

361 LARGE EXPOSURES AND CREDIT RISK CONCENTRATIONS

Definition.

“*Large exposures*” shall refer to exposures to counterparty or a group of connected counterparties equal or greater than five percent (5%) of the FI’s qualifying capital as defined under applicable and existing capital adequacy framework.

“*Connected counterparties*” refer to a group of counterparties that are connected through (a) direct or indirect control of one of the counterparties over the other(s) or (b) economic interdependencies, and must be treated as a single counterparty. Control shall be determined in accordance with Sec. 362 (*Definition of terms*, Item “g”).

“*Economic Interdependence*” refers to a situation where counterparties are reliant on each other, such that if one of the counterparties experiences financial problems in repaying its obligations, the creditworthiness of the other(s) would also likely deteriorate. FIs shall define in their credit policy criteria in determining connectedness based on economic interdependence, which shall consider, among others, significant dealings or transactions of one or more counterpart(y/ies) that impact the financial capacity or ability to repay the obligations of the other counterpart(y/ies).

In cases where the criteria do not automatically imply an economic dependence that results in two (2) or more counterparties being connected, the FI shall provide evidence to Bangko Sentral that a counterparty which is economically connected to another, still can pay its liabilities even if the latter’s financial condition weakens.

Scope of application. Large exposures of FIs and their subsidiaries and affiliates to third parties across the relevant regulatory consolidation group shall be aggregated and compared with the group’s qualifying capital.

Exclusions. Loans, other credit accommodations and guarantees that are excluded from the single borrower’s limit (SBL) under Sec. 362 (*Exclusions from loan limit*) as well as intraday and end-of-day interbank exposures arising from interbank payment and settlement processes shall be excluded from large exposures.

Notification requirements. An FI must immediately inform the Bangko Sentral when it has concerns that its large exposures or credit risk concentrations have the potential to impact materially upon its capital adequacy, along with proposed measures to address these concerns.

Reporting. FI’s records on monitoring of large exposures shall be made available to the Bangko

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Sentral examiners for verification at any given time. When warranted, the Bangko Sentral may impose additional reporting requirements on the FI in relation to its large exposures and credit risk concentrations.

Sanction. Any failure or delay in complying with the requirements under this Section on Notification requirements and Reporting shall be subject to penalty applicable to those involving major reports.

(Circular Nos. 890 dated 02 November 2015, 855 dated 29 October 2014 and 827 dated 28 February 2014)