



**BANGKO SENTRAL NG PILIPINAS**

OFFICE OF THE GOVERNOR

**CIRCULAR NO. 1027**  
Series of 2018

**Subject: Amendments to the Guidelines on the Computation of Required Capital**

The Monetary Board, in its Resolution No. 2093 dated 14 December 2018, approved the amendments to the guidelines on the computation of required capital as embodied under Sections X111 and X128, Subsections X105.4 and X105.6, and Appendix 63b of the Manual of Regulations for Banks (MORB) as well as Sections 4111Q and 4137Q, Appendix Q-46 and Subsection 4111T.1 of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI).

**Section 1.** The manner of computation of capital as defined in Section X111 of the MORB shall be applicable to all domestic banks and foreign bank subsidiaries. Section X111 of the MORB is hereby amended to read, as follows:

**Section X111 (2008-X106). Definition of 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. For this purpose, the following items shall likewise be added to or deducted from capital:

- a. Deposits for stock subscription recognized as equity pursuant to Section X128 shall be added to capital.
- b. The following shall be deducted from capital:
  - (1) Treasury stock;
  - (2) Unbooked allowance for probable losses (which includes allowance for credit losses and impairment losses) and other capital adjustments as may be required by the Bangko Sentral;
  - (3) Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders, and their related interests (DOSRI) granted by the bank proper;
  - (4) Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries;
  - (5) Total outstanding loans, other credit accommodations and guarantees granted to related parties, as defined in Item "n", Subsection X141.1,

that are not at arm's length terms as determined by the appropriate supervising department of the Bangko Sentral;

- (6) Deferred tax assets that rely on future profitability of the bank to be realized, net of any (a) allowance for impairment and (b) associated deferred tax liability, if the conditions cited in PAS 12 on Income Taxes are met: *Provided*, That, if the resulting figure is a net deferred tax liability, such excess cannot be added to net worth;
- (7) Reciprocal investment in equity of other banks/enterprises, whether foreign or domestic, the deduction shall be the lower of the investment of the bank or the reciprocal investment of the other bank or enterprise; and
- (8) In the case of RBs/Coop Banks, the government counterpart equity, except that arising from conversion of arrearages under the Bangko Sentral rehabilitation program.

With respect to Item "b.(3)" hereof, the provision in Subsec. X326.1 shall apply except that in the definition of *stockholders* in said Subsection, the qualification that his stockholdings, individually and/or together with his related interest in the lending bank, should at least amount to two percent (2%) or more of the total subscribed capital stock of the bank, shall not apply for the purpose of this Item.

**Section 2.** The manner of computation of capital as defined in Subsections X105.4.b and X105.6 of the MORB shall be applicable to foreign bank branches. Subsections X105.4 and X105.6 of the MORB are hereby amended to read, as follows:

**Subsection X105.4 (2008-X121.4). Capital requirements of foreign banks.**

- a. For locally incorporated subsidiaries.

x x x

- b. For foreign bank branches

- (1) x x x

- (2) For purposes of compliance with minimum capital regulations, the term "*capital of a foreign bank branch*" shall refer to the sum of:  
(a) permanently assigned capital, (b) undivided profits, and  
(c) accumulated net earnings, which is composed of unremitted profits not yet cleared by the Bangko Sentral for outward remittance and losses in operations, net of applicable capital adjustments enumerated in Section X111.

- (3) x x x

(4) Any *Net due from* head office, branches and subsidiaries outside the Philippines, excluding accumulated net earnings, shall be deducted from capital.

(5) x x x

x x x

**Subsection X105.6 (2008-X121.6) Risk-based capital for foreign bank branch.**

- a. Foreign bank branches shall comply with the same risk-based capital adequacy ratios applicable to domestic banks of the same category.
- b. x x x
- c. Any *Net due from* head office, branches and subsidiaries outside the Philippines, excluding accumulated net earnings shall be deducted from CET1 capital.
- d. The guidelines for computing the risk-based capital adequacy ratios are provided in *Appendix 63b*.

