



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 914
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Subject: Amendments to Prudential Policy on Loans, Other Credit Accommodations, and Guarantees Granted to Directors, Officers, Stockholders, and their Related Interests (DOSRI), Subsidiaries and Affiliates

The Monetary Board, in its Resolution No.974 dated 2 June 2016, approved the revisions to prudential policy on loans, other credit accommodations, and guarantees granted to directors, officers, stockholders, and their related interests (DOSRI), subsidiaries and affiliates amending relevant provisions of the Manual of Regulations for Banks/Manual of Regulations for Non-Bank Financial Institutions (MORB/MORNBFI) as follows:

Section 1. Chapter E of Part Three of the MORB on Loans/Other Credit Accommodations to Directors, Officers, Stockholders and their Related Interests is hereby amended to read as follows:

"E. LOANS AND OTHER CREDIT ACCOMMODATIONS TO DIRECTORS, OFFICERS, STOCKHOLDERS, AND THEIR RELATED INTERESTS/SUBSIDIARIES/AFFILIATES

Sec. X326 Policy Statement. The Bangko Sentral recognizes that transactions of its supervised financial institutions (BSFIs) with related parties, which include dealings with directors, officers, stockholders, and their related interests (DOSRI), subsidiaries, and affiliates, may be both productive and prudent. The Bangko Sentral also recognizes the need to provide BSFIs with flexibility with respect to lending to DOSRI, subsidiaries, and affiliates premised on the overarching principle that the transactions shall at all times be kept above board and conducted on an arm's length basis, and that BSFIs have adopted robust internal policies and procedures in handling related party transactions that are compliant with the minimum requirements of law and regulations.

Subsec. X326.1 Definitions. For purposes of these regulations, the following definitions shall apply:

x x x

e. *Related interest* shall refer to any of the following:

x x x

(3) Co-owner with the director, officer, stockholder or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of the

property or interest or right mortgaged, pledged or assigned to secure the loans or other credit accommodations, except when the mortgage, pledge or assignment covers only said co-owner's undivided interest;

(4) Corporation, association or firm of which any or a group of directors, officers, stockholders of the lending bank and/or their spouses or relatives within the first degree of consanguinity or affinity, or relative by legal adoption, hold or own at least twenty percent (20%) of the subscribed capital of such corporation, or of the equity of such association or firm;

(5) Corporation, association or firm wholly or majority-owned or controlled by any related entity or a group of related entities mentioned in Items "e(2)" and "e(4)" of this Section;

(6) Corporation, association or firm which owns or controls directly or indirectly whether singly or as part of a group of related interest at least twenty-percent (20%) of the subscribed capital of a substantial stockholder of the lending bank or which controls majority interest of the bank pursuant to Subsec. X303.1;

(7) Corporation, association or firm which has an existing management contract or any similar arrangement with the parent of the lending bank; and

(8) Non-governmental organizations (NGOs)/ foundations that are engaged in retail microfinance operations which are incorporated by any of the stockholders and/or directors and/or officers or related banks.

The general principles and standards that will govern the business relationships between banks and their related NGOs/foundations engaged in retail microfinance are found in Appendix 27.

f. *Subsidiary* shall refer to a corporation or firm more than fifty percent (50%) of the outstanding voting stock of which is directly or indirectly owned, controlled or held with power to vote by its parent corporation.

g. *Affiliate* shall refer to an entity linked directly or indirectly to a bank by means of:

(1) Ownership, control as defined under Subsec. X146.1, or power to vote of at least twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice-versa;

(2) Interlocking directorship or officership, where the concerned director or officer owns; controls, as defined under Subsec. X146.1; or has the power to vote of at least twenty percent (20%) of the outstanding voting stock of the borrowing entity;

(3) Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the bank and at least twenty percent (20%) of the outstanding voting stock of the borrowing entity;

(4) Management contract or any arrangement granting power to the bank to direct or cause the direction of management and policies of the borrowing entity; or

(5) Permanent proxy or voting trusts in favor of the bank constituting at least twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa.

