



# BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

## CIRCULAR NO. 1235 Series of 2026

**Subject: Framework for the Operationalization of the Countercyclical Capital Buffer (CCyB) and Adoption of the Positive Neutral Rate**

The Monetary Board, in its Resolution No. 396 dated 06 May 2026, approved the following amendments to the Risk-Based Capital Adequacy Framework in lieu of the introduction of a positive neutral countercyclical capital buffer.

**Section 1.** Section 125/125-Q of the Manual of Regulations for Banks (MORB) and Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) is hereby amended, as follows:

### **125/125-Q BASEL III RISK BASED CAPITAL**

The guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system is provided in Appendix 59/Q-45.

These guidelines apply to all UBs and KBs as well as their subsidiary banks and QBs, and digital banks. The risk-based capital ratio of a 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 bank plus subsidiary financial allied undertakings, but excluding insurance companies). Other minimum capital ratios include Common Equity Tier (CET) 1 ratio and Tier 1 capital ratios of four and a half percent (4.5%) and seven and a half percent (7.5%), respectively. With respect to the CET1 requirement, in addition to the minimum, the following capital buffers shall likewise be imposed:

- a. A capital conservation buffer (CCB) of two and a half percent (2.5%); and
- b. Countercyclical capital buffer (CCyB) maintained at a positive neutral rate set by the Monetary Board based on prevailing macro-financial conditions and systemic risk assessments. The CCyB may be reviewed and adjusted as conditions warrant but shall not exceed two and a half percent (2.5%). Any adjustment in the CCyB rate shall be announced through a press release. Any increase in the CCyB rate shall be effective twelve (12) months from the date of such announcement. Decreases shall be effective immediately upon such announcement.

The implementing Guidelines for the Countercyclical Capital Buffer (CCyB) is provided in Annex H of Appendix 59/Q-45.

The prescribed ratios shall be maintained at all times.

XXX

**Section 2.** Section 127 of the MORB is hereby amended, as follows:

**127 RISK-BASED CAPITAL ADEQUACY FRAMEWORK FOR STAND-ALONE THRIFT BANKS, RURAL BANKS AND COOPERATIVE BANKS**

xxx

The guidelines implementing the risk-based capital adequacy framework for Stand-alone TBs, RBs, and Coop Banks is in Appendix 62.

- a. *Minimum capital requirements.* The minimum capital ratios shall be expressed as a percentage of capital to risk-weighted assets as shown below:

| Minimum Capital Ratio             | Capital            | % of Risk Weighted Assets |
|-----------------------------------|--------------------|---------------------------|
| Common Equity Tier 1 (CET1) Ratio | CET1               | At least 4.5%             |
| Tier 1 ratio                      | Tier 1             | At least 7.5%             |
| Capital Adequacy Ratio (CAR)      | Qualifying Capital | At least 10.0%            |

xxx

**Section 3.** Section 363-A of the MORB is hereby amended, as follows:

**363-A LIMITS ON REAL ESTATE EXPOSURES OF UBs/KBs.**

- a. xxx  
b. xxx

The prudential REST limits, which shall be complied with at all times by UBs/KBs, are four and a half percent (4.5%) of Common Equity Tier I (CET1) capital ratio and ten percent (10%) of risk-based capital adequacy ratio, on a solo and consolidated basis, under the prescribed write-off rate.

xxx

xxx

**Section 4.** Section 363-B of the MORB is hereby amended as follows:

**363-B LIMITS ON REAL ESTATE EXPOSURES OF TBs**

xxx

- a. four and a half percent (4.5%) of CET1 capital ratio, for TBs that are subsidiaries of UBs/KBs, as provided in Sec. 125;  
b. four and a half percent (4.5%) of CET1 capital ratio, for stand-alone TBs, as provided in Sec. 127; and  
c. ten percent (10%) of risk-based CAR for all TBs.

xxx

**Section 5.** Appendix 59 of the MORB and Appendix Q-45 of the MORNBF are hereby amended to align with the amendments under Section 1 of this Circular as shown in Annex I.

**Section 6.** Appendix 62 of the MORB is hereby amended to align with the amendments under Section 2 of this Circular as shown in Annex II.

**Section 7.** Appendix 94 of the MORB and Appendix Q-54 of MORNBFi are hereby amended to align with the amendments provided under Section 1, specifically on the treatment of the CCyB in bank's Internal Capital Adequacy Assessment Process (ICAAP) and capital planning, as shown in Annex III.

**Section 8.** Appendix 110 of the MORB is hereby amended to align with the amendments provided under Section 1, and to delete the outdated Annex C (Schedule of Restriction on Distribution During the Phased-In Implementation Period of the Higher Loss Absorbency Requirement), as shown in Annex IV.

**Section 9.** The transitory provisions below are hereby itemized.

Item 1 shall be added as a footnote in Sections 125/127/363-A/363-B of MORB and Section 125-Q of MORNBFi. Items 2 and 3 shall be added as footnotes in Section 125 of MORB and 125-Q of MORNBFi. Item 4 shall be added as a footnote in Sections 363-A and 363-B of MORB.

