



Bangko Sentral ng Pilipinas

OFFICE OF THE GOVERNOR

CIRCULAR NO. 400
Series of 2003

The Monetary Board, in its Resolution No. 1062 dated 31 July 2003, approved the following guidelines on the adoption of the risk-based capital adequacy framework by quasi-banks taking into consideration Section 34 of The General Banking Law of 2000. The guidelines shall initially cover only capital requirements for credit risks pending issuance of supplementary guidelines to incorporate market risks. Upon effectivity, the guidelines shall replace the existing provisions of Section 4116Q and its subsections of the Manual of Regulations for Non-Bank Financial Institutions, which are hereby revised to read, as follows:

"Sec. 4116Q Minimum Ratio. The risk-based capital ratio of a quasi-bank, expressed as a percentage of qualifying capital to risk-weighted assets, shall not be less than ten percent (10%) for both solo basis (head office plus branches) and consolidated basis (parent quasi-bank plus subsidiary financial allied undertakings, but excluding insurance companies).

The ratio shall be maintained daily.

"§ 4116Q.1 Qualifying Capital. The qualifying capital shall be the sum of –

a. Tier 1 (core) capital –

- (1) Paid-up common stock;
- (2) Paid-up perpetual and non-cumulative preferred stock;
- (3) Common stock dividends distributable;
- (4) Perpetual and non-cumulative preferred stock dividends distributable;
- (5) Surplus;
- (6) Surplus reserves;
- (7) Undivided profits; and
- (8) Minority interest in the equity of subsidiary financial allied undertakings which are less than wholly-owned: *Provided*, That a quasi-bank shall not use minority interests in the equity accounts of consolidated subsidiaries as avenue for introducing into its capital structure elements that might not otherwise qualify as Tier 1 capital or that would, in effect, result in an excessive reliance on preferred stock within Tier 1:

Provided, further, That the following items shall be deducted from the total of Tier 1 capital:

MAG-IMPOK SA BANGKO

- (1) Common stock treasury shares;
- (2) Perpetual and non-cumulative preferred stock treasury shares;
- (3) Net unrealized losses on underwritten listed equity securities purchased (for investment houses);
- (4) Unbooked valuation reserves and other capital adjustments based on the latest report of examination as approved by the Monetary Board;
- (5) Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI);
- (6) Deferred income tax; and
- (7) Goodwill; and

b. Tier 2 (supplementary) capital which shall be the sum of –

b.1 *Upper Tier 2 capital -*

- (1) Paid-up perpetual and cumulative preferred stock;
- (2) Perpetual and cumulative preferred stock dividends distributable;
- (3) Appraisal increment reserve – quasi-bank premises, as authorized by the Monetary Board;
- (4) Net unrealized gains on underwritten listed equity securities purchased: *Provided*, That the amount thereof that may be included in upper Tier 2 capital shall be subject to a 55% discount (for investment houses);
- (5) General loan loss provision: *Provided*, That the amount thereof that may be included in upper Tier 2 capital shall be limited to a maximum of 1.25% of gross risk-weighted assets, and any amount in excess thereof shall be deducted from the total risk-weighted assets in computing the denominator of the risk-based capital ratio;
- (6) With prior BSP approval, unsecured subordinated debt with a minimum original maturity of at least ten (10) years, subject to the following conditions:
 - i. It must not be secured nor covered by a guarantee of the issuer or related party;
 - ii. It must be subordinated in the right of payment of principal and interest to all creditors of the quasi-bank, except those creditors expressed to rank equally with, or behind holders of the debt. Subordinated creditors must waive their right to set off any amounts they owe the quasi-bank against subordinated amounts owed to them by the quasi-bank. The issue documentation must clearly state that the debt is subordinated;
 - iii. It must be fully paid-up. Only the net proceeds actually received from debt issues can be included as capital. If the debt is issued at a premium, the premium cannot be counted as part of capital;
 - iv. It must not be redeemable at the initiative of the holder;
 - v. It must not contain any clause which requires acceleration of payment of principal, except in the event of insolvency;

- vi It must not be repayable prior to maturity without the prior consent of the BSP: *Provided*, That repayment may be allowed in connection with call option only after a minimum of five (5) years from issue date and only if –
 - The quasi-bank's capital ratio is at least equal to the required minimum capital ratio; and
 - The debt is simultaneously replaced with issues of new capital which is neither smaller in size nor of lower quality than the original issue;
- vii It may allow a moderate step-up in the interest rate in conjunction with a call option, only if the step-up occurs at a minimum of ten (10) years after the issue date and if it results in an increase over the initial rate that is not more than 100 basis points, provided that only one (1) rate step up shall be allowed over the life of the instrument;
- viii It must provide for possible conversion into common shares or preferred shares or possible deferral of payment of principal and interest if the quasi-bank's capital ratio becomes less than the required minimum capital ratio;
- ix It must provide for the principal and interest on the debt to absorb losses where the quasi-bank would not otherwise be solvent;
- x It must allow deferment of interest payment on the debt in the event of, and at the same time as, the elimination of dividends on all outstanding common or preferred stock of the issuer. It is acceptable for the deferred interest to bear interest, but the interest rate payable on deferred interest should not exceed market rates;
- xi It must be underwritten by a third party not related to the issuer quasi-bank nor acting in reciprocity for and in behalf of the issuer quasi-bank;
- xii It must be issued in minimum denominations of at least five hundred thousand pesos (P500,000.00) or its equivalent; and
- xiii It must clearly state on its face that it is not a deposit and is not insured by the Philippine Deposit Insurance Corporation (PDIC);

Provided, That it shall be subject to a cumulative discount factor of 20% per year during the last five (5) years to maturity (i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.): *Provided, further*, That where it is denominated in a foreign currency, it shall be revalued periodically (at least monthly) in Philippine peso at prevailing exchange rate using the same exchange rate used for revaluation of foreign currency-denominated assets, liabilities and forward contracts under existing regulations: *Provided, furthermore*, That, for purposes of reserve requirement regulation, it shall not be treated as a deposit substitute liability or other forms of borrowings;