In cases where the borrowing entity is linked to the lending bank both as DOSRI and as a subsidiary or affiliate, the DOSRI rules shall apply.

h. *Unencumbered deposits* x x x

i. *Book value of the paid-in capital contribution* x x x

j. *Net worth* x x x

k. *Total loan portfolio* x x x

l. *Secured loan, borrowing or other credit accommodation* shall refer to any loan, or credit accommodation or portion thereof referred to in Sec. X327 which is secured by physical collateral, financial guarantee, or other instruments, that are enforceable, realizable, and marketable and meets the standards prescribed under Subsec. X178.7 and Sec. X311.

m. *Unsecured loan, borrowing or other credit accommodation* x x x.

Sec. X327 Transaction Covered. x x x

Sec. X328 Transactions Not Covered. x x x

x x x

Subsec. X328.5 Loans, other credit accommodations and guarantees granted to subsidiaries and/or affiliates.

a. *Ceilings.* The total outstanding loans, other credit accommodations and guarantees to each of the bank's subsidiaries and affiliates shall not exceed ten percent (10%) of the net worth of the lending bank: *Provided,* That the unsecured loans, other credit accommodations and guarantees to each of said subsidiaries and affiliates shall not exceed five percent (5%) of such net worth: *Provided, further,* That the total outstanding loans, other credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed twenty percent (20%) of the net worth of the lending bank: *Provided, finally,* That these subsidiaries and affiliates are not related interest of any of the director, officer, and/or stockholder of the lending bank.

Loans, other credit accommodations and guarantees granted by a bank to its subsidiaries and affiliates engaged in, or for the purpose of undertaking

infrastructure, energy and power generation, and other priority programs and projects, including those under the Public-Private Partnership (PPP) Program of the government, consistent with the Philippine Development Plan/Public Investment Program of the National Government, duly certified as such by the Secretary of Socio-Economic Planning, shall be subject to a separate individual limit of twenty-five percent (25%) of the net worth of the lending bank: *Provided*, That the unsecured portion thereof shall not exceed twelve and one-half percent (12.5%) of such net worth: *Provided, further*, That these subsidiaries and affiliates are not related interest of any of the director, officer, and/or stockholder of the lending bank: *Provided, finally*, That the total outstanding loans, other credit accommodations and guarantees to all subsidiaries and affiliates shall be subject to the aggregate limits for related party transactions.

b. *Exclusions from the ceilings.* Loans, other credit accommodations and guarantees secured by assets considered as non-risk under existing Bangko Sentral regulations as well as interbank call loans shall be excluded in determining compliance with the ceilings prescribed under Item "a" above.

c. *Procedural requirements.* x x x.

Sec. X329 Direct or Indirect Borrowings. x x x

x x x

Subsec. X330.1 Exclusions from individual ceiling. x x x

Subsec. X330.2 Exclusions from the thirty percent (30%) unsecured individual ceiling for project finance

Loans, other credit accommodations, and guarantees granted by a bank to its DOSRI for the purpose of project finance, shall be exempted from the thirty percent (30%) unsecured individual ceiling during the project gestation phase¹: *Provided*, That: the lending bank shall ensure that standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include pledge of the borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts, and assignment of project documents.

For this purpose, "project finance" is defined as a method of funding in which the lender looks primarily to the revenues generated by a single project, both as a source of repayment and as security for the exposure. It possesses all the following characteristics either in legal form or economic substance:

a. The exposure is typically to an entity (often a special purpose entity or SPE) which was created specifically to finance and/or operate physical assets;

- b. The borrowing entity has little or no other material assets or activities, and therefore little or no independent capacity to repay the obligation, apart from the income that it receives from the asset(s) being financed;
- c. The terms of the obligation give the lender a substantial degree of control over the asset(s) and the income that it generates; and
- d. As a result of the preceding factors, the primary source of repayment of the obligation is the income generated by the asset(s) being financed, rather than the independent capacity of a broader commercial enterprise.

¹ This refers to the pre-operational phase of the project that does not yet generate cash flows.

Sec. X331 Aggregate Ceiling; Ceiling on Unsecured Loans, Other Credit Accommodations and Guarantees x x x

x x x

Sec. X336 Supervisory Enforcement Actions. The Bangko Sentral reserves the right to deploy its range of supervisory tools to promote adherence to the requirements set forth in the foregoing rules and bring about timely corrective actions and compliance with Bangko Sentral directives. The Bangko Sentral considers abuses in credit to related parties (including credit to DOSRI, subsidiaries, and affiliates) as serious offenses and shall be dealt with severely. In this regard, abuse shall be interpreted to include extending credit to related parties without adopting appropriate internal policies.