1. The reduction of the minimum CETI ratio from six percent (6%) to four and a half percent (4.5%) shall take effect one (1) year from the effectivity of the Circular and apply uniformly across banks.
2. The PN-CCyB applicable to UBs and KBs as well as their subsidiary banks and QBs shall take effect one (1) year from the effectivity of the Circular.
3. The PN-CCyB applicable to digital banks shall take effect two (2) years from the effectivity of this Circular.
4. During the transitory period, the prudential limits under Sections 363-A and 363-B of the MORB shall continue to be assessed based on the prevailing CETI ratio of six percent (6%). Upon the effectivity of the revised minimum CETI ratio, the corresponding thresholds shall be adjusted accordingly.

**Section 10.** This Circular shall take effect fifteen (15) calendar days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:



**ELI M. REMOLONA, JR.**  
Governor

20 May 2026

**Appendix 59 of the MORB / Appendix Q-45 of the MORNBF**

**RISK-BASED CAPITAL ADEQUACY FRAMEWORK FOR THE PHILIPPINE  
BANKING SYSTEM  
(Appendix to Sec. 125/125-Q)**

xxx

**Part I. Risk-based capital adequacy ratio (CAR)**

1. UBs and KBs and their subsidiary banks and QBs, and digital banks shall be subject to the following risk-based CARs:
  - a. Common Equity Tier (CET1) must be at least four and a half percent (4.5%) of risk-weighted assets at all times.
  - b. Tier 1 capital must be at least seven and a half percent (7.5%) of risk-weighted assets at all times; and
  - c. Qualifying capital (Tier 1 plus Tier 2 capital) must be at least ten percent (10%) of risk-weighted assets at all times.

xxx

5. Banks shall comply with the minimum CARs at all times notwithstanding that supervisory reporting shall only be on quarterly basis. Any breach, even if only temporary, shall be reported to the bank's Board of Directors and to Bangko Sentral, supervision sector within three (3) banking days. For this purpose, banks shall develop an appropriate system to properly monitor their compliance.
6. The Bangko Sentral reserves the right, upon authority of the Deputy Governor, supervision sector, to conduct on-site inspection outside of regular or special examination, for the purpose of ascertaining the accuracy of CAR calculations as well as the integrity of CAR monitoring and reporting systems.

xxx

xxx

**Part III. Capital Conservation Buffer**

xxx

3. Capital distribution constraints shall be imposed when capital levels fall within certain ranges as illustrated below. The bank shall not be subject to any restriction on distribution if the following conditions are met:
  - a. Has positive retained earnings as of the preceding quarter and has complied with the requirements on declaration of dividends under existing regulations;
  - b. Has CET1 capital of more than the total required (minimum CET1 ratio of four and a half percent (4.5%) plus the CCB of two and a half percent (2.5%)) before the distribution; and
  - c. Has complied with the minimum capital ratios (CET1 ratio of four and a half percent (4.5%), Tier 1 ratio of seven and a half

(7.5%) and ten percent (10%) CAR) and minimum leverage ratio of five percent (5%) after the distribution.

| <b>CET1 Capital Ratio</b> | <b>Restriction on Distributions</b>                       |
|---------------------------|-----------------------------------------------------------|
| $\leq 5.75\%$             | No distribution until more than 5.75% CET1 Capital is met |
| $> 5.75\% - 7.0\%$        | 50% of earnings may be distributed                        |
| $> 7.0\%$                 | No restriction on distribution                            |

xxx

xxx

#### **Part IV. Countercyclical Capital Buffer**

xxx

3. The countercyclical buffer requirement will extend the size of the capital conservation buffer. The bank shall not be subject to any restriction on distribution if the following conditions are met:
  - a. Has positive retained earnings as of the preceding quarter and has complied with the requirements on the declaration of dividends under existing regulations;
  - b. Has CET1 capital of more than the total required minimum (CET1 ratio of four and a half percent (4.5%) plus CCB of two and a half percent (2.5%) and CCyB at the rate determined by the Monetary Board) before the distribution; and
  - c. Has complied with the minimum capital ratios (CET1 ratio to four and a half percent (4.5%), Tier 1 ratio of seven and a half percent (7.5%) and ten percent (10%) CAR) and minimum leverage ratio of five percent (5%) after the distribution.

The following tables provide simplified illustrative examples of how distribution restrictions may vary depending on the CCyB rate.

