LOAN POLICY NO. 2

PRICING

OBJECTIVE:

To define a pricing strategy that will allow NEA to recover cost and ensure viability.

POLICY BACKGROUND:

A pricing mechanism that will ensure viability for NEA is a necessary business tool. Whereas NEA, in the past, had not observed reasonable and prudent financial practices in its lending activities, it now recognizes the need for a self-sustaining posture considering the realities of the present times. Accordingly, NEA will impose a rate that has been determined to be the rate it has to charge to recover its cost of capital, administrative and operating cost and the foreign exchange risk recovery component.

In the past, NEA's lending rate was lower than its average cost, accounting for a substantial portion of its current financial difficulties. NEA's lending program was not synchronized, with varied lending rates based on cost of specific funding donors.

NEA has accordingly adopted a loan pricing strategy whose thrust is to provide loans to qualified ECs on a "fund-source neutral" basis. Thus, NEA's total cost of funds, regardless of donors, is based upon the weighted average cost of funds, is then applied uniformly to the ECs.

Loans granted to financially non-viable rural electrification projects come from government subsidy sources and are exempt from the above-cited interest rate coverage. Please refer to Loan Policy No. 8 (Financially Non-Viable Projects) for details.

POLICY STATEMENT:

Loans granted are to bear interest rates of 12%. Interest rates shall be reviewed semi-annually and if a revision in the interest rate is warranted, the new interest rate shall be imposed on all loans granted/restructured as of the date of the effectivity of the new rate.

Approved by the Board
Date: May 13, 1991

Amended:
Date: November 30, 2006 - *Reduction of NEA's interest rate from 12% to 10% per annum on all term loan effective January 2007 excluding STCF & SCF*

Amended:
Date: April 10, 2008 - *Reduction of NEA's interest rate on the following term loans except STCF:*
- *2 years repayment period – 8% per annum*
- *3 to 15 years repayment period – 9% per annum*

Amended
Date: September 21, 2012 – Reduction of NEA's interest rate on term loans & service charge for SCF:
- *2 years repayment period – 7% per annum*
- *3 to15 years repayment period – 8% per annum*

Amended
Date: September 23, 2014 – Reduction of NEA's interest rate on term loans:
- *2 years repayment period –6% per annum*
- *3 to15 years repayment period – 6.5% per annum*

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CHAIRMAN OF THE NEA BOARD
OF ADMINISTRATORS
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BY: Marcie TIME: 11:10 AM

14 January 2015

MEMORANDUM

FOR : THE BOARD OF ADMINISTRATORS

FROM : THE BOARD CREDIT AND RISK MANAGEMENT COMMITTEE

SUBJECT : Policy Setting the Validity Period of Loans

In compliance with the instruction of the NEA Board in its meetings (CRMC/Board - October 20 and 28, 2014), to formulate a policy setting the availability period of ECs' loans with NEA, may we submit the proposed Policy Setting the Validity Period of Loans.

The proposed Policy was presented during the Consultative Session with the leadership associations of ECs on 12 January 2015. Also, the same was discussed and reviewed by the Board Credit and Risk Management Committee.

RECOMMENDATION:

The Board CRMC is favorably endorsing for the Board's approval, Policy Setting the Validity Period of Loans.

JOSEPH D. KHONGHUN
Chairman

AMGD-AMD -15-01-69

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Policy Setting the Validity Period of Loans

I. BACKGROUND

NEA has been granting loans to ECs without setting the loan validity period. This practice has resulted to the accumulation of undrawn loan balances aggregating to Php7.153B for 104 ECs as of 31 December 2014. Some of these loan balances are undrawn for quite sometime while some are commodity loans (E/M) which are no longer in the inventory of NEA.

Although NEA recognizes that the CAPEX Plan of ECs is of fairly large magnitude and covers 3-5 year expenditure plan, there is a necessity to set the validity period of loans to ECs to impose discipline and sound loan administration.

II. OBJECTIVE

To establish a policy setting the validity period of ECs loans.

