

**[BSP CIRCULAR NO. 361, DECEMBER 9, 2002,
December 09, 2002]**

UNSECURED SUBORDINATED DEBT

Pursuant to Monetary Board Resolution Nos. 1537, 1584 and 1720 dated October 23, 2002, October 30, 2002 and November 28, 2002, respectively, the provisions of the Manual of Regulations for Banks are hereby amended as follows:

1. Subsection X116.1.b.1(8) of the Manual is hereby amended to read as follows:

"(8) With prior BSP approval, unsecured subordinated debt with a minimum original maturity of at least ten (10) years, subject to the following conditions:

x x x

vi. It must not be repayable prior to maturity without the prior consent of the BSP: Provided, That repayment may be allowed **in connection with call option only after a minimum of five (5) years from issue date** and only if —

- The bank's capital ratio is at least equal to the required minimum capital ratio; and

- The debt is simultaneously replaced with issues of new capital which is neither smaller in size nor of lower quality than the original issue;

vii. It may allow a moderate step-up in the interest rate in conjunction with a call option, only if the step-up occurs at a minimum of **ten (10) years** after the issue date and if it results in an increase over the initial rate that is not more than **100 basis points**, provided that only one (1) rate step up shall be allowed over the life of the instrument;

x x x."

2. Subsection X116.1.b.2(1) of the Manual is hereby amended to read as follows:

"(1) With prior BSP approval, unsecured subordinated debt with a minimum original maturity of at least five (5) years, subject to the following conditions:

x x x

vi. It must not be repayable prior to maturity without the prior consent of the BSP: Provided, That repayment may be allowed **in connection with call option only after a minimum of five (5) years from issue date and** only if —

- The bank's capital ratio is at least equal to the required minimum capital ratio; and

- The debt is simultaneously replaced with issues of new capital which is neither smaller in size nor of lower quality than the original issue;

vii. It may allow a moderate step-up in the interest rate in conjunction with a call option, only if the step-up occurs at a minimum of five (5) years after the issue date and if it results in an increase over the initial rate that is not more than 100 basis points or 50% of the initial credit spread, **at the option of the bank**, provided that only one (1) rate step up shall be allowed over the life of the instrument;

x x x."

3. The last paragraph of Subsection X116.1.b.2 of the Manual is hereby amended to read as follows:

*"Provided, That the total amount of lower Tier 2 capital that may be included in the Tier 2 capital shall be a maximum of 50% of total Tier 1 capital (net of deductions therefrom): Provided, further, That the total amount of upper and lower Tier 2 capital that may be included in the qualifying capital shall be a maximum of **100%** of total Tier 1 capital (net of deductions therefrom);".*

4. The first paragraph of Subsection X116.1.c of the Manual is hereby amended to read as follows:

"c. Less deductions from the total of Tier 1 and Tier 2 capital as follows:

x x x

(4) Reciprocal investments in equity of other banks/enterprises; and

(5) **Reciprocal investments in unsecured subordinated term debt instruments of other banks, in excess of the lower of (i) an aggregate ceiling of 5% of total Tier 1 capital of the bank; or (ii) 10% of the total outstanding unsecured subordinated term debt issuance of the other bank,**

x x x "

5. The last paragraph of Subsection X116.2.a of the Manual on on-balance sheet assets that are 100% risk-weighted is hereby amended to