



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 713
Series of 2011

Subject: Risk weighting of bank loans to the extent guaranteed by the Agricultural Guarantee Fund Pool (AGFP)

The Monetary Board in its Resolution No. 178 dated 3 February 2011 approved the risk weighting of bank loans to the extent guaranteed by the Agricultural Guarantee Fund Pool (AGFP) created under Administrative Order No. 225-A dated 26 May 2008.

Section 1. Part III of Appendix 63b (Appendix to Sec X115) of the Manual of Regulations on Banks (MORB) is hereby amended, as follows:

" Part III. Credit risk-weighted assets

" x x x

" Other Assets

16. The standard risk weight for all other assets, including bank premises, furniture, fixtures and equipment, will be 100%, except in the following cases:
- a) Cash on hand and gold, which shall be risk-weighted at zero percent (0%);
 - b) Checks and other cash items, which shall be risk-weighted at twenty percent (20%); and
 - c) Loans to small farmer and fisherfolk engaged in palay and/or food production projects/activities to the extent guaranteed by the Agricultural Guarantee Fund Pool (AGFP) created under Administrative Order No. 225-A dated 26 May 2008, which shall be risk weighted at twenty percent (20%): *Provided*, That a separate fund is maintained to guarantee the loans originated by banks: *Provided, further*, That the maximum allowable leveraging ratio of the fund maintained to guarantee bank loans shall be two (2), i.e., the maximum amount of loans guaranteed by the fund is twice the amount of money in the fund: *Provided, furthermore*, That the fund maintained to guarantee bank loans is invested in assets that are zero percent (0%) risk-weighted under this risk-based capital adequacy framework.

Accruals on a claim shall be classified and risk-weighted in the same way as the claim. Bills purchased shall be classified and risk-weighted as claims on the drawee bank. The treatments of credit derivatives and securitization exposures are presented separately in Parts IV and V, respectively.

Investments in equity or other regulatory capital instruments issued by banks or other financial/non-financial allied/non-allied undertakings will be risk-weighted at 100%, unless deductible from the capital base as required in Part II.

"Off-balance sheet items

x x x

"Guarantees

x x x

47. The following are the eligible guarantors:

- a) Philippine NG and the BSP;
- b) Central governments and central banks and PSEs of foreign countries as well as MDBs with a lower risk weight than the counterparty;
- c) Banks with a lower risk weight than the counterparty;
- d) Other entities with external credit assessment of at least A- or its equivalent; and
- e) The Agricultural Guarantee Fund Pool (AGFP) created under Administrative Order No. 225-A dated 26 May 2008.

48. x x x

" x x x "

Section 2. Subsec X116.3 of the MORB on risk-weighted assets is hereby amended, as follows:

" Subsec. X116.3 ***Risk-weighted assets***

" x x x

" a. On-balance sheet assets

" x x x

" (2) Twenty percent (20%) risk weight –

" x x x

“(g) Loans to exporters to the extent guaranteed by Small Business Guarantee and Finance Corporation (SBGFC): *Provided*, That loans to exporters to the extent guaranteed by the Guarantee Fund for Small and Medium Enterprises (GFSME) outstanding as of the date of the effectivity of the merger of the SBGFC and GFSME shall continue to have a zero percent (0%) risk weight: *Provided, further*, That the zero percent (0%) risk weight shall not apply to loans renewed after the merger of the SBGFC and the GFSME;

“(h) Loans to small farmer and fisherfolk engaged in palay and/or food production projects/activities to the extent guaranteed by the Agricultural Guarantee Fund Pool (AGFP) created under Administrative Order No. 225-A dated 26 May 2008: *Provided*, That a separate fund is maintained to guarantee the loans originated by banks: *Provided, further*, That the maximum allowable leveraging ratio of the fund maintained to guarantee bank loans shall be two (2), i.e., the maximum amount of loans guaranteed by the fund is twice the amount of money in the fund: *Provided, furthermore*, That the fund maintained to guarantee bank loans is invested in assets that are zero percent (0%) risk-weighted under this risk-based capital adequacy framework; and

“(i) Foreign currency checks and other cash items denominated in currencies acceptable as international reserves.