III. POLICY STATEMENT

Loans to ECs shall have validity period, as follows:

A.1. New Loans

Loan	Validity Period
Rural Electrification (Funding Requirement for CAPEX Plan)	3-5 years (Same with CAPEX Plan as approved/filed with ERC or NEA approved Workplan)
Single Digit System Loss Loan	2 years
Concessional	
Working Capital	
Calamity	1 year

A.2. Undrawn Loan Balances

EC	Loan	Amount (Php'M)	Validity Period
77 (See Annex A)	RE/ Funding Requirement	5,346	3 years
	Working Capital	43	2 years
	Modular Gensets	310	
	Concessional	4	
	Calamity	46	1 year
	Total	**5,749**	

Other undrawn loan balances amounting to Php1.424B (72 ECs) are hereby cancelled (Annex B).

B. Request for Extension

The Administrator is authorized to approve request for extension of up to two (2) years if condition so warrants. The EC shall submit a Board Resolution and other documents necessary to support its request for extension.

IV. EFFECTIVITY

This policy shall be effective immediately upon approval by the NEA Board of Administrators.

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(4) Higher penalty rate of 15%
(5) This reduction of lending rate shall be considered after compliance of the above a and b conditions. Evaluation of ECs submission shall begin on the 3rd Quarter of 2014 and shall not be applicable for all previous payments.

The Board found the request to have a complete staff work. On motion duly made seconded, the Board passed the following resolution:

RESOLUTION NO. 117

WHEREAS, the Board Governance, Nomination and Remuneration Committee in its Memorandum dated April 28, 2014 is endorsing to the Board of Administrators for approval the request of Management on Reduction of NEA's Lending Rates on Outstanding Loans of ECs from 12%/10% to 9% per annum;

WHEREAS, the Management reported to the Board that on December 19, 2013, the NEA Board of Administrators instructed NEA to conduct a study on the reduction of NEA's Lending Rates on Outstanding Loans of ECs;

WHEREAS, the Management presented to the Board that on March 26 and April 24, 2014, the Board Governance, Nomination and Remuneration Committee (BGNRC) discussed the result of the study. Below are the highlights of the study:

a. If the reduction is from 12% to 10%

EC Status	No. of ECs	Foregone Revenue Ave/Yr P'M	% to Target Net Income
All ECs	59	12.33	4.93
Advance & Current ECs	48	6.33	2.53

b. If reduction is from 12%/10% to 9%

EC Status	No. of ECs	Foregone Revenue Ave/Yr P'M	% to Target Net Income
All ECs	83	20.15	8.06
Advance & Current ECs	71	11.09	4.44

c. If reduction is from 12%/10%/9% to 8%

EC Status	No. of ECs	Foregone Revenue Ave/Yr P'M	% to Target Net Income
All ECs	110	48.85	19.53
Advance & Current ECs	96	36.44	14.57

WHEREAS, based on the foregoing data and considering the financial impact to NEA's operations, the BGNRC is favourably endorsing the reduction of interest rate from 12%/10% to 9% per annum of ECs outstanding loans subject to the following conditions:

a. Applicable to advance and current ECs;
b. Should be supported by a board resolution requesting for the reduction of interest rate;
c. Higher penalty rate of 15%; and,
d. Effectivity shall be on the 3rd quarter of 2014 (September) amortization due.

WHEREAS, after a deliberation on the matter, the Board approved the recommendation of the Board Governance, Nomination and Remuneration Committee on Reduction of NEA's Lending Rates on Outstanding Loans of ECs from 12%/10% to 9% Per Annum;

NOW, THEREFORE, BE IT RESOLVED, AS IT IS HEREBY RESOLVED, based on the foregoing and pursuant to Section 58 of RA 9136; P.D. No. 269, as amended, by PD 1645 and R.A. 10531, to approve, as it is hereby approved, the request on Reduction of NEA's Lending Rates on Outstanding Loans of ECs from 12%/10% to 9% Per Annum, subject to the following conditions:

a. Applicable to advance and current ECs;
b. Should be supported by a board resolution requesting for the reduction of interest rate;
c. Higher penalty rate of 15%; and,
d. Effectivity shall be on the 3rd quarter of 2014 (September) amortization due.