- (7) Deposit for common stock subscription; and

- (8) Deposit for perpetual and non-cumulative preferred stock subscription;

Provided, That the following items shall be deducted from the total of upper Tier 2 capital:

- (1) Perpetual and cumulative preferred stock treasury shares;

b.2 *Lower Tier 2 capital –*

- (1) Paid-up limited life redeemable preferred stock: *Provided*, That these shall be subject to a cumulative discount factor of 20% per year during the last five (5) years to maturity (i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.);
- (2) Limited life redeemable preferred stock dividends distributable;
- (3) With prior BSP approval, unsecured subordinated debt with a minimum original maturity of at least five (5) years, subject to the following conditions:
- i It must not be secured nor covered by a guarantee of the issuer or related party;
 - ii It must be subordinated in the right of payment of principal and interest to all creditors of the quasi-bank, except those creditors expressed to rank equally with, or behind holders of the debt. Subordinated creditors must waive their right to set off any amounts they owe the quasi-bank against subordinated amounts owed to them by the quasi-bank. The issue documentation must clearly state that the debt is subordinated;
 - iii It must be fully paid-up. Only the net proceeds actually received from debt issues can be included as capital. If the debt is issued at a premium, the premium cannot be counted as part of capital;
 - iv It must not be redeemable at the initiative of the holder;
 - v It must not contain any clause which requires acceleration of payment of principal, except in the event of insolvency;
 - vi It must not be repayable prior to maturity without the prior consent of the BSP: *Provided*, That repayment may be allowed in connection with call option only after a minimum of five (5) years from issue date and only if –
 - The quasi-bank's capital ratio is at least equal to the required minimum capital ratio; and
 - The debt is simultaneously replaced with issues of new capital which is neither smaller in size nor of lower quality than the original issue;
 - vii It may allow a moderate step-up in the interest rate in conjunction with a call option, only if the step-up occurs at a minimum of five (5) years after the issue date and if it results in an increase over the initial rate that is not more than 100 basis points or 50% of the initial credit spread, at the option of the bank, provided that only

- one (1) rate step up shall be allowed over the life of the instrument;
- viii It must be underwritten by a third party not related to the issuer quasi-bank nor acting in reciprocity for and in behalf of the issuer quasi-bank;
- ix It must be issued in minimum denominations of at least five hundred thousand pesos (P500,000.00) or its equivalent; and
- x It must clearly state on its face that it is not a deposit and is not insured by the Philippine Deposit Insurance Corporation (PDIC):

Provided, further, That it shall be subject to a cumulative discount factor of 20% per year during the last five (5) years to maturity (i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.): *Provided, furthermore,* That where it is denominated in a foreign currency, it shall be revalued periodically (at least monthly) in Philippine peso using the same exchange rate used for revaluation of foreign currency-denominated assets, liabilities and forward contracts under existing regulations: *Provided, furthermore,* That, for purposes of reserve requirement regulation, it shall not be treated as equivalent to a deposit substitute liability or other forms of borrowings; and

- (4) Deposit for perpetual and cumulative preferred stock subscription;

Provided, That the following items shall be deducted from the total of Lower Tier 2 capital:

- (1) Limited life redeemable preferred stock treasury shares; and
- (2) Sinking fund for redemption of limited life redeemable preferred stock: *Provided,* That the amount to be deducted shall be limited to the balance of redeemable preferred stock after applying the cumulative discount factor;

Provided, further, That the total amount of lower Tier 2 capital that may be included in the Tier 2 capital shall be a maximum of 50% of total Tier 1 capital (net of deductions therefrom): *Provided, furthermore,* That the total amount of upper and lower Tier 2 capital that may be included in the qualifying capital shall be a maximum of 100% of total Tier 1 capital (net of deductions therefrom);

- c. Less deductions from the total of Tier 1 and Tier 2 capital, as follows:

- (1) Investments in equity of unconsolidated subsidiary banks and other subsidiary financial allied undertakings, but excluding insurance companies (for solo basis);
- (2) Investments in debt capital instruments of unconsolidated subsidiary banks (for solo basis);
- (3) Investments in equity of subsidiary insurance companies and subsidiary non-financial allied undertakings;

- (4) Reciprocal investments in equity of other banks/enterprises; and
- (5) Reciprocal investments in unsecured subordinated term debt instruments of other banks/quasi-banks in excess of the lower of (i) an aggregate ceiling of 5% of total Tier 1 capital of the quasi-bank; or (ii) 10% of the total outstanding unsecured subordinated term debt issuance of the other bank/quasi-bank:

Provided, That any asset deducted from the qualifying capital in computing the numerator of the risk-based capital ratio shall not be included in the risk-weighted assets in computing the denominator of the ratio.

"§ 4116Q.2 Risk-Weighted Assets. The risk-weighted assets shall be determined by assigning risk weights to amounts of on-balance sheet assets and to credit equivalent amounts of off-balance sheet items (inclusive of derivative contracts):
Provided, That the following shall be deducted from the total risk-weighted assets:

- (1) General loan loss provision (in excess of the amount permitted to be included in upper Tier 2 capital); and
 - (2) Unbooked valuation reserves and other capital adjustments affecting asset accounts based on the latest report of examination as approved by the Monetary Board.
- a. For on-balance sheet assets, the risk-weighted amount shall be the product of the book value of the asset multiplied by the risk weight associated with that asset, as follows:

0% risk weight -

- (1) Cash on hand;
- (2) Claims on or portions of claims guaranteed by or collateralized by securities issued by -
 - i Philippine national government and BSP; and
 - ii Central governments and central banks of foreign countries with the highest credit quality as defined in Subsec. 4116Q.3;
- (3) Loans to the extent covered by hold-out on, or assignment of deposit substitutes maintained with the lending quasi-bank;
- (4) Portions of loans covered by Industrial Guarantee and Loan Fund (IGLF, guarantee;
- (5) Real estate mortgage loans to the extent guaranteed by the Home Guaranty Corporation (HGC);
- (6) Loans to the extent guaranteed by the Trade and Investment Development Corporation of the Philippines (TIDCORP);
- (7) Residual value of leased equipment to the extent covered by Deposits on lease contracts (for financing companies);
- (8) Lease Contract Receivables to the extent covered by the excess of Deposits on lease contracts over residual value of leased equipment (for financing companies); and
- (9) Foreign currency notes and coins on hand acceptable as international reserves;