For this purpose, the Bangko Sentral may among others, issue directives or sanctions on the Bank and responsible persons, which may include restrictions or prohibitions of lending to related parties or from certain authorities/activities, restrictions or prohibitions on dividend declarations; and warning reprimand, suspension, removal and disqualification of concerned bank directors, officers, and/or employees. In addition, the Bangko Sentral may apply the borrowing director/ officer/stockholder's share in the bank's profit sharing program against the excess of credit extended over any of the prescribed DOSRI ceilings.

In case of imposition of monetary sanction for violations of the foregoing provisions, the penalty shall be computed as follows:

(a) Loans to DOSRI

For the duration of each violation, imposition of a fine of one-tenth of one percent (1/10 of 1%) of the excess over the ceilings per day but not to exceed P30,000 a day on the following:

- (1) The lending bank;
- (2) The director, officer or stockholder whose borrowing exceeds his individual ceiling; and

- (3) Each of the directors voting for the approval of the loan or other credit accommodation in excess of any of the ceilings prescribed in Secs. X330 and X331.

The penalty for exceeding the individual ceiling, aggregate ceiling and ceiling on unsecured loans shall be computed on the average amount of loans in excess of said ceilings during the same week.

(b) Loans to subsidiaries and affiliates

For the duration of each violation, imposition of a fine of one tenth (1/10) of one percent (1%) of the excess over the ceilings per day but not to exceed P30,000 a day on the following:

- (1) The lending bank; and
- (2) Each of the directors voting for the approval of the loan, other credit accommodation or guarantee in excess of any of the ceilings prescribed in Subsec. X328.5.

Sec. X337 Waiver of Secrecy of Deposit x x x

x x x

Sec. X340 Applicability of DOSRI Rules and Regulations to Government Borrowings in Government-Owned or – Controlled Banks. The provisions of Secs. X326 to X337 shall also apply to loans, other credit accommodations, and/or guarantees granted to the National Government or Republic of the Philippines, its political subdivisions and instrumentalities as well as GOCCs, subject to the following clarifications:

x x x

b. Loans, other credit accommodations, and/or guarantees to: (1) GOCCs; and (2) corporations where the Republic of the Philippines, its agencies/departments/bureaus, and/or GOCCs own at least twenty percent (20%) of the subscribed capital stock shall be considered indirect borrowings of the Republic of the Philippines and shall form part of the individual ceiling as well as the aggregate ceiling: *Provided*, That the following loans, other credit accommodations, and/or guarantees to GOCCs and corporations where the Republic of the Philippines, its agencies/departments/bureaus, and/or GOCCs own at least twenty percent (20%) of the subscribed capital stock, shall be excluded from the thirty percent (30%) ceiling on unsecured loans under Secs. X330 and X331:

- (1) Loans, other credit accommodations, and/or guarantees for the purpose of undertaking infrastructure and other priority programs and projects consistent with the Philippine Development Plan/Public Investment Program of the National Government, duly certified as such by the Secretary of Socio-Economic Planning;

x x x"

Section 2. Chapter E of Part Three of the MORNBF I on Loans/Credit Accommodations to Directors, Officers, Stockholders and their Related Interests is hereby amended to read as follows:

"E. LOANS AND CREDIT ACCOMMODATIONS TO DIRECTORS, OFFICERS, STOCKHOLDERS, AND THEIR RELATED INTERESTS /SUBSIDIARIES/AFFILIATES

Sec. 4326Q (2008-4356Q) Policy Statement. The Bangko Sentral recognizes that transactions of its supervised financial institutions (BSFIs) with related parties, which include dealings with directors, officers, stockholders, and their related interests (DOSRI), subsidiaries, and affiliates, may be both productive and prudent. The Bangko Sentral also recognizes the need to provide BSFIs with flexibility with respect to lending to DOSRI, subsidiaries, and affiliates premised on the overarching principle that the transactions shall at all times be kept above board and conducted on an arm's length basis, and that BSFIs have adopted robust internal policies and procedures in handling related party transactions that are compliant with the minimum requirements of law and regulations.

