



Bangko Sentral ng Pilipinas

OFFICE OF THE GOVERNOR

CIRCULAR NO. 397 Series of 2003

Pursuant to Monetary Board Resolution Nos. 705 and 1028 dated 22 May 2003 and 24 July 2003, respectively, approving the issuance by banks of redeemable preferred shares that do not need to be replaced with at least an equivalent amount of newly paid-in shares upon redemption and the treatment thereof for purposes of capital adequacy ratio computation, the provisions of the Manual of Regulations for Banks are hereby amended as follows:

1. Subsection X126.5.a of the Manual is hereby amended to read as follows:

"a. Conditions. Banks may issue redeemable shares subject to the following conditions:

X X X

(3) The applicant bank after the issuance of redeemable shares shall comply with the following:

(a) Redemption of shares shall be allowed at the specific dates or periods fixed for redemption only upon prior approval of the BSP and, **where the conditions of the issuance specifically state**, only if the shares redeemed are replaced with at least an equivalent amount of newly paid-in shares so that the total paid-in capital stock is maintained at the same level immediately prior to redemption: *Provided*, That the redemption shall not be earlier than five (5) years after the date of issuance: *Provided further*, That such redemption may not be made where the bank is insolvent or if such redemption will cause insolvency, impairment of capital or inability of the bank to meet its debts as they mature;

X X X

(g) Shares issued with the replacement requirement upon redemption shall be eligible as Upper Tier 2 capital for purposes of computing Qualifying Capital as provided in Subsection X116.1 of the Manual. Shares issued without such condition shall be eligible as Lower Tier 2 capital."

MAG-IMPOK SA BANGKO

2. Subsection X116.1.b of the Manual is hereby amended to read as follows:

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

b.1. *Upper Tier 2 capital* –

X X X

- (2) Paid up limited life redeemable preferred stock **issued with the condition that redemption thereof shall be allowed only if the shares redeemed are replaced with at least an equivalent amount of newly paid-in shares so that the total paid-in capital stock is maintained at the same level prior to redemption;**

X X X

- (4) Limited life redeemable preferred stock **with the replacement requirement upon redemption** dividends distributable;

X X X

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

X X X

- (2) Limited life redeemable preferred stock treasury shares **with the replacement requirement upon redemption;** and
(3) Sinking fund for redemption of limited life redeemable preferred stock **with the replacement requirement upon redemption;** and

b.2 *Lower Tier 2 capital* –

- (1) Paid-up limited life redeemable preferred stock without the replacement requirement upon redemption: *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.);
- (2) Limited life redeemable preferred stock without the replacement requirement upon redemption 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:

X X X

- (4) Deposit for perpetual and cumulative preferred stock subscription; and
- (5) Deposit for limited life redeemable preferred stock subscription **with the replacement requirement upon redemption:**

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

- (1) Limited life redeemable preferred stock treasury shares without the replacement requirement upon redemption;
- (2) Sinking fund for redemption of limited life redeemable preferred stock without the replacement requirement upon redemption: ***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):"

3. Subsection X116.3.ee. of the Manual is hereby amended to read as follows:

ees. Redeemable preferred stock. This refers to preferred stock which may be redeemed at the specific dates or periods fixed for redemption, only upon prior approval of the BSP and, **where the conditions of the issuance specifically state**, only if the shares redeemed or replaced with at least an equivalent amount of newly paid-in shares so that the total paid-in capital stock is maintained at the same level immediately prior to redemption: ***Provided, that redemption shall not be earlier than five (5) years after the date of issuance: Provided, further, That such redemption may not be made where the bank is insolvent or if such redemption will cause insolvency, impairment of capital or inability of the bank to meet its debts as they mature."***

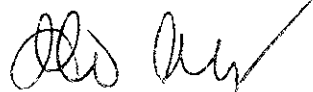
The revised Part I of the prescribed report forms on the Computation of Risk-Based Capital Adequacy Ratio Covering Credit Risks incorporating the aforementioned amendments are attached as Annex "A" (for universal banks, commercial banks and thrift banks) and Annex "B" (for rural banks and cooperative banks).