Scenario 1: CCyB rate of 1.5%

Total CET1 threshold for unrestricted distributions: 8.5%

- 4.5% (minimum CET1)
- 2.5% (CCB)
- 1.5% (CCyB)

| <b>CET1 Capital Ratio</b> | <b>Restriction on Distributions</b>                      |
|---------------------------|----------------------------------------------------------|
| $\leq 6.0\%$              | No distribution until more than 6.0% CET1 Capital is met |
| $> 7.25\% - 8.5\%$        | 50% of earnings may be distributed                       |
| $> 8.5\%$                 | No restriction on distribution                           |

Scenario 2: CCyB rate of 2.0%

Total CET1 threshold for unrestricted distributions: 9.0%

- 4.5% (minimum CET1)
- 2.5% (CCB)
- 2.0% (CCyB)

| <b>CET1 Capital Ratio</b> | <b>Restriction on Distributions</b>                      |
|---------------------------|----------------------------------------------------------|
| ≤ 6.5%                    | No distribution until more than 6.5% CET1 Capital is met |
| > 7.75% - 9.0%            | 50% of earnings may be distributed                       |
| > 9.0%                    | No restriction on distribution                           |

Scenario 3: CCyB rate of 2.5%

Total CET1 threshold for unrestricted distributions: 9.5%

- 4.5% (minimum CET1)
- 2.5% (CCB)
- 2.5% (CCyB)

| <b>CET1 Capital Ratio</b> | <b>Restriction on Distributions</b>                      |
|---------------------------|----------------------------------------------------------|
| ≤ 7.0%                    | No distribution until more than 7.0% CET1 Capital is met |
| > 8.25% - 9.5%            | 50% of earnings may be distributed                       |
| > 9.5%                    | No restriction on distribution                           |

Any change in the CCyB rate shall correspondingly adjust the CET1 thresholds and the applicable restrictions on distributions.

4. Drawdowns on the CCyB are not allowed unless the Bangko Sentral announces a decision to lower the buffer rate. The capital surplus created when the CCyB is lowered should not be unfettered, i.e., there are no restrictions on distribution when the buffer is released: *Provided*, That the bank continues to meet the minimum CET1, Tier 1, CAR, and minimum leverage ratio after the release.
5. The uniformly applicable rate of the countercyclical buffer shall be set at a positive neutral rate as determined by the Monetary Board and subject to recalibration as conditions warrant. CCyB decisions shall be based on a set of indicators including, but not limited to, the enhanced credit growth metric, the credit-to-GDP gap as well as the growth and quality of credit, among others (App. 59 Annex H).
6. Any increase in the countercyclical buffer shall have a preannouncement period of twelve (12) months in consideration of the capital planning process of banks while reductions in the buffer would take effect immediately to help reduce the risk of the supply of credit being constrained by regulatory capital requirement.

xxx

**ADDITIONAL TIER 1 CAPITAL**

Criteria for inclusion in Additional Tier 1 capital

xxx

11. Instruments classified as liabilities for accounting purposes must have principal loss absorption through either (i) conversion to common shares or (ii) a write-down mechanism which allocates losses to the instrument at a prespecified trigger point. The trigger point is set at CET1 ratio of 5.75% or below or as determined by the Bangko Sentral. The bank must submit an expert's opinion on the accounting treatment/classification of the instruments.

xxx

xxx

xxx

## Illustrative Sample

**Computation of eligible minority interests to be included in parent bank's capital base**

xxx

**(A) Computation of minority interests arising from ordinary shares issued by a consolidated bank subsidiary**

*Step 1 –*

Calculate the surplus CETI of Bank S in excess of its 7.0% minimum CETI plus conservation buffer requirement (i.e., 4.5% + 2.5%). Bank S is assumed to have risk-weighted assets of 100.

| Minimum Capital Surplus of Bank S |                                          |                 |
|-----------------------------------|------------------------------------------|-----------------|
|                                   | Minimum plus capital conservation buffer | Surplus Capital |
| CETI                              | 7.0 = (7.0% * 100)                       | 36 = (43 – 7.0) |

*Step 2 –*

Calculate the eligible portion of minority interest (MI) arising from CETI issued by Bank S that is allowed to be included in the consolidated capital of Bank P [i.e., item (e)].

| Banks: amount of capital issued to third parties included in consolidated capital |                         |                                    |                     |                                                                                                             |                                                         |
|-----------------------------------------------------------------------------------|-------------------------|------------------------------------|---------------------|-------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|
|                                                                                   | Total amount issued (a) | Amount issued to third parties (b) | Surplus capital (c) | Surplus attributable to third parties (i.e., amount excluded from consolidated capital) (d) = (c) * (b)/(a) | Amount included in consolidated capital (e) = (b) - (d) |
| CETI                                                                              | 43                      | 13                                 | 36                  | 10.9                                                                                                        | 2.1                                                     |

*Step 3 –*

The eligible amount of MI to be included in the consolidated CETI Capital of Bank P is 2.1.

|      | Total amount issued by Bank P (all of which is to be included in consolidated capital) | Amount issued by Bank S to third parties to be included in consolidated capital of Bank P | Total amount issued by Bank P and Bank S to be included in consolidated capital of Bank P |
|------|----------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|
| CETI | 31                                                                                     | 2.1                                                                                       | 33.1                                                                                      |