Subsec. 4326Q.1 (2008 - 4356Q.1) Definitions. For purposes of these regulations, the following definitions shall apply:

x x x

f. Secured loan, borrowing, or credit accommodation shall refer to any loan, discount, credit or advance, or portion thereof referred to in Sec. 4327Q which is secured by physical collateral, financial guarantee, or other instruments, that are enforceable, realizable, and marketable and meets the standards prescribed under Subsec. 4178Q.7 and Sec. 4311Q.

g. *Unsecured loan, borrowing or credit accommodation* x x x.

Sec. 4327Q (2008 - 4357) Transactions Covered. The terms *loan, borrow, money borrowed* and *credit accommodations* as used herein shall refer to transactions which involve the grant, renewal, extension or increase of any loan, discount, credit or advance in any form whatsoever, and shall include:

a. Outstanding availments under an established credit line;

x x x

i. Any other transaction as a result of which a director, officer or stockholder becomes obligated or may become obligated to the lending QB, directly or indirectly, by any means whatsoever to pay money or its equivalent.

No QB shall grant, renew or extend any credit accommodation to its DOSRI whenever its combined capital accounts is deficient relative to risk assets held under Sec. 4115Q and 4116Q, or whenever its paid-in capital is deficient relative to the required minimum capitalization. Neither shall it grant, renew or extend any credit

accommodation to any of its DOSRI who has past due credit accommodations with the QB.

Sec. 4328Q (2008 - 4358Q) Transactions Not Covered. x x x

x x x

Subsec. 4328Q.5 (2008-4328Q) Loans, other credit accommodations and guarantees granted to subsidiaries and/or affiliates.

- a. *Ceilings.* The total outstanding loans, other credit accommodations and guarantees to each of the QB's subsidiaries and affiliates shall not exceed ten percent (10%) of the net worth of the lending QB: *Provided,* That the unsecured loans, other credit accommodations and guarantees to each of said subsidiaries and affiliates shall not exceed five percent (5%) of such net worth: *Provided, further,* That the total outstanding loans, other credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed twenty percent (20%) of the net worth of the lending QB: *Provided, finally,* That these subsidiaries and affiliates are not related interest of any of the director, officer, and/or stockholder of the lending institution.

Loans, other credit accommodations and guarantees granted by a QB to its subsidiaries and affiliates engaged in, or for the purpose of undertaking infrastructure, energy and power generation, and other priority programs and projects, including those under the Public-Private Partnership (PPP) Program of the government, consistent with the Philippine Development Plan/Public Investment Program of the National Government, duly certified as such by the Secretary of Socio-Economic Planning, shall be subject to a separate individual limit of twenty-five percent (25%) of the net worth of the lending QB: *Provided,* That the unsecured portion thereof shall not exceed twelve and one-half percent (12.5%) of such net worth: *Provided, further,* That these subsidiaries and affiliates are not related interest of any of the director, officer, and/or stockholder of the lending QB.

- b. *Exclusions from the ceilings. x x x*

- c. *Procedural requirements. x x x*

Sec. 4329Q (2008 - 4359Q) Direct or Indirect Borrowings. x x x

Sec. 4330Q (2008 - 4360Q) Individual Ceiling; Single-Borrower Limit. x x x

Subsec. 4330Q.1 Exclusions from the thirty percent (30%) unsecured individual ceiling for project finance

Loans, other credit accommodations, and guarantees granted by a QB to its DOSRI for the purpose of project finance, shall be exempted from the thirty percent (30%) unsecured individual ceiling during the project gestation phase¹: *Provided,* that the QB shall ensure that standard prudential controls in project finance loans designed to

safeguard creditors' interests are in place, which may include pledge of the borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts, and assignment of project documents.

