



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR No. 976

Series of 2017

Subject: Amendments to the Expanded Report on Real Estate Exposures (ERREE) and the Submission of the Report on Project Finance Exposures (RPFE)

The Monetary Board, in its Resolution No. 1617 dated 22 September 2017, approved the amendments to (1) the Expanded Report on Real Estate Exposures (ERREE) of Banks, and (2) the submission of the Report on Project Finance Exposures to gather more granular information regarding these exposures which are useful inputs in arriving at a comprehensive assessment of the quality of bank loans and vulnerability of banks on risks arising from these exposures.

Section 1. Limits on Real Estate Exposures. Section 1397 of the Manual of Regulations for Banks (MORB), as amended, on the limits on real estate exposures and other real estate property is hereby further amended to (1) clarify the definition of loans to finance infrastructure projects for public use that are currently exempt from the twenty percent (20%) limit on real estate loans, the expanded definition of real estate exposures and the Real Estate Stress Test (REST) limits, and (2) update the definition of socialized and low-cost housing units in accordance with the latest definition of the Housing and Urban Development Coordinating Council (HUDCC):

"Sec. 1397 Limits on Real Estate Exposures and Other Real Estate Property of Universal/Commercial Banks (UBs/KBs).

"1. Real Estate Loan Limit. Total real estate loans of UB/KBs, excluding Items "a" to "d" below, shall not exceed twenty percent (20%) of the total loan portfolio, net of interbank loans:

"xxx.

"It shall not include loans to finance the construction, rehabilitation and improvement of highways, streets, bridges, tunnels, railways, railroad, transport systems, ports, airports, power plants, hydropower projects, canals, dams, water supply, irrigation, telecommunications, land reclamation projects, industrial estates or townships, government buildings and housing projects, public markets, slaughterhouses, warehouses, civil work components of information technology networks and database infrastructure projects, solid waste management, sewerage, flood control, drainage, dredging and other infrastructure projects that are intended for public use.

"Purchase by banks of receivables under Contract to Sell (CTS) executed between the real estate developers and home buyers on a with recourse basis shall be considered loans to real estate developers and shall be classified as commercial real estate loans.

"Trust departments of UBs/KBs shall be exempted from the prescribed limit on real estate loans.

"Under HUDCC guidelines, socialized and low-cost housing units are defined as follows:

Housing Units	Price Ceiling
Low-cost	
Level 1-A (Socialized)	₱ 450,000 and below
Level 1-B	Above ₱ 450,000 to ₱ 500,000
Level 2	Above ₱ 500,000 to ₱ 1,700,000
Level 3	Above ₱ 1,700,000 to ₱ 3,000,000

or in such other amounts which HUDCC may prescribe in the future for said housing units.

"2. *Real Estate Stress Test (REST) Limits.* A prudential limit is set for real estate exposures and other real estate property of UBs/KBs. *Real estate exposures* shall refer to:

"a. Real estate loans (RELs), which shall consist of:

"(1) Residential real estate loans to individual households for occupancy categorized under the following types of housing segments:

- "(a) Socialized Housing;
- "(b) Low-Cost Housing;
- "(c) Mid-End Housing; and
- "(d) High-End Housing; and

"(2) Commercial real estate loans, which shall refer to loans granted to the following:

- "(a) individuals (including sole proprietorships);
- "(b) land developers/construction companies; and
- "(c) other corporate borrowers, such as
 - (i) Real estate brokers;
 - (ii) Real estate lessors;
 - (iii) Property management companies;
 - (iv) Holding companies; and
 - (v) Others;

for purposes of financing real estate activities;

"b. Investments in debt securities issued by land developers/construction companies and other corporate borrowers, such as real estate brokers, real estate lessors, property management companies, for purposes of financing real estate activities; and

"c. Investments in equity securities issued by land developers/construction companies and other corporate borrowers, such as real estate brokers, real estate lessors and property management companies, for purposes of financing real estate activities. Equity securities issued by holding companies are likewise covered, if proceeds from the issue shall be/has been invested by the holding company in its subsidiary corporation/s that is/are engaged in real estate activities.

"Real estate activities shall refer to the acquisition, construction and improvement of real estate; buying and selling of real estate; rental of self-owned or leased real estate; and management of real estate/real property.

"Real estate exposures shall not include loans and investments in debt and equity securities the proceeds of which are used to finance infrastructure projects for public use as defined under Item "1" of this Section.

"Other real estate property shall include those recorded under Real and Other Properties Acquired and Non-Current Assets Held for Sale.