“(3) Fifty percent (50%) risk weight –

“ x x x

“(6) One hundred twenty five percent (125%) risk weight –

All NPLs (except NPLs for housing purpose, fully secured by first mortgage on residential property that is or will be occupied or leased out by the borrower) and all non-performing debt securities: *Provided*, That risk weighting for such exposures shall be increased to 150% in 2007.

NPLs, which are secured by eligible collaterals or guaranteed by eligible guarantors below, shall be assigned the risk weight of the collateral or guarantor, except for NPLs granted to small farmer and fisherfolk engaged in palay and/or food production projects/activities to the extent guaranteed by the AGFP, which shall be assigned a risk weight of 20%, subject to the conditions in item (2)(h) above: *Provided*, That in cases of guarantees, the bank is able to pursue the guarantor of any monies outstanding within the period of time stipulated in the guarantee contract. Otherwise, the

loan in question shall be assigned the risk weight applicable for NPLs.

(a) List of eligible collaterals

x x x

(b) List of eligible guarantors

x x x

(x) LGU Guarantee Corporation (LGUGC), but only those guaranteed loans covered by Deed of Assignment of Internal Revenue Allotment of the LGU; and

(xi) The Agricultural Guarantee Fund Pool (AGFP) created under Administrative Order No. 225-A dated 26 May 2008."

" b. Off-balance sheet items

" x x x "

Section 3. Part III of Circular No. 688 dated 26 May 2010 on credit risk- weighted assets is hereby amended as follows:

" Part III. Credit risk-weighted assets

" x x x

"A. On-Balance Sheet Assets

" b) 20% risk weight –

x x x

vii. Claims on Philippine incorporated private enterprises (including claims on government corporations and on MSME not qualifying under highly diversified loan portfolio as defined in Item "d" below) with the highest credit quality as defined in Part VI;

viii. Claims on foreign incorporated private enterprises (including claims on government corporations) with the highest credit quality as defined in Part VI; and

- ix. Loans to small farmer and fisherfolk engaged in palay and/or food production projects/activities to the extent guaranteed by the Agricultural Guarantee Fund Pool (AGFP) created under Administrative Order No. 225-A dated 26 May 2008: *Provided*, That a separate fund is maintained to guarantee the loans originated by banks: *Provided, further*, That the maximum allowable leveraging ratio of the fund maintained to guarantee bank loans shall be two (2), i.e., the maximum amount of loans guaranteed by the fund is twice the amount of money in the fund: *Provided, furthermore*, That the fund maintained to guarantee bank loans is invested in assets that are zero percent (0%) risk-weighted under this risk-based capital adequacy framework.

" c) 50% risk weight –

" x x x

" C. Claims with Eligible Collateral/Guarantees

" x x x

"8. The following are the eligible guarantors:

- a) Philippine National Government and the BSP;
- b) Multilateral development banks;
- c) Guarantors with the highest credit quality as defined in Part VI:
 - i. Central government and central banks of foreign countries;
 - ii. Philippine local government units;
 - iii. Non-central government public sector entities of foreign countries;
 - iv. Philippine incorporated banks/quasi-banks;
 - v. Foreign incorporated banks;
- d) LGU Guarantee Corporation, in the case of LGU bonds which are covered by Deed of Assignment of Internal Revenue Allotment; and
- e) The Agricultural Guarantee Fund Pool created under Administrative Order No. 225-A dated 26 May 2008."

"9. x x x"

Section 4. 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:

A handwritten signature in black ink, appearing to read 'Amato', with a long horizontal flourish extending to the right.

AMANDO M. TETANGCO, JR.
Governor

14 February 2011