For this purpose, "project finance" is defined as a method of funding in which the lender looks primarily to the revenues generated by a single project, both as a source of repayment and as security for the exposure. It possesses all the following characteristics either in legal form or economic substance:

- a. The exposure is typically to an entity (often a special purpose entity or SPE) which was created specifically to finance and/or operate physical assets;
- b. The borrowing entity has little or no other material assets or activities, and therefore little or no independent capacity to repay the obligation, apart from the income that it receives from the asset(s) being financed;
- c. The terms of the obligation give the lender a substantial degree of control over the asset(s) and the income that it generates; and
- d. As a result of the preceding factors, the primary source of repayment of the obligation is the income generated by the asset(s) being financed, rather than the independent capacity of a broader commercial enterprise.

¹ This refers to the pre-operational phase of the project that does not yet generate cash flows.

Sec. 4331Q (2008-4361Q) Aggregate Ceiling; Ceiling on Unsecured Loans. x x x

x x x

Sec. 4336Q (2008-4365Q) Supervisory Enforcement Actions. The Bangko Sentral reserves the right to deploy its range of supervisory tools to promote adherence to the requirements set forth in the foregoing rules and bring about timely corrective actions and compliance with Bangko Sentral directives. The Bangko Sentral considers abuses in credit to related parties (including credit to DOSRI, subsidiaries, and affiliates) as serious offenses and shall be dealt with severely. In this regard, abuse shall be interpreted to include extending credit to related parties without adopting appropriate internal policies.

For this purpose, the Bangko Sentral may among others, issue directives or sanctions on the Bank and responsible persons, which may include restrictions or prohibitions of lending to related parties or from certain authorities/activities, restrictions or prohibitions on dividend declarations; and warning reprimand, suspension, removal and disqualification of concerned bank directors, officers, and/or employees. In addition, the Bangko Sentral may apply the borrowing director/ officer/stockholder's share in the QB's profit sharing program against the excess of credit extended over any of the prescribed DOSRI ceilings.

In case of imposition of monetary sanction for violations of the foregoing provisions, the penalty shall be computed as follows:

(a) Loans to DOSRI

For the duration of each violation, imposition of a fine of one-tenth of one percent (1/10 of 1%) of the excess over the ceilings per day but not to exceed P30,000 a day on (1) the lending QB and the director, officer, or stockholder whose borrowing exceeds his individual ceiling and (2) each of the directors voting for the approval of the loan or credit accommodation in excess of any of the ceilings prescribed in Secs. 4330Q and 4331Q.

The penalty for exceeding the individual ceiling, aggregate ceiling and ceiling on unsecured loans shall be computed on the average amount of loans in excess of said ceilings during the same week.

(b) Loans to subsidiaries and affiliates

For the duration of each violation, imposition of a fine of one tenth (1/10) of one percent (1%) of the excess over the ceilings per day but not to exceed P30,000 a day on the following:

(1) The lending QB; and

(2) Each of the directors voting for the approval of the loan, other credit accommodation or guarantee in excess of any of the ceilings prescribed in Subsec. 4328Q.5.

x x x

Sec. 4340Q (2008-4366Q) Bank DOSRI Rules and Regulations Applicable to Government Borrowings in Government-Owned or – Controlled Quasi-Banks. The provisions of Secs. X326 to X337 of the Manual of Regulations for Banks (MORB), to the extent applicable, shall also apply to loans, other credit accommodations, and guarantees granted to the National Government or Republic of the Philippines, its political subdivisions and instrumentalities as well as GOCCs, subject to the following clarifications:

x x x

b. Loans, other credit accommodations, and/or guarantees to: (1) GOCCs; and (2) corporations where the Republic of the Philippines, its agencies/ departments/bureaus, and/or GOCCs own at least twenty percent (20%) of the subscribed capital stock shall be considered indirect borrowings of the Republic of the Philippines and shall form part of the individual ceiling as well as the aggregate ceiling: *Provided*, That the following loans, other credit accommodations, and/or guarantees to GOCCs and corporations where the Republic of the Philippines, its agencies/departments/bureaus, and/or GOCCs own at least twenty percent (20%) of the subscribed capital stock, shall be excluded from the thirty percent (30%) ceiling on unsecured loans under Secs. X330 and X331 of the MORB:

- (1) Loans, other credit accommodations, and/or guarantees for the purpose of undertaking infrastructure and other priority programs and projects consistent with the Philippine Development Plan/Public Investment Program of the National Government, duly certified as such by the Secretary of Socio-Economic Planning;

x x x"