20% risk weight -

- (1) Checks and other cash items;
- (2) Claims on or portions of claims guaranteed by or collateralized by securities issued by non-central government public sector entities of foreign countries with the highest credit quality as defined in Subsec. 4116Q.3;
- (3) Claims on or portions of claims guaranteed by Philippine incorporated banks/quasi-banks with the highest credit quality as defined in Subsec. 4116Q.3;
- (4) Claims on or portions of claims guaranteed by foreign incorporated banks with the highest credit quality as defined in Subsec. 4116Q.3;
- (5) Claims on or portions of claims guaranteed by or collateralized by securities issued by multilateral development banks;
- (6) Loans to exporters to the extent guaranteed by Small Business Guarantee and Finance Corporation (SBGFC); and
- (7) Foreign currency checks and other cash items denominated in currencies acceptable as international reserves;

50% risk weight -

- (1) Loans for housing purpose, fully secured by first mortgage on residential property that is or will be occupied or leased out by the borrower; and
- (2) Local government unit (LGU) bonds which are covered by Deed of Assignment of Internal Revenue allotment of the LGU and guaranteed by the LGU Guarantee Corporation;

100% risk weight -

All other assets including, among others, the following:

- (1) Claims on central governments and central banks of foreign countries other than those with the highest credit quality;
- (2) Claims on Philippine local government units;
- (3) Claims on non-central government public sector entities of foreign countries other than those with the highest credit quality;
- (4) Claims on government-owned or controlled commercial corporations;
- (5) Claims on Philippine incorporated banks/quasi-banks other than those with the highest credit quality;
- (6) Claims on foreign incorporated banks other than those with the highest credit quality;
- (7) Loans to companies engaged in speculative residential building or property development;
- (8) Claims on the private sector (except those deducted from capital);
- (9) Equity investments (except those deducted from capital);
- (10) Equipment and other real estate for lease (for financing companies);
- (11) Real estate for sale/lease;
- (10) Quasi-bank premises, furniture, fixtures and equipment (net);

- (11) Appraisal increment – quasi-bank premises, furniture, fixtures and equipment (net);
- (12) Real and other properties owned or acquired (net);
- (13) Foreign currency notes and coins on hand not acceptable as international reserves;
- (14) Foreign currency checks and other cash items not denominated in foreign currencies acceptable as international reserves,

except those which are deducted from capital, as follows:

- (1) Unsecured credit accommodations, both direct and indirect, to DOSRI;
 - (2) Deferred income tax;
 - (3) Goodwill;
 - (4) Sinking fund for redemption of limited life redeemable preferred stock;
 - (5) Equity investments in unconsolidated subsidiary banks and other subsidiary financial allied undertakings, *but excluding insurance companies*;
 - (6) Investments in debt capital instruments of unconsolidated subsidiary banks;
 - (7) Equity investments in subsidiary insurance companies and subsidiary non-financial allied undertakings,
 - (8) Reciprocal investments in equity of other banks/enterprises;
 - (9) Reciprocal investments in unsecured subordinated term debt instruments of other banks/quasi-banks, in excess of the lower of (i) an aggregate ceiling of 5% of total Tier 1 capital of the quasi-bank; or (ii) 10% of the total outstanding unsecured subordinated term debt issuance of the other bank/quasi-bank;
- b. For off-balance sheet items, the risk-weighted amount shall be calculated using a two-step process. First, the credit equivalent amount of an off-balance sheet item shall be determined by multiplying its notional principal amount by the appropriate credit conversion factor, as follows:

100% credit conversion factor -

This shall apply to direct credit substitutes, e.g., general guarantees of indebtedness and acceptances (including endorsements with the character of acceptances), and shall include -

- (1) Outstanding guarantees issued

This shall also apply to sale and repurchase agreements and asset sales with recourse where the credit risk remains with the quasi-bank (to the extent not included in the balance sheet), as well as to forward asset purchases, and partly-paid shares and securities, which represent commitments with certain drawdown: *Provided*, That these items shall be weighted according to the type of asset and not according to the type of counterparty with whom the transaction has been entered into.

50% credit conversion factor -

This shall apply to -

- (1) Note issuance facilities and revolving underwriting facilities (for investment houses); and
- (2) Other commitments, e.g., formal standby facilities and credit lines with an original maturity of more than one (1) year. This shall include -
 - i Underwritten accounts unsold (for investment houses).

0% credit conversion factor -

This shall apply to commitments with an original maturity of up to one (1) year.

This shall also apply to those not involving credit risk, and shall include -

- (1) Items held for safekeeping/custodianship;
- (2) Trust department accounts
- (3) Items held as collaterals; etc.

Second, the credit equivalent amount shall be treated like any on-balance sheet asset and shall be assigned the appropriate risk weight, i.e., according to the obligor, or if relevant, the qualified guarantor or the nature of collateral.

c. For derivative contracts, the credit equivalent amount shall be the sum of the current credit exposure (or replacement cost) and an estimate of the potential future credit exposure (or add-on): *Provided*, That the following shall not be included in the computation:

- (1) Instruments which are traded on exchange where they are subject to daily receipt and payment of cash variation margin; and
- (2) Exchange rate contracts with original maturity of 14 calendar days or less.

