

## Notice no. 18/93-AMCM

In accordance with Article 6, paragraph 3, sub-paragraph c) of the Financial System Act, approved by Decree-Law no. 32/93/M, of the 5th of July and after consultation with the Finance Department, Autoridade Monetária e Cambial de Macau (Monetary and Foreign Exchange Authority of Macau) hereinafter referred to as AMCM, determines the following rules to be observed by all credit institutions regarding the classification of their loan portfolios and the setting up of provisions.

### I. *Definitions*

For the purposes of this Notice:

1. Provisions are amounts set aside or adjusted, and reflected in the Profit & Loss Account, to meet potential losses in asset value.
2. Credits shall include:
  - (a) Any lending of funds from the credit institution to its non-bank clients;
  - (b) All liabilities arising from guarantees given by the credit institution or from bank acceptances;
  - (c) Total amount of rentals corresponding to the amortization provided for in financial leasing contracts;
  - (d) All interest and commission entered in the Profit and Loss Account and yet to be collected, deriving from the credits mentioned in sub-paragraphs (a), (b) and (c).
3. Delinquent accounts are deemed to be all credits and other placements in relation to which either the payment of interest or commission or the repayment of principal is delayed.

### II. *Types of Provisions*

The following types of provisions shall be set up:

4. Specific provisions for delinquent accounts, to be registered as a deduction from the respective assets.
5. General provision for the remaining assets.

### III. *Rules for setting up provisions*

6. Credit institutions shall maintain, at all times, updated records in order to allow of the identification of delinquent accounts, their respective balances, with the

breakdown of principal and interest, specific provision and the updated value of the collaterals.

7. Delinquent accounts shall be classified, by taking into account the period after the respective maturity, in the following manner:
  - a) Group I - up to 3 months;
  - b) Group II - over 3 months and less than or equal to 12 months;
  - c) Group III - over 12 months and less than or equal to 18 months;
  - d) Group IV - over 18 months.

8. At the end of each quarter, a minimum specific provision shall be set up for all delinquent accounts, based on their respective balances net of the realizable value of any existing and duly formalized tangible collateral in the following manner:

Group	Accumulated provision
II	40%
III	80%
IV	100%

9. The specific provisions set up according to the preceding paragraph shall be adjusted every quarter according to the classification of delinquent accounts mentioned in paragraph 7.
10. An independent valuer shall ascertain the realizable value of the tangible collaterals referred to in paragraph 8, for credits over 1 000 000 patacas, taking into consideration any other charges on such collaterals.
11. For the remaining assets, not included in paragraph 8, a general provision shall be set up by the end of each year in order to reach a balance of not less than 1% of the aggregated value of the credits which are not overdue for more than 3 months.

#### IV. *Accounting for interest and credit write-off*

12. Regarding delinquent accounts over 3 months, their interest and commission shall not be recorded as income, except when they are settled without increasing the liability of the borrower.
13. Prior written notice shall be given to AMCM, at least 15 days in advance, for the write-off of any credit granted to any of the persons referred to in paragraph 1 of

Article 65 and paragraph 1, sub-paragraphs b) and d) of Article 66 of the Financial System Act.

In such cases the notice to AMCM shall include the following information:

- (a) name of the borrower and his relation with the lender;
- (b) amount to be written-off together with the breakdown of principal and interest;
- (c) purpose of the credit;
- (d) date and the person responsible for credit approval;
- (e) interest rate and repayment schedule;
- (f) type and value of the collateral;
- (g) proceedings undertaken to recover the credit.

VI. *Final and transitional rules*

- 14. AMCM may order any credit institution to set up or increase provisions whenever these are found to be inadequate to cover the estimated depreciation of the assets.
- 15. Branches of credit institutions incorporated overseas shall set up in Macau the provisions prescribed in this Notice with respect to those assets registered in the branches.
- 16. AMCM may order any credit institution incorporated overseas to transfer to the head office or other overseas establishments the delinquent accounts registered in the local branch which have been approved or contracted by the head office or other overseas establishments, when those accounts become overdue and have been granted to non-residents, provided that there are no reasonable grounds for the respective booking in Macau.
- 17. The following are deemed to be covered by the provisions of paragraph 1, sub-paragraph e) of Article 25 of Law no. 21/78/M, of the 9th of September:
  - a) The total amount of minimum specific provisions set up in the respective fiscal year;
  - b) General provision up to 1% of credit granted or 1.25% of total exposure weighted under the terms of Notice no. 13/93-AMCM, of the 27th of August.
- 18. Any doubts or omissions in the application of this Notice shall be clarified by AMCM.
- 19. Notice no. 9/93-AMCM, of the 27th of August is hereby repealed.

20. The present Notice shall come into force on the 1st January 1994.

Autoridade Monetária e Cambial de Macau, 21st December, 1994. - The Board of Directors -  
Director, António dos Santos Ramos - Chairman, José Carlos Rodrigues Nunes.