**(B) Minority interests arising from ordinary shares and Additional Tier 1 capital instruments issued by a consolidated bank subsidiary**

*Step 1 –*

Calculate the surplus Tier 1 Capital of Bank S in excess of its 10% minimum Tier 1 capital plus capital conservation buffer requirement (i.e., 7.5% + 2.5%). Bank S is assumed to have risk-weighted assets of 100.

| Minimum and surplus capital of Bank S |                                          |                     |
|---------------------------------------|------------------------------------------|---------------------|
|                                       | Minimum plus capital conservation buffer | Surplus Capital     |
| Tier 1                                | 10 = (10%* 100)                          | 44 = ((43+11) - 10) |

*Step 2 –*

Calculate the eligible portion of MI arising from Tier 1 Capital issued by Bank S that is allowed to be included in the consolidated capital of Bank P [i.e., item (e)]

| Banks: amount of capital issued to third parties included in consolidated capital |                         |                                    |                     |                                                                                                             |                                                         |
|-----------------------------------------------------------------------------------|-------------------------|------------------------------------|---------------------|-------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|
|                                                                                   | Total amount issued (a) | Amount issued to third parties (b) | Surplus capital (c) | Surplus attributable to third parties (i.e., amount excluded from consolidated capital) (d) = (c) * (b)/(a) | Amount included in consolidated capital (e) = (b) - (d) |
| CET1                                                                              | 43                      | 13                                 | 36                  | 10.9                                                                                                        | 2.1                                                     |
| <b>Tier 1</b>                                                                     | <b>54</b>               | <b>15</b>                          | <b>44</b>           | <b>12.2</b>                                                                                                 | <b>2.8</b>                                              |

*Step 3 –*

The eligible amount for inclusion in Bank P's consolidated AT1 Capital is 0.7, arrived at by excluding from the eligible amount for inclusion as Tier 1 Capital (i.e., 2.8) the amount that has already been recognized in CET1 (i.e., 2.1).

|               | Total amount issued by Bank P (all of which is to be included in consolidated capital) | Amount issued by Bank S to third parties to be included in consolidated capital of Bank P | Total amount issued by Bank P and Bank S to be included in consolidated capital of Bank P |
|---------------|----------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|
| CET1          | 31                                                                                     | 2.1                                                                                       | 33.1                                                                                      |
| <b>AT1</b>    | <b>12</b>                                                                              | <b>0.7</b>                                                                                | <b>12.7</b>                                                                               |
| <b>Tier 1</b> | <b>43</b>                                                                              | <b>2.8</b>                                                                                | <b>45.8</b>                                                                               |

**C) Minority interests arising from Tier 1 capital instruments and Tier 2 capital instruments issued by a consolidated bank subsidiary**

*Step 1 –*

Calculate the surplus total capital of Bank S in excess of 12.5% minimum total capital plus conservation buffer requirement (i.e., 10% + 2.5%). Bank S is assumed to have risk-weighted assets of 100.

| Minimum and surplus capital of Bank S |                                          |                            |
|---------------------------------------|------------------------------------------|----------------------------|
|                                       | Minimum plus capital conservation buffer | Surplus Capital            |
| Tier 1                                | 12.5 = (12.5%* 100)                      | 57.5 = ((43+11+16) - 12.5) |

*Step 2 -*

Calculate the eligible portion of MI arising from total capital by Bank S that is allowed to be included in the consolidated capital of Bank P (i.e., item (e)).

| Banks: amount of capital issued to third parties included in consolidated capital |                         |                                    |                     |                                                                                                             |                                                         |
|-----------------------------------------------------------------------------------|-------------------------|------------------------------------|---------------------|-------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|
|                                                                                   | Total amount issued (a) | Amount issued to third parties (b) | Surplus capital (c) | Surplus attributable to third parties (i.e., amount excluded from consolidated capital) (d) = (c) * (b)/(a) | Amount included in consolidated capital (e) = (b) - (d) |
| CET1                                                                              | 43                      | 13                                 | 36                  | 10.9                                                                                                        | 2.1                                                     |
| <b>Tier 1</b>                                                                     | <b>54</b>               | <b>15</b>                          | <b>44</b>           | <b>12.2</b>                                                                                                 | <b>2.8</b>                                              |
| <b>Total Capital</b>                                                              | <b>70</b>               | <b>27</b>                          | <b>57.5</b>         | <b>22.2</b>                                                                                                 | <b>4.8</b>                                              |

*Step 3 -*

The eligible amount for inclusion in Bank P's consolidated capital is 2.0, arrived at by excluding from the eligible amount for inclusion as total capital (i.e., 4.8) the amount that has already been recognized in Tier 1 Capital (i.e., 2.8).