The current credit exposure shall be the positive mark-to-market value of the contract (or zero if the mark-to-market value is zero or negative). The potential future credit exposure shall be the product of the notional principal amount of the contract multiplied by the appropriate potential future credit conversion factor, as indicated below:

<u>Residual Maturity</u>	<u>Interest Rate Contract</u>	<u>Exchange Rate Contract</u>
One (1) year or less	0.0%	1.0%
Over one (1) year to five (5) years	0.5%	5.0%
Over five (5) years	1.5%	7.5%

Provided, That for contracts with multiple exchanges of principal, the factors are to be multiplied by the number of remaining payments in the contract: *Provided, further*, That for contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity would be set equal to the time until the next reset date, and in the case of interest rate contracts with remaining maturities of more than one (1) year that meet these criteria, the potential future credit conversion factor is subject to a floor of five tenths percent (0.5%); *Provided, furthermore*, That no potential future credit exposure shall be calculated for single currency floating/floating interest rate swaps, i.e., the credit exposure on these contracts would be evaluated solely on the basis of their mark-to-market value.

The credit equivalent amount shall be treated like any on-balance sheet asset, and shall be assigned the appropriate risk weight, i.e., according to the obligor, or if relevant, the qualified guarantor or the nature of collateral: *Provided*, That a 50% risk weight shall be applied in respect of obligors which would otherwise attract a 100% risk weight.

The extent to which a claim is guaranteed/collateralized shall be determined by the amount of guarantee coverage/current market value of securities pledged, in comparison with the book value of the on-balance sheet asset or the notional principal amount of the off-balance sheet exposure, except for derivative contracts for which determination is generally made in relation to credit equivalent amount."

"§ 4116Q.3 Definitions.

- a. *Amount due from the BSP*. This refers to all deposits of the reporting quasi-bank with the BSP.
- b. *Appraisal increment reserve*. This shall form part of capital only if authorized by the Monetary Board.
- c. *Quasi-bank premises, furniture, fixtures and equipment net of depreciation*. This refers to the cost of land and improvements used as the quasi-bank premises, and furniture, fixtures and equipment owned by the quasi-bank.
- d. *Cash on hand*. This refers to total cash held by the quasi-bank consisting of both notes and coins in Philippine currency.
- e. *Central government of a foreign country*. This refers to the central government which is regarded as such by a recognized banking supervisory authority in that country.
- f. *Claims*. This refer to loans or debt obligations of the entity on whom the claim is held, and shall include, but shall not be limited to, the following accounts, inclusive of accumulated market gains/(losses) and accumulated bond

discount/(premium amortization), and net of specific allowance for probable losses:

- (1) Due from BSP;
- (2) Due from other banks;
- (3) Interbank loans receivable;
- (4) Loans and discounts, including Lease Contract Receivables, net of Advance Leasing Income Received and Receivables Financed (for financing companies);
- (5) Restructured loans;
- (6) Trading account securities – loans;
- (7) Underwriting accounts - debt securities (for investment houses);
- (8) Underwriting accounts - equity securities (for investment houses);
- (9) Trading account securities – debt securities;
- (10) Trading account securities – equity securities (for investment houses);
- (11) Available for sale securities;
- (12) Investments in bonds and other debt instruments; and
- (13) Others, e.g., accounts receivable and accrued interest receivable.

Accruals on a claim shall be classified and risk weighted in the same way as the claim.

- g. *Consolidated basis.* This refers to combined statement of condition of parent quasi-bank and subsidiary financial allied undertakings, but excluding insurance companies.
- h. *Debt capital instruments.* This refers to unsecured subordinated term debt instruments qualifying as capital of banks.
- i. *Equity investments.* This refers to investments in capital stock of companies, firms or enterprises, made for purposes of control, affiliation or other continuing business advantage.
- j. *Exchange rate contracts.* This includes cross-currency interest rate swaps, forward foreign exchange contracts, currency futures, currency options purchased and similar instruments.
- k. *Financial allied undertakings.* This refers to enterprises or firms with homogenous or similar activities/business/functions with the financial intermediary and may include but not limited to leasing companies, banks, investment houses, financing companies, credit card companies, financial institutions catering to small and medium scale industries (including venture capital corporations), companies engaged in stock brokerage/securities dealership, companies engaged in foreign exchange dealership/brokerage, holding companies, and such other similar activities as the Monetary Board may declare as appropriate from time to time, but excluding insurance companies.
- l. *Foreign country/foreign incorporated bank and Philippine incorporated bank/quasi-bank with the highest credit quality.* This refers to a foreign country/foreign incorporated bank and Philippine incorporated bank/quasi-bank

given the highest credit rating of any two (2) of the following internationally accepted rating agencies:

	<u>Rating Agency</u>	<u>Highest Rating</u>
(1)	Moody's	"Aa3" and above
(2)	Standard and Poor's	"AA-" and above
(3)	Fitch IBCA	"AA-" and above
(4)	Others as may be approved by the Monetary Board	

- m. *Forward asset purchases.* This refers to a commitment to purchase a loan, security or other asset at a specified future date, usually on prearranged terms.
- n. *Goodwill.* This refers to an intangible asset that represents the excess of the purchase price over the fair market value of identifiable assets acquired less liabilities assumed in acquisitions accounted for under the purchase method of accounting.
- o. *Interest rate contracts.* This includes single-currency interest rate swaps, basis swaps, forward rate agreements, interest rate futures, interest rate options purchased and similar instruments.
- p. *Loans for housing purpose, fully secured by first mortgage on residential property that is or will be occupied or leased out by the borrower.* This shall not include loans to companies engaged in speculative residential building or property development.
- q. *Loans to the extent covered by hold-out on, or assignment of deposit substitutes maintained in the lending quasi-bank.* A loan shall be considered as secured by a hold-out on, or assignment of deposit substitute only if such deposit substitute account is covered by a hold-out agreement or deed of assignment signed by the investor/placer in favor of the quasi-bank. This shall not include loans transferred to/carried by the quasi-bank's trust department secured by deposit substitute hold-out/assignment.
- r. *Multilateral development banks.* This refers to International Bank for Reconstruction and Development, Inter-American Development Bank, Asian Development Bank, African Development Bank, European Investment Bank and European Bank for Reconstruction and Development.
- s. *Non-central government public sector entity of a foreign country.* This refers to entities which are regarded as such by a recognized banking supervisory authority in the country in which they are incorporated.
- t. *Note issuance facilities and revolving underwriting facilities.* This refers to an arrangement whereby a borrower may draw down funds up to a prescribed limit over an extended period by repeated issues to the market of promissory notes which the quasi-bank committed to underwrite.