"For this purpose, a stress test will be undertaken on UB's/KB's REEs (Real Estate Exposures) and other real estate property under an assumed write-off of twenty-five percent (25%).

"xxx."

Section 2. Report on Real Estate Exposures of Banks. Subsection X397.5 of the MORB is hereby added to set forth guidelines on the submission of the Expanded Report on Real Estate Exposures. The revised reportorial templates covering the amendments to the relevant Schedules under the Expanded Report on Real Estate Exposures are shown under Annexes A-1a (Bank Report) to A-1b (Banking Group Report). Specific guidelines on the mode and manner of electronic submission of the revised reportorial template of the Expanded Report on Real Estate Exposures shall be covered by a separate issuance.

"Sec. X397 Real Estate Exposures of Banks. The following are the guidelines governing real estate exposures of banks.

"xxx

"Sec. 3397 (Reserved)

"Subsecs. X397.1 - X397.4 (*Reserved*)

"Subsec. X397.5 Expanded report on real estate exposures. The Expanded Report on Real Estate Exposures is designed to measure and monitor the aggregate real estate exposures, as defined under Item "2" of Section 1397, of the banking system. The report aims to provide the Bangko Sentral with a comprehensive view of the quality and type of real estate loans/investments financed by banks.

"The Expanded Report on Real Estate Exposures (ERREE) shall be submitted in accordance with (a) the guidelines on the preparation of solo and consolidated financial statements under Subsection X191.3; and (b) the line item instructions prescribed under *Appendix 121a* of the MORB, attached as *Annex A-2*.

"This report shall be considered a *Category A-1* report and shall be submitted within the deadlines indicated in *Appendix 6* of the MORB.

“(1) Bank Report

“All UBs/KBs and thrift banks (TBs) shall submit the Expanded Report on Real Estate Exposures on a solo (i.e., head office and branches) basis. UBs/KBs and TBs shall, likewise, submit the ERREE covering real estate exposures of their trust departments.

“Starting quarter-ending 31 March 2018, a rural bank that is a subsidiary of a UB/KB or TB, shall also be required to submit the Expanded Report on Real Estate Exposures on a solo (head office and branches) basis. Covered RBs shall likewise submit the ERREE covering real estate exposures of its trust departments starting 31 March 2018.

“(2) Banking Group Report

“A parent UB/KB/TB shall, likewise, submit the Expanded Report on Real Estate Exposures on a consolidated (i.e., consolidated real estate exposures of the banking group) basis, including aggregate real estate exposures of trust departments of banks/Financial Institutions (FIs) that are part of the banking group.

“The schedules comprising covered banks’ Revised Expanded Report on Real Estate Exposures are as follows:

Report	Covered Banks	UBs	KBs	TBs	RBs that are subs. of UB/KB/TBs
1. Bank Report. This shall contain the solo report of the bank’s real estate exposures. Covered banks shall likewise submit the ERREE covering real estate exposure of their trust departments. a. Bank Proper and Trust Department b. Schedule 1 - Bank Proper c. Schedule 2 - Trust Department		X	X	X	X
2. Banking Group Report. This shall contain the consolidated report of the banking group’s real estate exposures. Covered banks shall likewise submit aggregate real estate exposures of trust departments of banks/FIs that are part of the banking group. a. Banking Group and Trust Department(s) of Banks/FIs that are part of the banking group b. Schedule 1 - Banking Group c. Schedule 2 - Trust Department(s)		X	X	X	

“The revised guidelines, line item instructions and reportorial templates shall take effect starting the quarter ending 30 June 2018.

“A pilot run of the revised Expanded Report on Real Estate Exposures (ERREE) shall be conducted for the quarter ending 31 March 2018. During the pilot run, covered banks and their trust department shall submit both the original and revised ERREE (on a solo and consolidated basis) in accordance with the following submission deadlines:

Expanded Report on Real Estate Exposures	Submission deadline
a. ERREE template	Within 30 banking days after end of the reference quarter ending as of 31 March 2018.
b. Revised ERREE template in accordance with guidelines provided in this circular	Within 45 banking days after end of 31 March 2018

Section 3. Report on Project Finance Exposures. Subsection 1192.19 of the MORB is hereby added to set forth the guidelines on the submission of the Report on Project Finance Exposures. The reportorial templates for the Report on Project Finance Exposures are shown under Annexes B-1a (Bank Report) to B-1b (Banking Group Report). Specific guidelines on the mode and manner of electronic submission of the reportorial template of the Report on Project Finance Exposures shall be covered by a separate issuance.

“Subsec. 1192.19 Report on Project Finance Exposures. The Report on Project Finance Exposures is designed to measure and monitor the exposure of the banking system to project finance as defined under Subsection X330.2.