Section 3. Sections X311/4311Q/4311N of the MORB/MORNBFI on secured loans and other credit accommodations are hereby amended to read as follows:

"Sec. X311/4311Q/4311N Secured Loans and Other Credit Accommodations. A loan may be considered secured by collateral to the extent the estimated value of net proceeds at disposition of such collateral can be used without legal impediment to settle the principal and accrued interest of such loan: x x x

A loan may also be considered as secured to the extent covered by a third party financial guarantee or surety arrangement where the credit enhancement provider is itself considered to be of high credit quality (credit rating of at least AA or equivalent) or is recognized by the Bangko Sentral as eligible guarantor under existing regulations.

x x x"

Section 4. Subsection X192.12 of the MORB on reports required of foreign subsidiaries/affiliates/banking offices or non-bank entities of domestic banks is hereby amended to read as follows:

"Subsec. X192.12 Reports required of foreign subsidiaries/affiliates/banking offices or non-bank entities of domestic banks. The submission of periodic reports of a foreign subsidiary / affiliate / banking offices or non-bank entities of domestic banks shall be governed by the following rules:

x x x

f. For purpose of this Subsection, affiliate shall refer to an entity linked directly or indirectly to a bank by means of:

- (1) Ownership, control as defined under Subsec. X146.1, or power to vote of at least twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice-versa;
- (2) Interlocking directorship or officership, where the concerned director or officer owns; controls, as defined under Subsec. X146.1; or has the power to vote of at least twenty percent (20%) of the outstanding voting stock of the borrowing entity;

- (3) Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the bank and at least twenty percent (20%) of the outstanding voting stock of the borrowing entity;
- (4) Management contract or any arrangement granting power to the bank to direct or cause the direction of management and policies of the borrowing entity; or
- (5) Permanent proxy or voting trusts in favor of the bank constituting at least twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa.

For purposes of this Manual, the above definition of *affiliate* shall be adopted except where the provision of the regulation expressly states otherwise."

Section 5. Section 4002Q of the MORNBF1 on the definitions is hereby amended to read as follows:

"Sec. 4002Q Definitions

x x x

b. *Affiliate* is an entity linked directly or indirectly to a QB by means of:

- (1) Ownership, control as defined under Subsec. X146.1 of the MORB or power to vote of at least twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice-versa;
- (2) Interlocking directorship or officership, where the concerned director or officer owns; controls, as defined under Subsec. X146.1 of the MORB; or has the power to vote at least twenty percent (20%) of the outstanding voting stock of the borrowing entity;
- (3) Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the financial intermediary and at least twenty percent (20%) of the outstanding voting stock of the borrowing entity;
- (4) Management contract or any arrangement granting power to the financial intermediary to direct or cause the direction of management and policies of the borrowing entity; or
- (5) Permanent proxy or voting trust in favor of the financial intermediary constituting at least twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa.

x x x"

Section 6. Subsection X146.1 of the MORB on definition of terms is hereby amended to read as follows:

"Subsec. X146.1 Definition of Terms. For purposes of this Section, the following definitions shall apply:

- a. ***Related parties*** shall cover the bank's subsidiaries as well as affiliates¹ and any party (including their subsidiaries, affiliates and special purpose entities) that the bank exerts direct/indirect control over or that exerts direct/indirect control over the bank; the bank's directors, officers, stockholders and their related interests (DOSRI) and their close family members, as well as corresponding persons in affiliated companies. This shall also include such other person/juridical entity whose interests may pose potential conflict with the interest of the financial institution (FI), hence, is identified as a related party.