- u. *Other commitments.* This includes undrawn portion of any binding arrangements which obligate the quasi-bank to provide funds at some future date.
- v. *Other commitments with an original maturity of up to one (1) year.* This includes any revolving or undated open-ended commitments, e.g., unused credit lines, provided that these can be unconditionally cancelled at any time and are subject to credit revision at least annually.
- w. *Partly-paid shares and securities.* This arises where only a part of the issue price or nominal face value of a security purchased has been subscribed and the issuer may call for the outstanding balance (or a further installment), either on a date predetermined at the time of issue, or at an unspecified future date.
- x. *Perpetual preferred stock.* This refers to preferred stock that does not have a maturity date, that cannot be redeemed at the option of the holder of the instrument, and that has no provision that will require future redemption of the issue. Consistent with these provisions, any perpetual preferred stock with a feature permitting redemption at the option of the issuer may qualify as capital only if the redemption is subject to prior approval of the BSP.
- y. *Philippine local government units.* This refers to the Philippine government units below the level of national government, such as city, provincial, and municipal governments.
- z. *Philippine national government.* This shall refer to the Philippine national government and their agencies such as departments, bureaus, offices, and instrumentalities, but excluding government-owned and controlled commercial corporations.
- aa. *Private sector.* This refers to entities other than banks, quasi-banks and governments. This shall also include commercial companies owned by the public sector, such as government-owned or controlled commercial corporations.
- bb. *Redeemable preferred stock.* This refers to preferred stock which may be redeemed at the specific dates or periods fixed for redemption.
- cc. *Sale and repurchase agreements and asset sales with recourse.* This refers to arrangements whereby a quasi-bank sells a loan, security or fixed asset to a third party with a commitment to repurchase the asset after a certain time, or in the event to a certain contingency.
- dd. *Solo basis.* This refers to combined statement of condition of head office and branches.
- ee. *Subsidiary.* This refers to a corporation or firm more than 50% of the outstanding voting stock of which is directly or indirectly owned, controlled or held with the power to vote by a quasi-bank.

- ii. *Treasury shares.* This refers to the quasi-bank's own shares of stock that have been issued and fully paid for, subsequently re-acquired through purchase or donations and have not been cancelled or reissued. This also refers to shares of a parent quasi-bank held by a subsidiary financial allied undertaking in a consolidated statement of condition."

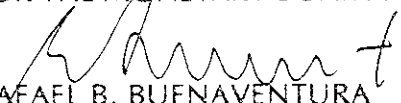
"§ 4116Q.4 Required Reports. Quasi-banks shall submit a report of their risk-based capital adequacy ratio on a solo basis (head office plus branches) and on a consolidated basis (parent quasi-bank plus subsidiary financial allied undertakings, but excluding insurance companies) quarterly to the appropriate supervising and examining department of the BSP in the attached prescribed forms within the deadlines, i.e., 15 banking days and 30 banking days after the end of reference quarter, respectively. Only quasi-banks with subsidiary financial allied undertakings (excluding insurance companies) which under existing regulations are required to prepare consolidated statements of condition on a line-by-line basis shall be required to submit report on consolidated basis. The abovementioned reports shall be classified as Category A-2 reports."

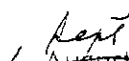
"§ 4116Q.5 Sanctions. Whenever the capital accounts of a quasi-bank are deficient with respect to the prescribed capital adequacy ratio, the Monetary Board after considering a report of the appropriate supervising and examining department of the BSP on the state of solvency of the institution concerned, shall limit or prohibit the distribution of the net profits and shall require that part or all of net profits be used to increase the capital accounts of the quasi-bank until the minimum requirement has been met. The Monetary Board may restrict or prohibit the making of new investments of any sort by the quasi-bank, with the exception of purchases of readily marketable evidences of indebtedness issued by the Philippine national government and BSP included in Item a(2)i of Subsec. 4116Q.2, until the minimum requirement capital ratio has been restored."

"§ 4116Q.6 Temporary Relief. In case of a quasi-bank merger, or consolidation, or when a quasi-bank is under rehabilitation under a program approved by the BSP, the Monetary Board may temporarily relieve the surviving quasi-bank, consolidated quasi-bank, or constituent quasi-bank or corporations under rehabilitation from full compliance with the required capital ratio for a maximum period of one (1) year."

This Circular shall take effect on 1 January 2004. Quasi-banks shall, however, be required to submit trial reports using the new report format commencing with the end-September 2003 report until the effectivity of this Circular.

FOR THE MONETARY BOARD:


RAFAEL B. BUENAVENTURA
Governor


August 2003

August 2003

DEADLINE : 15 banking days after
end of reference
quarter (solo basis)

30 banking days
after end of reference
quarter (consolidated
basis)

SUBMISSION : Original copy to SED I/
SED II/SED III

FOR NON-BANK FINANCIAL INSTITUTIONS
WITH QUASI-BANKING FUNCTIONS (NBQBs)

(Name of NBQB)	(Code)
(Address)	

COMPUTATION OF THE RISK-BASED CAPITAL ADEQUACY RATIO
COVERING CREDIT RISKS

As of _____

REPUBLIC OF THE PHILIPPINES)
_____) S.S.

I solemnly swear that all matters set forth in this report and all its supporting schedules are true and correct, to the best of my knowledge and belief.

(Signature of President/Senior/
Executive Vice President)

SUBSCRIBED AND SWORN TO BEFORE ME this _____ day of
20____, affiant exhibiting to me his Community Tax
Certificate No. _____ issued at _____ on
_____ 20____.