**Section 3.** Section 4111Q of the MORNBF1 on minimum required capitalization of quasi-banks is hereby amended to read as follows:

**Sec. 4111Q (2008-4106Q) Minimum Required Capitalization.**

- a. *Definition of capital.* 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. For this purpose, the following items shall likewise be added to or deducted from capital:
  - (1) Deposits for stock subscription recognized as equity pursuant to Section 4137Q shall be added to capital.
  - (2) The following shall be deducted from capital:
    - (a) Treasury stock;
    - (b) Unbooked allowance for probable losses (which includes allowance for credit losses and impairment losses) and other capital adjustments as may be required by the Bangko Sentral;
    - (c) Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI) granted by the QB;
    - (d) Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries;

- (e) Total outstanding loans, other credit accommodations and guarantees granted to related parties, as defined in Item "o", Section 4002Q of the MORNBF, that are not at arm's length terms as determined by the appropriate supervising department of the Bangko Sentral; and
- (f) Deferred tax assets that rely on future profitability of the QB to be realized, net of any (1) allowance for impairment and (2) associated deferred tax liability, if the conditions cited in PAS 12 on Income Taxes are met: *Provided*, That, if the resulting figure is a net deferred tax liability, such excess cannot be added to net worth.

With respect to Item "(2)(c)" hereof, the provisions of Sec. 4326Q shall apply except that in the definition of *stockholders* in Subsec. 4326Q.1, the qualification that his stockholdings, individually and/or together with his related interests in the lending QB, amount to ten percent (10%) or more of the total subscribed capital stock of the QB, shall not apply for purposes of this Item.

b. *Required capital.* A QB shall have a minimum capital of P300.0 million.

**Section 4.** Subsection 4111T.1 of the MORNBF on the capital build-up program of trust corporations is hereby amended to read as follows:

**Subsection 4111T.1 Capital build-up program.** Upon incorporation/establishment, a TC may have an initial minimum paid-in capital of P100 million and xxx.

x x x

For purposes of this Section, *combined capital accounts* shall mean the total capital stock, retained earnings, and profit and loss summary, net of (a) unbooked allowance for probable losses (which includes allowance for credit losses and impairment losses) on the allowable proprietary assets and (b) such other capital adjustments as may be required by the Bangko Sentral.

**Section 5.** Sections X128/4137Q of the MORB/MORNBF on deposits for stock subscription is hereby amended to read as follows:

**Sections X128/4137Q Deposits for Stock Subscription.** *Deposits for stock subscription* refer to payments made by existing stockholders or new subscribers of the bank/QB on subscription to the increase in the authorized capital, which may be recognized either as a liability or equity.

Deposits for stock subscription shall be recognized as part of equity for prudential reporting purposes when all of the following conditions are met:

a. x x x

x x x

- d. The bank/QB has filed an application for the amendment of its articles of incorporation for the increase in authorized capital with the appropriate supervising department of the Bangko Sentral, duly supported by complete documents as prescribed by the Bangko Sentral: *Provided*, That the approval of the Securities and Exchange Commission (SEC) on the same application shall be obtained within the period prescribed under the SEC Financial Reporting Bulletin on Deposit for Future Subscription.

In case the applications for the amendment of articles of incorporation for the increase in authorized capital have been returned due to insufficiency of supporting documents, the deposit for stock subscription shall not qualify for recognition as an equity instrument; and

e. x x x

x x x

**Section 6.** Paragraph 11 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 B. Branches of Foreign Banks**

**CET1 Capital**

x x x

**Regulatory adjustments to CET1 capital**

11. The regulatory adjustments to CET1 capital are provided in paragraph 4, as applicable.

In addition, the *Net due from* head office, branches and subsidiaries outside the Philippines, excluding accumulated net earnings shall be deducted from CET1 capital.

x x x

**Section 7. Effectivity.** This Circular shall take effect fifteen (15) calendar days after its publication either in the Official Gazette or in a newspaper of general circulation.

**FOR THE MONETARY BOARD:**

  
NESTOR A. ESPENILLA, JR.  
Governor

**28** December 2018