“All UBs/KBs shall submit the Report on Project Finance Exposures in accordance with (a) the guidelines on the preparation of solo and consolidated financial statements under Subsection X191.3; and (b) the line item instructions prescribed under *Appendix 121b* of the MORB, attached as *Annex B-2*.

“This report shall be considered a *Category A-1* report and shall be submitted within the deadlines indicated in *Appendix 6* of the MORB.

“(1) Bank Report

“All UBs/KBs shall submit the Report on Project Finance Exposures on a solo (i.e., head office and branches) basis. UBs/KBs shall, likewise, submit the Report on Project Finance Exposures covering project finance exposures of their trust departments.

“(2) Banking Group Report

“A parent UB/KB shall, likewise, submit the Report on Project Finance Exposures on a consolidated (i.e., consolidated project finance exposures of the banking group) basis, including aggregate project finance exposures of trust departments of banks/Financial Institutions (FIs) that are part of the banking group.

“The schedules comprising covered banks’ Report on Project Finance Exposures are as follows:

Report	Covered Banks	UBs	KBs
1. Bank Report. This shall contain the solo report of the bank’s project finance exposures. Trust departments of covered banks shall likewise submit the Report on Project Finance Exposures covering the project finance exposure of their clients. a. Bank Proper and Trust Department b. Schedule 1 - Bank Proper c. Schedule 2 - Trust Department		X	X

Report	Covered Banks	UBs	KBs
2. Banking Group Report. This shall contain the consolidated report of the banking group's project finance exposures. UBs/KBs shall likewise submit aggregate project finance exposures of trust departments of banks/FIs that are part of the banking group. a. Banking Group and Trust Department(s) of Banks that are part of the banking group b. Schedule 1 - Banking Group c. Schedule 2 - Trust Department(s)		X	X

"A pilot run of the Report on Project Finance Exposures shall be conducted for the quarter-ending 31 March 2018 which shall be submitted within forty-five (45) banking days after the reference quarter. The template of the Report on Project Finance Exposures shall take effect starting with the reporting period ending 30 June 2018."

Section 4. Amendments to Appendix 6 "Reports Required of Banks" of the MORB

Appendix 6 "Reports Required of Banks" of the MORB, is hereby amended as shown in Annex C.

Section 5. Amendments to the Financial Reporting Package (FRP) for Banks. The line item instructions and template of the Financial Reporting Package for Banks is revised to align with the guidelines set forth in this Circular.

A. Line Item Instructions of Schedules 11d and its Sub-Schedules

The Line Item Instructions for Schedules 11d and its Sub-Schedules pertaining to *Gross Loans and Receivables-Others – Classified as to Type of Business/Industry of Counterparty* of the FRP for Banks/Simplified Financial Reporting Package for Rural and Cooperative Banks are hereby further amended to read, as follows:

"Schedules 11d (Total Amount), 11d1 (Peso Accounts), 11d2 (Foreign Regular), 11d3 (FCDU/EFCDU) and 11d4 (Foreign Offices) – Gross Loans and Receivables – Others – Classified as to Type of Business/Industry of Counterparty

"xxx.

"Additional Information

Report under Items (1) to (4) the amortized cost (i.e. gross of allowance for credit losses) of Loans and Receivables – Others classified as to the following status:

- "(1) Current
- "(2) Past Due
- "(3) Non-Performing
- "(4) Items in Litigation

Report under Items (5) and (6) the amortized cost of Loans and Receivables – Others reported as real estate loans:

“(5) Real estate loans under Circular No. 600 – Report the amortized cost of Loans and Receivables-Others which are reported as real estate loans following the definition provided under Circular No. 600 dated 4 February 2008^{1/}.

“(6) Real estate exposures under Memorandum No. M-2012-046 - xxx.

“Non-Performing Loans are defined under the line item instructions for Schedule 10.

“^{1/}This shall correspond to Real Estate Loans reported under Item Nos. I.A and I.B.1 of the Expanded Report on Real Estate Exposures of covered banks.”

B. Line Item Instructions and Template of Schedules 11g1, 11g2, and 11g3

The Line Item Instructions, attached as Annex D, and template of Schedules 11g1, 11g2, and 11g3 of the FRP issued under Circular No. 512 dated 3 February 2006, as amended, shall be deleted upon live implementation of the revised ERREE starting quarter-ending 30 June 2018.

Section 6. Effectivity

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:

Maria Almasara Cyd N. Tuño-Amador
MARIA ALMASARA CYD N. TUAÑO-AMADOR
Officer-in-Charge

10 October 2017