Notary Public
Until December 31, 20____
PTR No. _____
Place _____

Doc. No. _____
Page No. _____
Book No. _____
Series of _____

PART I. QUALIFYING CAPITAL (Amounts in P0.000 million)

Item	Nature of Item	Amount	Amount
A. Tier 1 (Core) Capital			
(1)	Paid up common stock		
(2)	Paid-up perpetual and non-cumulative preferred stock		
(3)	Common stock dividends distributable		
(4)	Perpetual and non-cumulative preferred stock dividends distributable		
(5)	Surplus		
(6)	Surplus reserves		
(7)	Undivided profits		
(8)	Minority interest in the equity of subsidiary financial allied undertakings which are less than wholly-owned (for consolidated basis)		
A.1	Deductions from Tier 1		
(1)	Common stock treasury shares		
(2)	Perpetual and non-cumulative preferred stock treasury shares		
(3)	Net unrealized losses on underwritten listed equity securities purchased (for IHS)		
(4)	Unbooked valuation reserves and other capital adjustments based on the latest ROE as approved by the Monetary Board		
(5)	Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI		
(6)	Deferred income tax		
(7)	Goodwill		
(8)	Total Deductions (Sum of A.1(1) to A.1(7))		
A.2	TOTAL TIER 1 CAPITAL (Sum of A (1) to A(8) minus A.1(8))		

Item	Nature of Item	Amount	Amount
B. Tier 2 (Supplementary) Capital			
B.1 Upper Tier 2 Capital			
(1)	Paid-up perpetual and cumulative preferred stock		
(2)	Perpetual and cumulative preferred stock dividends distributable		
(3)	Appraisal increment reserve – quasi-bank premises, as authorized by the Monetary Board		
(4)	Net unrealized gains on underwritten listed equity securities purchased (subject to a 55% discount) (for IHS)		
(5)	General loan loss provision (limited to 1.25% of gross risk-weighted assets computed per Part V, Item B(4))		
(6)	Unsecured subordinated debt with a minimum original maturity of at least 10 years (subject to a cumulative discount factor of 20% per year during the last 5 years to maturity, i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.)		
(7)	Deposit for common stock subscription		
(8)	Deposit for perpetual and non-cumulative preferred stock subscription		
B.1.1	Deductions from Upper Tier 2		
(1)	Perpetual and cumulative preferred stock treasury shares		
(2)	Total Deductions (B.1.1(1))		
B.1.2	Total Upper Tier 2 Capital (Sum of B.1(1) to B.1(8) minus B.1.1(2))		

Item	Nature of Item	Amount	Amount
B.2 Lower Tier 2 Capital			
(1)	Paid-up limited life redeemable preferred stock (subject to a cumulative discount factor of 20% per year during the last 5 years to maturity, i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.)		
(2)	Limited life redeemable preferred stock dividends distributable (subject to a cumulative discount factor of 20% per year during the last 5 years to maturity, i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.)		
(3)	Unsecured subordinated debt with a minimum original maturity of at least 5 years (subject to a cumulative discount factor of 20% per year during the last 5 years to maturity, i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.)		
(4)	Deposit for perpetual and cumulative preferred stock subscription		
B.2.1	Deductions from Lower Tier 2		
(1)	Limited life redeemable preferred stock treasury shares		
(2)	Sinking fund for redemption of limited life redeemable preferred stock (limited to the balance of redeemable preferred stock after applying the cumulative discount factor)		
(3)	Total deductions (Sum of B.2.1(1) and B.2.1(2))		
B.2.2	Total Lower Tier 2 Capital (Sum of B.2(1) to B.2(4) minus B.2.1(3))		
B.2.3	Eligible Amount of Lower Tier 2 Capital (limited to 50% of total Tier 1 capital per Part I, Item A.2)		
B.3	TOTAL TIER 2 CAPITAL (Sum of B.1.2 and B.2.3)		
B.4	ELIGIBLE AMOUNT OF TIER 2 CAPITAL (limited to 100% of total Tier 1 capital per Part I, Item A.2)		

Item	Nature of Item	Amount	Amount
C.	GROSS QUALIFYING CAPITAL (Sum of A.2 and B.4)		
C.1	Deductions from Gross Qualifying Capital		
(1)	Investments in equity of unconsolidated subsidiary banks and other subsidiary financial allied undertakings, but excluding insurance companies (for solo basis)		
(2)	Investments in debt capital instruments of unconsolidated subsidiary banks (for solo basis)		
(3)	Investments in equity of subsidiary insurance companies and subsidiary non-financial allied undertakings		
(4)	Reciprocal investments in equity of other banks/enterprises		
(5)	Reciprocal investments in unsecured subordinated term debt instruments of other banks and quasi-banks, in excess of the lower of (i) an aggregate ceiling of 5% of total Tier 1 capital of the quasi-bank; or (ii) 10% of the total outstanding unsecured subordinated term debt issuance of the other bank/quasi-bank		
(6)	Total Deductions (Sum of C.1(1) to C.1(5))		
	TOTAL QUALIFYING CAPITAL (C minus C.1(6))		

PART II. RISK-WEIGHTED ON-BALANCE SHEET ASSETS (Amounts in P0.000 million)

Item	Nature of item	Book Value	X Risk Weight (In %)	= Risk Weighted Amount
A. 0% Risk Weight -				
(1)	Cash on hand			
(2)	Claims on or portions of claims guaranteed by or collateralized by securities issued by Philippine national government and BSP			
(a)	Due from BSP			
(b)	TAS - loans			
	i) GS purchased under resale agreement			
	ii) GS purchased under certificate of assignment/participation with recourse			
	iii) GS purchased under reverse repurchase agreement with BSP			
(c)	TAS - investments			
	i) GS purchased			
	ii) GS sold under repurchase agreements			
(d)	ASS - GS			
(e)	IBODI - GS			
(f)	Loans and discounts secured by CBCI and other GS			
(g)	Others			
(3)	Claims on or portions of claims guaranteed by or collateralized by securities issued by central governments and central banks of foreign countries with the highest credit quality as defined in Subsec. 4116Q.3			
(4)	Loans and discounts to the extent covered by hold-out on, or assignment of deposit substitutes maintained with the lending quasi-bank			