Banks which have issues of limited life redeemable preferred shares compliant with Circular No. 241 and outstanding prior to the effectivity of Circular No. 280 shall be allowed to redeem the same prior to the set redemption date, without the need for replacement with at least an equivalent amount of newly paid-in shares within one (1) year from the effectivity of this Circular upon prior BSP approval, provided that:

1. The redeemable preferred shareholders will give consent;
2. The bank meets the required minimum capital adequacy ratio and minimum capital level for the bank category after such redemption; and
3. Such redemption will not cause the inability of the bank to meet its obligations as they mature.

This Circular shall take effect fifteen (15) days after its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:



ARMANDO L. SURATOS
Officer-in-Charge

19 August 2003

Revised July 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/SED IV

FOR UNIVERSAL BANKS, COMMERCIAL BANKS AND THRIFT BANKS

(Name of Bank)	(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 (for domestic banks only)		
(8)	Minority interest in the equity of subsidiary financial allied undertakings which are less than wholly-owned (for consolidated basis)		
(9)	Assigned capital (for foreign bank branches)		
(10)	Net due "to" head office, branches, subsidiaries, and other offices outside the Philippines, inclusive of earnings not yet remitted to head office per Subsec. X121.5.c (for foreign bank branches) (limited to an amount prescribed under Subsec. X121.6)		
A.1	Deductions from Tier 1		
(1)	Common stock treasury shares (for consolidated basis)		
(2)	Perpetual and non-cumulative preferred stock treasury shares		
(3)	Net unrealized losses on underwritten listed equity securities purchased		
(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)	Net due "from" head office, branches, subsidiaries and other offices outside the Philippines, if any (for foreign bank branches)		
(9)	Total Deductions (Sum of A.1(1) to A.1(8))		

Item	Nature of Item	Amount	Amount
A.2	TOTAL TIER 1 CAPITAL (Sum of A (1) to A(10) minus A.1(9))		
B. Tier 2 (Supplementary) Capital			
B.1 Upper Tier 2 Capital			
(1)	Paid-up perpetual and cumulative preferred stock		
(2)	Paid-up limited life redeemable preferred stock with the replacement requirement upon redemption		
(3)	Perpetual and cumulative preferred stock dividends distributable		
(4)	Limited life redeemable preferred stock with the replacement requirement upon redemption dividends distributable		
(5)	Appraisal increment reserve – bank premises, as authorized by the Monetary Board		
(6)	Net unrealized gains on underwritten listed equity securities purchased (subject to a 55% discount)		
(7)	General loan loss provision (limited to 1.25% of gross risk-weighted assets computed per Part V, Item B(4))		
(8)	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.)		
(9)	Deposit for common stock subscription		
(10)	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 (for consolidated basis)		
(2)	Limited life redeemable preferred stock treasury shares with the replacement requirement upon redemption (for consolidated basis)		
(3)	Sinking fund for redemption of limited life redeemable preferred stock with the replacement requirement upon redemption		
(4)	Total Deductions (Sum of B.1.1(1) to B.1.1.(3))		

Item	Nature of Item	Amount	Amount
B.1.2	Total Upper Tier 2 Capital (Sum of B.1(1) to B.1(10) minus B.1.1(4))		
B.2 Lower Tier 2 Capital			
(1)	Paid-up limited life preferred stock without the replacement requirement upon redemption (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 without the replacement requirement upon redemption dividends distributable		
(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		
(5)	Deposit for limited life redeemable preferred stock subscription with the replacement requirement upon redemption		
B.2.1	Deductions from Lower Tier 2		
(1)	Limited life redeemable preferred stock treasury shares without the replacement requirement upon redemption (for consolidated basis)		
(2)	Sinking fund for redemption of limited life redeemable preferred stock without the replacement requirement upon redemption (limited to the balance of redeemable preferred stock after applying the cumulative discount factor)		
(3)	Total Deductions (Sum of B.2.1(1) to B.2.1(2))		
B.2.2	Total Lower Tier 2 Capital (Sum of B.2(1) to B.2(5) 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)		
C.	GROSS QUALIFYING CAPITAL (Sum of A.2 and B.4)		

Item	Nature of Item	Amount	Amount
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, in excess of the lower of (i) an aggregate ceiling of 5% of total Tier 1 capital of the bank; or (ii) 10% of the total outstanding unsecured subordinated term debt issuance of the other bank		
(6)	Total Deductions (Sum of C.1(1) to C.1(5))		
TOTAL QUALIFYING CAPITAL (C minus C.1(6))			