|                      | Total amount issued by Bank P (all of which is to be included in consolidated capital) | Amount issued by Bank S to third parties to be included in consolidated capital of Bank P | Total amount issued by Bank P and Bank S to be included in consolidated capital of Bank P |
|----------------------|----------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|
| CET1                 | 31                                                                                     | 2.1                                                                                       | 33.1                                                                                      |
| AT1                  | 12                                                                                     | 0.7                                                                                       | 12.7                                                                                      |
| <b>Tier 1</b>        | <b>43</b>                                                                              | <b>2.8</b>                                                                                | <b>45.8</b>                                                                               |
| <b>Tier 2</b>        | <b>20</b>                                                                              | <b>2.0</b>                                                                                | <b>22.0</b>                                                                               |
| <b>Total Capital</b> | <b>63</b>                                                                              | <b>4.8</b>                                                                                | <b>67.8</b>                                                                               |

xxx

**LOSS ABSORBENCY REQUIREMENTS FOR ADDITIONAL TIER 1 CAPITAL**

xxx

2. The trigger point for conversion or write-off is set at 5.75% Common Equity Tier 1 (CET 1) or below or as determined by the Bangko Sentral.
3. xxx
4. The aggregate amount to be written off or converted for all such instruments on breaching the trigger point must be at least the amount needed to immediately return the bank's CET1 ratio at more than 5.75%, or if this is not possible, the full principal value of the instrument.

xxx

## **IMPLEMENTING GUIDELINES OF THE COUNTERCYCLICAL CAPITAL BUFFER (CCyB)**

### **I. Introduction**

This section outlines the Bangko Sentral ng Pilipinas' implementing guidelines for the operationalization of the CCyB, consistent with the Basel III capital framework. The CCyB forms part of the combined buffer requirement and is intended to be releasable during periods of systemic stress to help maintain the flow of credit to the real economy and support stability of the financial system.

The CCyB requirement applies to universal and commercial banks, including branches of foreign banks, and digital banks, on both solo and consolidated bases, including their subsidiary banks and quasi-banks.

This framework establishes the methodology for assessing systemic risk conditions and determining the appropriate CCyB rate in a transparent, consistent, and forward-looking manner. It outlines the procedures for activating a positive neutral rate, increasing the buffer during periods of rising vulnerabilities, and releasing the buffer when conditions warrant it.

The introduction of a positive neutral CCyB reflects a shift toward a more time-varying and pre-emptive macroprudential approach. This ensures that banks maintain a usable capital buffer in normal times that can be released during stress, thereby enhancing the resilience of the financial system. The framework does not reduce overall capital requirements but rather reallocates capital within the regulatory structure to strengthen the availability of releasable buffers when needed.

### **II. Buffer Decision Framework and Calibration**

The CCyB shall be calibrated in accordance with the assessment of systemic risk conditions. The CCyB may be activated, increased, or released based on developments in credit dynamics, asset market conditions, external sector conditions, and other relevant macro-financial variables. The objective of calibration is to ensure that BSFIs maintain an appropriate level of releasable capital during the build-up of vulnerabilities and that such capital becomes available for use during stress period.

#### **A. Activation of the CCyB**

- i. The CCyB may be activated from zero to a positive neutral level when systemic risk conditions are assessed to be neither subdued nor elevated, consistent with normal risk conditions and characterized by the absence of material indicators of excessive credit expansion, elevated leverage, or broad-based market stress.
- ii. Activation of the CCyB shall be informed by the assessment of risk conditions based on the indicator set described in Section III. These indicators provide structured guidance in

determining whether the activation of a positive neutral rate is warranted.

- iii. Activation establishes a Positive Neutral CCyB (PN-CCyB), which provides a baseline level of releasable capital intended to enhance the resilience of the banking system across the financial cycle.
- iv. The level of the PN-CCyB shall be determined by the Monetary Board and may vary in accordance with prevailing macro-financial conditions. The neutral rate does not constitute a fixed setting and may be adjusted when warranted by changes in systemic risk assessments.

#### **B. Build-up of the CCyB**

- i. The CCyB may be increased above the positive neutral rate when systemic risk assessments indicate a sustained build-up of vulnerabilities. The determination of such conditions shall be informed by the indicator set described in Section III.
- ii. The build-up phase is intended to accumulate additional capital in advance of potential stress events to strengthen the loss-absorbing capacity of BSFIs and mitigate the adverse effects of procyclical credit adjustment.
- iii. The CCyB may be raised up to a maximum of 2.5 percent of risk-weighted assets, consistent with the Basel III capital standards.
- iv. The timing and magnitude of CCyB increases shall consider the persistence of underlying risk signals and broader macro-financial developments.

#### **C. Release of the CCyB**

- i. The CCyB may be reduced, in whole or in part, when systemic stress becomes evident or when maintaining the prevailing buffer level may constrain the sustainable provision of credit to the real economy. Evidence of systemic stress may include material deterioration in asset quality, abrupt tightening in funding or market conditions, or the emergence of macro-financial shocks with potential adverse effects on credit intermediation. Where vulnerabilities crystallize into stress, the CCyB may be reduced further, even up to zero, as warranted by prevailing conditions.
- ii. Release shall be effective immediately upon announcement through a press release, following the approval of the Monetary Board.