The above definition shall also include direct or indirect linkages to a bank identified as follows:

- (1) Ownership, control or power to vote, of ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice-versa;
- (2) Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal share in the borrowing corporation;
- (3) Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the bank and ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity; or
- (4) Permanent proxy or voting trusts in favor of the bank constituting ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa.

b. ***Close family members*** x x x

x x x"

¹ As defined under Subsec. X326.1

Section 7. Subsection X146.5 of the MORB on supervisory enforcement actions is hereby amended to read as follows:

"Subsec. X146.5. Supervisory Enforcement Actions. The Bangko Sentral reserves the right to deploy its range of supervisory tools to promote adherence to the requirements set forth in the guidelines under this Section and bring about timely corrective actions and compliance with Bangko Sentral directives. The Bangko Sentral considers abuses in credit to related parties as serious offenses and shall be dealt with

severely. In this regard, abuse shall be interpreted to include extending credit to related parties without adopting appropriate internal policies. For this purpose, the Bangko Sentral may, among others, issue directives or sanctions on the Bank and responsible persons, which may include restrictions or prohibitions of lending to related parties or from certain authorities/activities, restrictions or prohibitions on dividend declarations; and warning, reprimand, suspension, removal and disqualification of bank directors, officers and/or employees concerned."

Section 8. Section X111/4111Q of the MORB/MORNBF on minimum required capital is hereby amended to read as follows:

"Sec. X111 (2008 - X106) Minimum Required Capital. The following provisions shall govern the capital requirements for banks

The term *capital* shall be synonymous to *unimpaired capital and surplus, combined capital accounts* and *net worth* and shall refer to the total of the unimpaired paid-in capital, surplus and undivided profits, less:

x x x

- b. Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders, and their related interests (DOSRI) granted by the bank proper;
- c. Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries;
- d. Total outstanding loans, other credit accommodations and guarantees granted to related parties that are not at arm's length terms as determined by the appropriate supervising department of the Bangko Sentral;
- e. Deferred income tax;
- f. Appraisal increment reserve (revaluation reserve) as a result of appreciation or an increase in the book value of bank assets;
- g. Equity investment of a bank in another bank or enterprise, whether foreign or domestic, if the other bank or enterprise has a reciprocal equity investment in the investing bank, in which case, the investment of the bank or the reciprocal investment of the other bank or enterprises, whichever is lower; and
- h. In the case of RBs/Coop Banks, the government counterpart equity, except those arising from conversion of arrearages under the Bangko Sentral rehabilitation program.

x x x"

"Sec. 4111Q (2008 – 4106Q) Minimum Required Capitalization. A QB shall have a minimum combined capital accounts of P300.0 million.

Combined capital accounts shall mean the total capital stock, retained earnings and profit and loss summary, net of (a) such unbooked valuation reserves and other capital adjustments as may be required by the Bangko Sentral, (b) total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, all stockholders and their related interests (DOSRI), (c) total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries, and (d) total outstanding loans, other credit accommodations and guarantees granted to related parties that are not at arm's length terms as determined by the appropriate supervising department of the Bangko Sentral. x x x

x x x"

Section 9. Paragraph 4 of Part II of Appendix 63b/Q-46 of the MORB/MORNBFI on Qualifying Capital under Basel III Risk-Based Capital (Section X115/4115Q of the MORB/MORNBFI) is hereby amended, as follows:

"Part II. Qualifying capital

x x x

Section A. Domestic banks

CET1 Capital

x x x

Regulatory adjustment to CET1 capital

4. The following must be deducted from/(added to) CET1 capital:

x x x

- d. Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI;
- e. Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries;
- f. Total outstanding loans, other credit accommodations and guarantees granted to related parties that are not at arm's length terms as determined by the appropriate supervising department of the Bangko Sentral;
- g. Deferred tax assets x x x;
- h. Goodwill x x x;
- i. Other intangible asset x x x;
- j. Gain on sale x x x;
- k. Defined benefit x x x;
- l. Investment in equity of unconsolidated subsidiary banks x x x;

- m. Investment in equity of unconsolidated subsidiary securities dealers x x x;
 - n. Significant minority investments (10%-50% of voting stock) in banks x x x;
 - o. Significant minority investments (10%-50% of voting stock) in securities x x x;
 - p. Minority investments (below 10% of voting stock) in banks x x x;
 - q. Minority investments (below 10% of voting stock) in securities dealers x x x;
x x x
 - r. Other equity investments x x x;
 - s. Capital shortfalls x x x;
 - t. Reciprocal investments x x x;
 - u. Materiality thresholds x x x;
 - v. Credit linked notes x x x;
 - w. Securitization tranches x x x; and
 - x. Credit enhancing interest x x x.
- x x x"