Item	Nature of item	Book Value	X Risk Weight (In %)	= Risk Weighted Amount
(5)	Portions of loans covered by IGLF guarantee			
(6)	Real estate mortgage loans to the extent guaranteed by the HGC			
(7)	Loans to the extent covered by the TIDCORP			
(8)	Residual value of leased equipment to the extent covered by deposits on lease contracts (for FCs)			
(9)	Lease Contract Receivables to the extent covered by deposits on lease contracts (for FCs)			
(10)	Foreign currency notes and coins on hand acceptable as international reserves			
(11)	Sub-total (Sum of A(1) to A(10))		0	0
E. 20% Risk Weight -				
(1)	Checks and other cash items			
(2)	Claims on or portions of claims guaranteed by or collateralized by securities issued by non-central government public sector entities of foreign countries with the highest credit quality as defined in Subsec. 4116Q.3			
(3)	Claims on or portions of claims guaranteed by Philippine incorporated banks/quasi-banks with the highest credit quality as defined in Subsec. 4116Q.3			
(4)	Claims on or portions of claims guaranteed by foreign incorporated banks with the highest credit quality as defined in Subsec. 4116Q.3			
(5)	Claims on or portions of claims guaranteed by or collateralized by securities issued by multilateral development banks			
(6)	Loans to exporters to the extent guaranteed by SBGFC			
(7)	Foreign currency checks and other cash items denominated in currencies acceptable as international reserves			
(8)	Sub-total (Sum of B(1) to B(7))		20	

Item	Nature of item	Book Value	X Risk Weight (in %)	= Risk Weighted Amount
C. 50% Risk Weight –				
(1)	Loans for housing purpose, fully secured by first mortgage on residential property that is or will be occupied or leased out by the borrower			
(2)	LGU bonds which are covered by Deed of Assignment of IRA of the LGU and guaranteed by LGUGC			
(3)	Sub-total (Sum of C(1) to C(2))		50	
D. 100 % Risk Weight –				
(1)	Other assets (Total assets, gross of general loan loss provision less sum of A(11), B(8), and C(3))			
D.1	Deductions From Other Assets			
(1)	Total <i>outstanding unsecured credit accommodations</i> , both direct and indirect, to DOSRI			
(2)	Deferred income tax			
(3)	Goodwill			
(4)	Sinking fund for redemption of limited life redeemable preferred stock			
(5)	Equity investments in unconsolidated subsidiary banks and other subsidiary financial allied undertakings, but excluding insurance companies (for solo basis)			
(6)	Investments in debt capital instruments of unconsolidated subsidiary banks (for solo basis)			
(7)	Equity investments in subsidiary insurance companies and subsidiary non-financial allied undertakings			
(8)	Reciprocal investments in equity of other banks/enterprises			
(9)	Reciprocal investments in unsecured subordinated term debt instruments of other banks, in excess of the lower of (i) an aggregate ceiling of 5% of total Tier 1 capital of the quasi-bank; or (ii) 10% of the total outstanding unsecured subordinated term debt issuance of the other bank/quasi-bank			
(10)	Total Deductions (Sum of D.1(1) to D.1(9))			

Item	Nature of item	Book Value	X Risk Weight (in %)	= Risk Weighted Amount
D.2	Net Other Assets (D(1) minus D.1(10))		100	
E.	TOTAL BOOK VALUE, GROSS OF GENERAL LOAN LOSS PROVISION (Sum of A(12), B(8), C(3), and D(1))			
	TOTAL RISK-WEIGHTED ON-BALANCE SHEET ASSETS (Sum of A(11), B(8), C(3), and D(1))			

PART III. RISK-WEIGHTED OFF-BALANCE SHEET EXPOSURES (Amounts in P0.000 million)

Item	Nature of item	Notional Principal Amount	X Credit Conversion Factor (In %)	= Credit Equiv. Amount	X Risk Weight 1/ (In %)	= Risk Weighted Amount
A.	Direct credit substitutes (e.g. general guarantees of indebtedness and acceptances)					
(1)	Outstanding guarantees issued					
(a)			100		0	0
(b)			100		20	
(c)			100		50	
(d)			100		100	
	Sub-total					
B.	Sale and repurchase agreements (to the extent not included in the balance sheet)					
(1)			100		0	0
(2)			100		20	
(3)			100		50	
(4)			100		100	
	Sub-total					

1/ According to obligor, or if relevant, the qualified guarantor or nature of collateral.

Item	Nature of item	Notional Principal Amount	X Credit Conversion Factor (In %)	= Credit Equiv. Amount	X Risk Weight ^{1/} (In %)	= Risk Weighted Amount
C.	Assets sales with recourse (to the extent not included in the balance sheet)					
(1)			100		0	0
(2)			100		20	
(3)			100		50	
(4)			100		100	
	Sub-total					
D.	Forward asset purchases (for IHS)					
(1)			100		0	0
(2)			100		20	
(3)			100		50	
(4)			100		100	
	Sub-total					
E.	Partly-paid shares and securities (for IHS)					
(1)			100		0	0
(2)			100		20	
(3)			100		50	
(4)			100		100	
	Sub-total					

^{1/} According to obligor, or if relevant, the qualified guarantor or nature of collateral.

Item	Nature of item	Notional Principal Amount	X Credit Conversion Factor (In %)	= Credit Equiv. Amount	X Risk Weight ^{1/} (In %)	= Risk Weighted Amount
F.	Note issuance facilities and revolving underwriting facilities (for IHS)					
(1)			50		0	0
(2)			50		20	
(3)			50		50	
(4)			50		100	
	Sub-total					
G.	Other commitments with an original maturity of more than 1 year					
(1)	Underwritten accounts unsold (for IHS)					
(a)			50		0	0
(b)			50		20	
(c)			50		50	
(d)			50		100	
(2)	Others (Specify)					
(a)			50		0	0
(b)			50		20	
(c)			50		50	
(d)			50		75	
(e)			50		100	
	Sub-total					

^{1/} According to obligor, or if relevant, the qualified guarantor or nature of collateral.

