



**BANCO DE DESARROLLO
ECONÓMICO
PARA PUERTO RICO**

GOBIERNO DE PUERTO RICO

KPMG AUDIT

*CORRECTIVE ACTION PLAN
JUNE 30, 2009*

<u>Finding</u>	<u>Recommendation</u>	<u>Responsible Person</u>	<u>Action</u>	<u>Estimated Completed Date</u>
<p><u>Allowance for Loan Losses</u></p> <p>During our review of the allowance for loan losses calculation, we noted that certain loans files of the individual cases examined and used for the specific allowance for loan losses calculation did not include recent relevant financial and nonfinancial information. The specific allowance calculation for impaired loans is often based on a discounted cash flow analysis based on either operating cash flow information or the sale of any underlying collateral. The collateral values used are often based on the initial appraisal performed when the loan was originated. The lack of current financial information and current property values could cause misstatements in the allowance.</p> <p>Also, we noted that during 2009 the Bank changed the policy used to estimate the general allowance for loan losses. Upon inquiries to management, we noted the Bank lacked documentation to support the newly established</p>	<p>We recommend management to maintain updated loans files with current financial information to evaluate borrower's financial position.</p> <p>To document in the loans files visits and periodic evaluations performed on the property values to update the SFAS 114 analysis on collateral dependent loans.</p> <p>We also recommend that management properly document the analysis made when implementing changes in the calculation of the allowance for loan losses.</p>	<p><u>Credit EVP or Ivonne Otero Guzmán, as Chief Financial and Operation Officer</u></p> <p><u>Risk EVP or Ivonne Otero as Chief Financial and Operation Officer</u></p>	<p>Finalize an automatic tickler to be managed by credit administration, to request and f/u the delivery of updated financials.</p> <p>Already in place as per new collection process approved in the 2nd quarter of year 2010.</p> <p>New calculation method was documented and implemented as per Board approval during 1st quarter of year 2010.</p>	<p>Done</p> <p>Done</p> <p>Done</p>



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<p>allowance rates per aging category or type of loan. Although we agree that economic condition of the island has deteriorated, the Bank should make sure that adequate documentation is produced to support the change in policy. This evidence should include historical data, delinquency trends, environmental factors and/or industry trend analysis.</p>				
<p><u>Other Real Estate Owned</u> During our review of the Other Real Estate Owned, we noted that certain properties did not have a recent appraisal report, and in some cases, there were no appraisals at all. Due to the current stagnant economy, and slow real estate market, we understand that the value of certain real estate properties might have declined during the course of the past two years. The current tendency in the market has been of disposition below appraised values.</p>	<p>We recommend that the Bank develop and implement a formal policy to help ensure that repossessed properties are properly recognized taking into consideration depression in external economic and market factors. This could be achieved by maintaining updated appraisal reports related to the inventory of properties on hand.</p>	<p><u>Risk EVP or Ivonne Otero Guzmán, Chief Financial and Operation Officer</u></p>	<p>Asset Disposition process will be revised including the updated appraisals regularly, during the 2nd semester of year 2010</p>	<p>Done</p>