- iii. Where cyclical risks recede, the CCyB may be returned to its neutral level.
- iv. Capital freed by the release of the CCyB shall be fully usable to support continued credit intermediation during stress episodes.

### **III. Assessment Methodology**

The assessment of systemic risk shall be based on a structured set of quantitative indicators such as, but not limited to credit, asset market, and external sector indicators. These indicators provide early-warning signals of the build-up of vulnerabilities, assist in identifying turning points in the credit cycle, and inform the calibration of the CCyB.

Additional macro-financial and bank-level data shall be considered to ensure a comprehensive and balanced assessment. These may include, but not limited to, asset-quality measures, funding and liquidity conditions, market-based risk indicators, stress-testing outputs, and information derived from the Internal Capital Adequacy Assessment Process (ICAAP) and other supervisory assessments. These indicators provide contextual support for identifying emerging stresses or validating shifts in conditions.

While indicative thresholds are established to guide the assessment of systemic risk, these thresholds are subject to review and adjustment as conditions evolve. Indicators shall not be used as mechanical triggers; their interpretation shall be complemented by qualitative assessments to ensure that CCyB decisions remain forward-looking, proportionate, and reflective of prevailing macro-financial conditions.

### **IV. Operational Process, Communication and Reciprocity**

#### **A. Decision Process**

- i. The Financial Stability Policy Committee (FSPC) shall assess systemic risk conditions, review the indicator set described in Section III, and integrate all macro-financial information into a consolidated recommendation on the appropriate CCyB rate.
- ii. Based on the FSPC recommendation, the Monetary Board shall determine and approve the applicable CCyB rate in accordance with its authority under existing prudential regulations. The Monetary Board shall also determine the effective date of any adjustment to the CCyB.

#### **B. Decision Frequency and Governance**

- i. The CCyB rate shall be reviewed on a quarterly basis. The FSPC may convene additional out-of-cycle assessments when

evolving macro-financial conditions or emerging vulnerabilities warrant earlier consideration of the CCyB rate.

- ii. Governance arrangements shall ensure that CCyB decisions are undertaken in a consistent, transparent, and objective manner. The FSPC shall oversee adherence to the assessment methodology, ensure the proper application of indicators and qualitative assessments, and monitor the implications of CCyB adjustments for financial stability.
- iii. The CCyB framework shall be subject to periodic review to reflect structural developments in the financial system, advancements in risk assessment methodologies, and changes in international standards. Revisions to the framework shall be approved by the Monetary Board.

### **C. Public Communication**

- i. CCyB decisions shall be publicly disclosed following the Monetary Board approval. Public disclosures shall include the applicable CCyB rate, its effective date, and the key considerations underlying the decision, including a high-level assessment of prevailing systemic risk conditions.
- ii. Official communication, which may include a press statement, shall be issued to convey the rationale for CCyB decisions and to promote transparency, and market understanding. Such communication shall clarify how prevailing systemic risk assessments inform the decision to activate, maintain, increase, or release the buffer. The form and extent of communication shall be determined based on the nature of the decision and prevailing macro-financial conditions.
- iii. Forward guidance on the potential path of the CCyB rate will be provided, particularly through public communication accompanying decisions on the during activation, build-up, or release phases, to assist BSFIs in managing capital planning and to reinforce the countercyclical orientation of the buffer, as appropriate, following Monetary Board approval of the CCyB decision.
- iv. The Financial Stability Report and other official publications may include additional analyses on systemic risk conditions and the interaction of the CCyB with the other macroprudential tools.

## Appendix 62 of the MORB

xxx

**Part I. Risk-based Minimum Capital Ratios**

1. *The minimum capital ratios shall be expressed as a percentage of capital risk-weighted assets as shown below:*

| <b>Minimum Capital Ratio</b>      | <b>Capital</b>     | <b>% of Risk Weighted Assets</b> |
|-----------------------------------|--------------------|----------------------------------|
| Common Equity Tier 1 (CET1) Ratio | CET1               | At least 4.5%                    |
| Tier 1 ratio                      | Tier 1             | At least 7.5%                    |
| Capital Adequacy Ratio (CAR)      | Qualifying Capital | At least 10.0%                   |

xxx

xxx

**Part II. Qualifying Capital**

xxx

**CET1 Capital**

4. CET1 Capital consists of:

xxx

- h. Minority interest in subsidiary bank which are less than wholly owned<sup>4</sup>: *Provided*, That the minority interest arises from issuances of common stock which, if issued by the bank itself, would meet all of the criteria as CET1 capital: *Provided, further*, That the amount to be included as minority interest shall be reduced by the surplus CET1 capital of the subsidiary attributable to minority shareholders computed as the available CET1 capital minus four and a half percent (4.5%)<sup>5</sup> of the subsidiary's total risk-weighted assets multiplied by the percentage of CET1 held by minority shareholders.