Item	Nature of item	Notional Principal Amount	X Credit Conversion Factor (In %)	= Credit Equiv. Amount	X Risk Weight 1/ (In %)	= Risk Weighted Amount
H.	Other commitments with an original maturity of up to 1 year, or which can be unconditionally cancelled at any time		0	0	0	0
	Sub-total					0
I.	Other contingent accounts not involving credit risk					
(1)	Items held for safekeeping/ custodianship		0	0	0	0
(2)	Trust department accounts		0	0	0	0
(3)	Items held as collaterals		0	0	0	0
(4)	Others		0	0	0	0
	Sub-total					0
	TOTAL RISK-WEIGHTED OFF-BALANCE SHEET EXPOSURES					

1/ According to obligor, or if relevant, the qualified guarantor or nature of collateral.

PART IV. RISK-WEIGHTED INTEREST RATE AND EXCHANGE RATE-RELATED CONTINGENCIES
(Amounts in ₱0.000 million)

Item	Nature of item					
A.	Interest Rate Contracts <u>1/</u>					
A.1	With a residual maturity of 1 year or less					
	Notional Amount	Current Credit Exposure (Mark-to-market valuation, if positive)	+ Potential Future Credit Exposure (Notional Amount X 0.0%)	= Credit Equiv. Amount	X Risk Weight <u>2/</u> (In %)	= Risk Weighted Amount
(1)			0		0	0
(2)			0		20	
(3)			0		50	
Sub-total						
A.2	With a residual maturity of more than 1 year to 5 years					
	Notional Amount	Current Credit Exposure (Mark-to-market valuation, if positive)	+ Potential Future Credit Exposure (Notional Amount X 0.5%)	= Credit Equiv. Amount	X Risk Weight <u>2/</u> (In %)	= Risk Weighted Amount
(1)					0	0
(2)					20	
(3)					50	
Sub-total						

^{1/} Exclude instruments which are traded on exchange where they are subject to daily receipt and payment of cash variation margin; no potential future credit exposure shall be calculated for single currency floating/floating interest rate swaps, the credit exposure on these contracts would be evaluated solely on the basis of their mark-to-market valuation.

^{2/} According to obligor, or if relevant, the qualified guarantor or nature of collateral, provided that a 50% risk weight shall be applied in respect of obligors which would otherwise attract a 100% risk weight.

A.3 With a residual maturity of more than 5 years						
	Notional Amount	Current Credit Exposure (Mark-to-market valuation, if positive)	+ Potential Future Credit Exposure (Notional Amount X 1.5%)	= Credit Equiv. Amount	X Risk Weight ^{1/} (In %)	= Risk Weighted Amount
(1)					0	0
(2)					20	
(3)					50	
Sub-total						
Total						

^{1/} According to obligor, or if relevant, the qualified guarantor or nature of collateral, provided that a 50% risk weight shall be applied in respect of obligors which would otherwise attract a 100% risk weight.

B. Exchange Rate Contracts ^{1/}

B.1 With a residual maturity of 1 year or less

	Notional Amount	Current Credit Exposure (Mark-to-market valuation, if positive)	+ Potential Future Credit Exposure (Notional Amount X 1.0%)	= Credit Equiv. Amount	X Risk Weight ^{2/} (In %)	= Risk Weighted Amount
(1)					0	0
(2)					20	
(3)					50	
Sub-total						

B.2 With a residual maturity of more than 1 year to 5 years

	Notional Amount	Current Credit Exposure (Mark-to-market valuation, if positive)	+ Potential Future Credit Exposure (Notional Amount X 5.0%)	= Credit Equiv. Amount	X Risk Weight ^{2/} (In %)	= Risk Weighted Amount
(1)					0	0
(2)					20	
(3)					50	
Sub-total						

^{1/} Exclude (1) instruments which are traded on exchange where they are subject to daily receipt and payment of cash variation margin, and (2) exchange rate contracts with original maturity of 14 calendar days or less.

^{2/} According to obligor, or if relevant, the qualified guarantor or nature of collateral, provided that a 50% risk weight shall be applied in respect of obligors which would otherwise attract a 100% risk weight.

B.3 With a residual maturity of more than 5 years						
	Notional Amount	Current Credit Exposure (Mark-to-market valuation, if positive)	+ Potential Future Credit Exposure (Notional Amount X 7.5%)	= Credit Equiv. Amount	X Risk Weight 1/ (in %)	= Risk Weighted Amount
(1)					0	0
(2)					20	
(3)					50	
Sub-total						
Total						
TOTAL RISK-WEIGHTED INTEREST RATE AND EXCHANGE RATE-RELATED CONTINGENCIES						

1/ According to obligor, or if relevant, the qualified guarantor or nature of collateral, provided that a 50% risk weight shall be applied in respect of obligors which would otherwise attract a 100% risk weight.

PART V. CALCULATION OF RISK-BASED CAPITAL ADEQUACY RATIO (Amounts in ₱0.000 million)

Item	Nature of Item	Amount	Amount
A. Total Qualifying Capital (Part I)			
B. Calculation of Total Risk Weighted Assets			
(1)	Total risk-weighted on-balance sheet assets (Part II)		
(2)	Total risk-weighted off-balance sheet exposures (Part III)		
(3)	Total risk-weighted interest rate and exchange rate-related contingencies (Part IV)		
(4)	Gross risk-weighted assets (Sum of B(1) to B(3))		
B.1	Deductions:		
(1)	General loan-loss provision (in excess of the amount permitted to be included in upper Tier 2 per Part I, Item B.1(5))		
(2)	Unbooked valuation reserves and other capital adjustments affecting asset accounts based on the latest report of examination as approved by the Monetary Board		
(3)	Total Deductions (Sum of B.1(1) and B.1(2))		
	Total Risk-Weighted Assets (B(4) minus B.1(3))		
RISK-BASED CAPITAL ADEQUACY RATIO (A divided by B multiply by 100%)			