Revised July 2003

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

SUBMISSION : Original copy to SED IV

FOR RURAL BANKS AND COOPERATIVE BANKS

(Name of Bank)	(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
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Notary Public
Until December 31, 20____
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(4)	Perpetual and non-cumulative preferred stock dividends distributable		
(5)	Surplus		
(6)	Surplus reserves		
(7)	Undivided profits (for domestic banks only)		
(8)	Minority interest in the equity of subsidiary financial allied undertakings which are less than wholly-owned (for consolidated basis)		
(9)	Assigned capital (for foreign bank branches)		
(10)	Net due "to" head office, branches, subsidiaries, and other offices outside the Philippines, inclusive of earnings not yet remitted to head office per Subsec. X121.5.c (for foreign bank branches) (limited to an amount prescribed under Subsec. X121.6)		
A.1 Deductions from Tier 1			
(1)	Common stock treasury shares (for consolidated basis)		
(2)	Perpetual and non-cumulative preferred stock treasury shares		
(3)	Net unrealized losses on underwritten listed equity securities purchased		
(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)	Net due "from" head office, branches, subsidiaries and other offices outside the Philippines, if any (for foreign bank branches)		
(9)	Total Deductions (Sum of A.1(1) to A.1(8))		

Item	Nature of Item	Amount	Amount
A.2	TOTAL TIER 1 CAPITAL (Sum of A (1) to A(10) minus A.1(9))		
B. Tier 2 (Supplementary) Capital			
B.1 Upper Tier 2 Capital			
(1)	Paid-up perpetual and cumulative preferred stock		
(2)	Paid-up limited life redeemable preferred stock with the replacement requirement upon redemption		
(3)	Perpetual and cumulative preferred stock dividends distributable		
(4)	Limited life redeemable preferred stock with the replacement requirement upon redemption dividends distributable		
(5)	Appraisal increment reserve – bank premises, as authorized by the Monetary Board		
(5)	Net unrealized gains on underwritten listed equity securities purchased (subject to a 55% discount)		
(7)	General loan loss provision (limited to 1.25% of gross risk-weighted assets computed per Part V, Item B(4))		
(8)	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.)		
(9)	Deposit for common stock subscription		
(10)	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 (for consolidated basis)		
(2)	Limited life redeemable preferred stock treasury shares with the replacement requirement upon redemption (for consolidated basis)		
(3)	Sinking fund for redemption of limited life redeemable preferred stock with the replacement requirement upon redemption		
(4)	Total Deductions (Sum of B.1.1(1) to B.1.1.(3))		

Item	Nature of Item	Amount	Amount
B.1.2	Total Upper Tier 2 Capital (Sum of B.1(1) to B.1(10) minus B.1.1(4))		
B.2	Lower Tier 2 Capital		
(1)	Paid-up limited life preferred stock without the replacement requirement upon redemption (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 without the replacement requirement upon redemption dividends distributable		
(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		
(5)	Deposit for limited life redeemable preferred stock subscription with the replacement requirement upon redemption		
B.2.1	Deductions from Lower Tier 2		
(1)	Limited life redeemable preferred stock treasury shares without the replacement requirement upon redemption (for consolidated basis)		
(2)	Sinking fund for redemption of limited life redeemable preferred stock without the replacement requirement upon redemption (limited to the balance of redeemable preferred stock after applying the cumulative discount factor)		
(3)	Total Deductions (Sum of B.2.1(1) to B.2.1.(2))		
B.2.2	Total Lower Tier 2 Capital (Sum of B.2(1) to B.2(5) 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)		
C.	GROSS QUALIFYING CAPITAL (Sum of A.2 and B.4)		

Item	Nature of Item	Amount	Amount
C.1	Deductions from Gross Qualifying Capital		
(1)	Investments in equity of unconsolidated subsidiary banks (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, in excess of the lower of (i) an aggregate ceiling of 5% of total Tier 1 capital of the bank; or (ii) 10% of the total outstanding unsecured subordinated term debt issuance of the other bank		
(6)	Total Deductions (Sum of C.1(1) to C.1(5))		
	TOTAL QUALIFYING CAPITAL (C minus C.1(6))		