xxx

**Additional Tier I (AT1) Capital**

6. AT1 capital consists of the following:

a.) xxx

b.) xxx

i. xxx

- ii. Required loss absorbency features for instruments classified as liabilities for accounting purposes to ensure that the capital instrument absorbs losses and minimize public sector support. The loss absorbency requirements are enumerated in Annex E of *Appendix 59: Provided*, That the applicable trigger point for stand-alone TBs, RBs and Coop Banks is set at CET1 ratio of five

- and a half percent (5.5%) or below as determined by Bangko Sentral; and
- iii. xxx

xxx

## B. Tier 2 Capital

8. Tier 2 capital is composed of the following:

g) xxx

- i. xxx
- ii. Required loss absorbency feature at point of non-viability to ensure that the capital instrument absorbs losses and minimize public sector support as set out in Annex F of *Appendix 59: Provided*, That the applicable trigger point for stand-alone TBs, RBs and Coop Banks is set at CET1 ratio of five and a half percent (5.5%) or below as determined by Bangko Sentral: *Provided further*, That the conversion of Tier 2 capital should be in compliance with the Revised Corporation Code of the Philippines.

xxx

## C. Capital Conservation Buffer

xxx

14. Capital distribution constraints shall be imposed when capital levels fall within certain ranges as illustrated below. The bank shall not be subject to any restriction on distribution if the following conditions are met:

- a. Has positive retained earnings as of the preceding quarter and has complied with the requirements on declaration of dividends under existing regulations;
- b. Has CET1 capital of more than the total required (minimum CET1 ratio of four and a half percent (4.5%) plus CCB of two and a half percent (2.5%)) before the distribution; and
- c. Has complied with the minimum capital ratios (CET1 ratio of four and a half percent (4.5%), Tier 1 ratio of seven and a half (7.5%) and ten percent (10%) CAR) and minimum leverage ratio of five percent (5%) after the distribution.

| CET1 Capital Ratio | Restriction on Distributions                              |
|--------------------|-----------------------------------------------------------|
| ≤ 5.75%            | No distribution until more than 5.75% CET1 capital is met |
| > 5.75% - 7.0%     | 50% of earnings may be distributed                        |
| > 7.0%             | No restriction on distribution                            |

xxx

**Appendix 94 of the MORB / Appendix Q-54 of the MORNBFI**

**GUIDELINES ON BANKS' INTERNAL CAPITAL ADEQUACY ASSESSMENT  
PROCESS**

*(Appendix to Sec. 130/130-Q)*

xxx

**B. Guiding principles**

xxx

7. The ICAAP should capture the risks covered under the Framework—credit risk, market risk, and operational risk. If applicable, banks should disclose major differences between treatments of these risks in the calculation of minimum regulatory capital requirement under the ICAAP. In addition, the ICAAP should also consider other material risks that banks are exposed to, albeit that there is no standard definition of materiality. Banks are free to use their own definition, albeit that they should be able to explain this in detail to the Bangko Sentral, including the methods used, and the coverage of all material risks. These other material risks may include of any of the following:

- a. Risks not fully captured under the Framework, for example, credit concentration risk, risk posed by non-performing assets, risk posed by contingent exposures, etc.;
- b. xxx
- c. Risk factors external to banks. These include risks which may arise from the regulatory, economic or business environment.

Banks shall take into account capital buffers in assessing capital adequacy under the ICAAP. Cyclical systemic risks addressed through the prevailing CCyB rate shall be deemed sufficiently covered and need not be separately covered under the ICAAP.

Where a bank's internal assessment indicates that cyclical risks are higher than those reflected in the prevailing CCyB rate, such risks shall be appropriately considered under the ICAAP.

This shall not preclude banks, however, from undertaking forward-looking assessments, including potential changes in the CCyB. Banks shall likewise assess material risks not adequately captured or not covered under the minimum regulatory capital framework, consistent with the ICAAP principles.

8. xxx

xxx

## Appendix 110 of the MORB

**FRAMEWORK FOR DEALING WITH  
DOMESTIC SYSTEMICALLY IMPORTANT BANKS  
(Appendix to Sec. 128 on D-SIBs)**

xxx

III. Higher Loss Absorbency (HLA) and Interaction with Other Elements of Basel III Framework

xxx

21. The HLA requirement shall be on top of the combined requirement for capital conservation buffer (CCB) and Countercyclical Capital Buffer (CCyB) under *Appendix 59*. Table 3 shows a sample total CET1 capital requirement for banks identified as D-SIBs per bucket.