Section 10. Parts II and III of Appendix 63c of the MORB on Qualifying Capital and Credit Risk-Weighted Assets, respectively, under the Revised Risk-Based Capital Adequacy Framework for Stand-Alone Thrift Banks, Rural Banks, and Cooperative Banks (Section X118 of the MORB) are hereby amended, as follows:

"Part II. Qualifying capital

x x x

A. Tier 1 Capital

x x x

3. Core Tier 1 capital consists of:

x x x

j. Minority interest x x x

Less:

x x x

- v. Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, net of allowance for credit losses;
- vi. Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries, net of allowance for credit losses;
- vii. Total outstanding loans, other credit accommodations and guarantees granted to related parties that are not at arm's length terms as determined by the appropriate supervising department of the Bangko Sentral, net of allowance for credit losses;

viii. Deferred tax asset, net of deferred tax liability: x x x; and

ix. Goodwill, net of allowance for losses, x x x.

x x x

Part III. Credit Risk-Weighted Assets

x x x

A. On-Balance Sheet Assets

2. The risk-weighted amount x x x

x x x

g) 100% risk weight –

x x x

xii. Foreign currency checks and other cash items not acceptable as international reserves, except those which are deducted from capital, as follows:

- (1) Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI - net of allowance for credit losses;
- (2) Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries - net of allowance for credit losses;
- (3) Total outstanding loans, other credit accommodations and guarantees granted to related parties that are not at arm's length terms as determined by the appropriate supervising department of the Bangko Sentral - net of allowance for credit losses;
- (4) Deferred tax asset, net of deferred tax liability: x x x;
- (5) Goodwill x x x;
- (6) Sinking fund for redemption of limited life redeemable preferred stock with the replacement requirement x x x;
- (7) Sinking fund for redemption of limited life redeemable preferred stock without the replacement requirement x x x;
- (8) Investment in equity of unconsolidated subsidiary x x x;
- (9) Investment in other regulatory capital x x x;
- (10) Investment in equity of subsidiary non-financial x x x;
- (11) Significant minority investments x x x;
- (12) Reciprocal investments in equity x x x.

x x x"

Section 11. Subsections 4116Q.2 and 4116Q.3 of the MORNBF I on qualifying capital and risk-weighted assets, respectively, are hereby amended, as follows:

"Subsec. 4116Q.2 (2008 - 4116Q.1) *Qualifying capital.* The qualifying capital shall be the sum of --

a. Tier 1 (core) capital –

x x x

(10) Minority interest x x x

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

x x x

(e) Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI;

(f) Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries;

(g) Total outstanding loans, other credit accommodations and guarantees granted to related parties that are not at arm's length terms as determined by the appropriate supervising department of the Bangko Sentral;

(h) Deferred income tax; and

(i) Goodwill.

x x x"

"Subsec. 4116Q.3 (2008 - 4116Q.2) *Risk-weighted assets.* x x x

(1) general loan loss provision x x x

x x x

a. *On-balance sheet assets.* The risk-weighted x x x

(1) *Zero percent (0%) risk weight*

x x x

(4) *One hundred percent (100%) risk weight –*

x x x

(p) Foreign COCl s not denominated in foreign currencies acceptable as international reserves, except those which are deducted from capital, as follows:

(i) Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI;

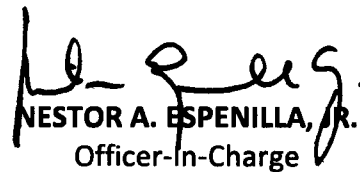
(ii) Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries;

- (iii) Total outstanding loans, other credit accommodations and guarantees granted to related parties that are not at arm's length terms as determined by the appropriate supervising department of the Bangko Sentral;
- (iv) Deferred income tax;
- (v) Goodwill;
- (vi) Sinking fund for redemption x x x;
- (vii) Equity investments in unconsolidated subsidiary banks x x x;
- (viii) Investments in debt capital instruments x x x;
- (ix) Equity investments in subsidiary insurance x x x;
- (x) Reciprocal investments in equity of other banks/enterprises; and
- (xi) Reciprocal investments in unsecured x x x.

x x x"

Section 12. 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:


NESTOR A. ESPENILLA, JR.
Officer-In-Charge

23 June 2016