



HOUSE OF REPRESENTATIVES

H. No. 6814

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AN ACT PROVIDING FOR THE REGULATION OF THE ORGANIZATION AND OPERATIONS OF BANKS, QUASI-BANKS AND TRUST ENTITIES

Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

CHAPTER I

TITLE, DECLARATION OF POLICY AND DEFINITIONS AND

CLASSIFICATION OF BANKS

SECTION. 1. *Title.* – The short title of this Act shall be “The General Banking Act of 1999.”

SEC. 2. *Declaration of Policy.* – The State recognizes the vital role of banks in providing an environment conducive to the sustained development of the national economy and the fiduciary nature of banking that requires high standards of integrity and performance. In furtherance thereof, the State shall promote and maintain a stable and efficient banking and financial system that is globally competitive, dynamic and responsive to the demands of a developing economy. In the implementation of this policy, the Bangko Sentral ng Pilipinas, hereinafter referred to as the Bangko Sentral, shall have the authority to supervise and regulate banks.

SEC. 3. *Definition of Terms.* – For purposes of this Act, the following definition of terms shall apply:

(a) “Banks” shall refer to stock corporations duly authorized by the Monetary Board of the Bangko Sentral to engage in the lending of funds obtained from the public through the receipt of deposits. The term includes branches in the Philippines of foreign banks.

(b) “Quasi-Banks” shall refer to stock corporations organized under Philippine laws and authorized by the Monetary Board to engage in quasi-banking functions.

(c) “Quasi-Banking Functions” shall mean borrowing funds other than deposits from the public at any time, for the borrower’s own account, through the issuance, endorsement or assignment with recourse or acceptance of debt instruments of any kind, which instruments shall be known as deposit substitutes, for purposes of relending or purchasing of receivables and other obligations. Those borrowing funds through any of these means for the sole purpose of financing their own needs or the needs of their agents, dealers or affiliates, shall not be considered as performing quasi-banking functions: *Provided*, That such agents, dealers or affiliates shall not use these funds for relending or purchasing of receivables or other debt instruments.

(d) “Public” shall mean twenty or more lenders, whether natural persons or juridical entities.

(e) “Regulation” shall mean the issuance of rules of conduct or the establishment of modes or standards of operation for uniform application to all institutions or functions covered thereby, taking into consideration the distinctive character of the operations of institutions and the substantive

1 similarities of specific functions to which such rules, modes or standards
2 are to be applied.

3 (f) "Supervision" shall include not only to issue regulations, but
4 also to ascertain that laws and regulations are complied with, to determine
5 whether an institution is conducting its business on a safe and sound basis,
6 and to inquire into the solvency and liquidity of the institution.

7 (g) "Trust Entities" shall refer to stock corporations formed or
8 organized for the purpose of acting as trustee or administering any trust or
9 holding property in trust or on deposit for the use, benefit of others.

10 (h) "Finance companies" shall refer to corporations, except banks,
11 investment houses, savings and loan associations, insurance companies,
12 cooperatives, and other financial institutions organized or operating under
13 other special laws, which are primarily organized for the purpose of
14 extending credit facilities to consumers and to industrial, commercial, or
15 agricultural enterprises, by direct lending or by discounting or factoring
16 commercial papers or accounts receivables, or by buying and selling
17 contracts, leases, chattel mortgages, or other evidences of indebtedness, or
18 by financial leasing of movable as well as immovable property.

19 (i) Unless otherwise specified by the Monetary Board, "Combined
20 Capital Accounts" or "Net Worth" shall mean the total of the unimpaired
21 paid-in capital including paid-in surplus, retained earnings and undivided
22 profits, net of valuation reserves and other adjustments as may be required
23 by the Bangko Sentral.

24 SEC. 4. *Classification of Banks.* – Banks shall be classified into (a)
25 Universal banks; (b) Commercial banks; (c) Islamic banks; (d) Thrift
26 banks, composed of: (1) savings and mortgage banks, (2) stock savings
27 and loan associations, and (3) private development banks; (e) Rural banks;
28 (f) Cooperative banks; and (g) such other classifications of banks as
29 determined by the Monetary Board.

30 CHAPTER II

31 SCOPE OF AUTHORITY OF THE BANGKO SENTRAL OVER

32 BANKS AND QUASI-BANKS

33 SEC. 5. *Supervisory Powers.* – The operations and activities of
34 banks shall be subject to supervision of the Bangko Sentral in accordance
35 with the provisions of this Act and other pertinent laws.

36 The Bangko Sentral shall also supervise the operations and activities
37 of quasi-banks, trust entities and other financial institutions which under
38 special laws are subject to Bangko Sentral supervision.

1 SEC. 6. *Policy Direction; Ratios, Ceilings and Limitations.* – The
2 Bangko Sentral shall provide policy direction in the areas of money,
3 banking and credit.

4 The Monetary Board may prescribe ratios, ceilings, limitations, or
5 other forms of regulation on the different types of accounts and practices of
6 banks and quasi-banks. In exceptional cases and for purposes of enabling
7 the bank or quasi-bank under rehabilitation or during a merger or
8 consolidation to continue in business with safety to its creditors, depositors
9 and the general public, the Monetary Board may exempt particular
10 categories of transactions from such ratios, ceilings and limitations.

11 SEC. 7. *Authority to Engage in Banking and Quasi-Banking*
12 *Functions.* – No person or entity shall engage in banking operations or
13 quasi-banking functions without authority from the Bangko Sentral.

