- (g) Plant, machinery and equipment - In the absence of internationally recognized professional valuation, the net book value would be applicable using a 20% depreciation rate on a straight-line on the acquisition price.
- (h) Guarantees
 - (1) Personal or corporate - No value
 - (2) Banks - No value
(Exception: the guarantor bank which has credit rating AA or equivalent and above may be considered on a case-by-case basis.)
 - (3) Government of Myanmar - Full value
- (i) All other collateral to be considered on a case-by-case basis according to credit risk management policy of the bank.