Table 3. Sample Total CET1 Capital Requirement

## A. CCyB rate is at 0%

|                                                   | Bucket       |      |      |
|---------------------------------------------------|--------------|------|------|
|                                                   | 3<br>(Empty) | 2*   | 1    |
| Minimum CET1 Capital Requirement (a)              | 4.5%         | 4.5% | 4.5% |
| CCB (b)                                           | 2.5%         | 2.5% | 2.5% |
| CCyB (c)                                          | 0%           | 0%   | 0%   |
| D-SIB HLA Requirement (d)                         | 2.5%         | 2%   | 1.5% |
| Total Additional CET1 Capital Requirement (b+c+d) | 5%           | 4.5% | 4%   |
| Total Required CET1 Capital (a+b+c+d)             | 9.5%         | 9.0% | 8.5% |

\* Assuming an HLA requirement of two percent (2%).

## B. CCyB rate is at 1.5%

|                                                   | Bucket       |       |      |
|---------------------------------------------------|--------------|-------|------|
|                                                   | 3<br>(Empty) | 2*    | 1    |
| Minimum CET1 Capital Requirement (a)              | 4.5%         | 4.5%  | 4.5% |
| CCB (b)                                           | 2.5%         | 2.5%  | 2.5% |
| CCyB (c)                                          | 1.5%         | 1.5%  | 1.5% |
| D-SIB HLA Requirement (d)                         | 2.5%         | 2%    | 1.5% |
| Total Additional CET1 Capital Requirement (b+c+d) | 6.5%         | 6%    | 5.5% |
| Total Required CET1 Capital (a+b+c+d)             | 11%          | 10.5% | 10%  |

\* Assuming an HLA requirement of two percent (2%).

C. CCyB rate is at 2.5%

|                                                   | Bucket       |       |       |
|---------------------------------------------------|--------------|-------|-------|
|                                                   | 3<br>(Empty) | 2*    | 1     |
| Minimum CETI Capital Requirement (a)              | 4.5%         | 4.5%  | 4.5%  |
| CCB (b)                                           | 2.5%         | 2.5%  | 2.5%  |
| CCyB (c)                                          | 2.5%         | 2.5%  | 2.5%  |
| D-SIB HLA Requirement (d)                         | 2.5%         | 2%    | 1.5%  |
| Total Additional CETI Capital Requirement (b+c+d) | 7.5%         | 7%    | 6.5%  |
| Total Required CETI Capital (a+b+c+d)             | 12.0%        | 11.5% | 11.0% |

\* Assuming an HLA requirement of two percent (2%).

xxx

24. Capital distribution constraints shall be imposed when capital levels fall within certain ranges as illustrated in Table 5 below. Conversely, a D-SIB shall not be subject to any restriction on distribution if the following conditions are met:

- a. Has positive retained earnings as of the preceding quarter and has complied with the requirements on declaration of dividends under existing regulations;
- b. Has CETI capital of more than the total required (minimum CETI ratio of four and a half percent (4.5%) plus the combined requirement for CCB of two and a half percent (2.5%) and the CCyB at the rate determined by the Monetary Board – zero percent (0%) to two and a half percent (2.5%), and D-SIBs HLA requirement) before the distribution; and
- c. Has complied with the minimum capital ratios (CETI ratio of four and a half percent (4.5%), Tier 1 ratio of seven and a half (7.5%) and ten percent (10%) CAR) and minimum leverage ratio of five percent (5%) after the distribution.

Table 5. Restriction of Distribution

A. CCyB rate is at 0%

| Restriction on Distributions                              | Level of CETI Capital |                |
|-----------------------------------------------------------|-----------------------|----------------|
|                                                           | Bucket 1              | Bucket 2*      |
| No distribution until more than 7.75% CETI capital is met | ≤7.75%                | ≤8.00%         |
| 50% of earnings may be distributed                        | >7.75% - 8.50%        | >8.00% - 9.00% |
| No restriction on distribution                            | >8.50%                | >9.00%         |

\* Assuming an HLA requirement of two percent (2%).

B. CCyB rate is at 1.5%

| Restriction on Distributions                              | Level of CETI Capital |                 |
|-----------------------------------------------------------|-----------------------|-----------------|
|                                                           | Bucket 1              | Bucket 2*       |
| No distribution until more than 9.25% CETI capital is met | <=9.25%               | <=9.50%         |
| 50% of earnings may be distributed                        | >9.25% - 10%          | >9.50% - 10.50% |
| No restriction on distribution                            | >10.00%               | >10.50%         |

\* Assuming an HLA requirement of two percent (2%).

C. CCyB rate is at 2.5%

| Restriction on Distributions                               | Level of CETI Capital |                  |
|------------------------------------------------------------|-----------------------|------------------|
|                                                            | Bucket 1              | Bucket 2*        |
| No distribution until more than 10.25% CETI capital is met | <=10.25%              | <=10.50%         |
| 50% of earnings may be distributed                         | >10.25% - 11.00%      | >10.50% - 11.50% |
| No restriction on distribution                             | >11.00%               | >11.50%          |

\* Assuming an HLA requirement of two percent (2%).

xxx

xxx