14 The determination of whether a person or entity is performing
15 banking or quasi-banking functions without Bangko Sentral authority shall
16 be decided by the Monetary Board, subject to judicial review. For the
17 purpose of resolving such issue, the Monetary Board may, through the
18 appropriate supervising and examining department of the Bangko Sentral,
19 examine, inspect or investigate the books and records of such person or
20 entity. Upon issuance of this authority, such person or entity may
21 commence to engage in banking operations or quasi-banking functions and
22 shall continue to do so unless such authority is sooner surrendered,
23 revoked, suspended or annulled by the Bangko Sentral in accordance with
24 this Act or other special laws.

25 The department head and the examiners of the appropriate
26 supervising and examining department are hereby authorized to administer
27 oaths to any such person, employee, officer, or director of any such entity
28 and to compel the presentation or production of such books, documents,
29 papers or records that are reasonably necessary to ascertain the facts
30 relative to the true functions and operations of such person or entity.
31 Failure or refusal to comply with the required presentation or production of
32 such books, documents, papers or records within a reasonable time shall
33 subject the persons responsible therefor to the penal sanctions provided
34 under Republic Act No. 7653.

35 Persons or entities found to be performing banking or quasi-banking
36 functions without the required prior authorization of the Bangko Sentral
37 shall be subject to the provisions of Section 36 of Republic Act No. 7653,
38 and may be referred to the Securities and Exchange Commission for the
39 revocation of their license to do business.

effectivity of this Act may be reduced and, once reduced, shall not be increased thereafter beyond forty percent (40%) of the voting stock of the bank; and (c) if the percentage of the foreign-owned voting stocks in any domestic bank existing as of the effectivity date of this Act is less than forty percent (40%) of the voting stock of such bank, this percentage may be increased to forty per cent (40%) of the voting stock of the bank.

The aggregate foreign-owned voting stocks in a bank, whether acquired pursuant to the provision of this Act or under Subsections 2 (i) and (ii) of Republic Act No. 7721 and Section 8 of Republic Act No. 7906 or any other special law, shall in no case exceed sixty percent (60%) of the total voting stock of said bank.

The limitations in the preceding paragraphs on the percentage of foreign-owned voting stocks shall also apply to a merged or consolidated bank arising from the merger or consolidation of two (2) or more domestic banks with foreign-owned voting stocks.

SEC. 13. *Determination of Foreign Stockholdings.* – The percentage of foreign-owned voting stocks in a bank shall be determined by the citizenship of the individual stockholders in that bank. The citizenship of the corporation which is a stockholder in a bank shall follow the citizenship of the controlling stockholders owning the majority of the issued capital of the corporation, irrespective of the place of incorporation.

Banks with foreign-owned voting stocks shall certify that they have complied with the limitations on the percentage of foreign-owned voting stocks.

SEC. 14. *Stockholdings of Individuals and Family Groups.* – Except as may otherwise be specifically provided by law, no individual or his spouse or individuals related to each other within the third degree of consanguinity or affinity may own more than twenty percent (20%) of the voting stock of a bank. Banks shall specifically disclose to the Bangko Sentral all individual and family stockholdings that are sufficient to elect at least one board seat.

SEC. 15. *Corporate Stockholdings.* – Except as may otherwise be specifically provided by law, the total voting stocks which any single corporation, including its wholly or majority-owned subsidiaries, may own in any bank shall not exceed sixty percent (60%) of the total voting stock of the bank: *Provided,* That there shall be no limit to the number of corporations holding shares in any single bank.

SEC. 16. *Compliance by Banks.* – As of the effectivity of this Act, voting stock of any bank held in excess of the ceilings provided under Sections 14 and 15 above shall not be increased, but may be reduced, and,

1 once reduced, shall not be increased thereafter beyond the ceilings
2 provided under Sections 14 and 15 of this Act.

3 For purposes of this Section and Section 15, the rules on
4 corporations shall also be applied to partnerships, cooperatives and
5 associations.

6 Banks shall submit to the Bangko Sentral a certification of their
7 compliance with the limitations on holdings of voting stock as provided in
8 Sections 14 and 15 of this Act.

9 SEC. 17. *Stockholdings of a Bank Holding Corporation.* – A
10 corporation organized primarily for the purpose of owning equity in banks
11 may own up to one hundred percent (100%) of the equity thereof:
12 *Provided,* That the acquisition of such equity is subject to the prior
13 approval of the Monetary Board: *Provided, further,* That the holding
14 corporation owning a majority or all of the equity in a bank may invest only
15 in enterprises allowed to the investee bank, and only to the extent allowed
16 in the investee bank, under existing laws and regulations. Stockholders in a
17 holding corporation of a bank shall be similarly subject to ownership
18 ceilings prescribed in this Act.

19 The holding corporation herein mentioned may be required to
20 submit statements of condition and other reports necessary to determine
21 compliance with the provisions of this Section and pertinent laws and rules
22 or regulations, and subjected to special examination or investigation.

23 SEC. 18. *Exemption from Stockholder Ceilings.* – In exceptional
24 cases and when the circumstances warrant, such as but not limited to,
25 purchases in the equity of distressed banks for purposes of rehabilitation,
26 the Monetary Board may exempt for a non-extendible period not exceeding
27 five (5) years voting stockholdings in a bank from the application of the
28 prescribed ceilings on stockholdings in banks as provided under Sections
29 14 and 15 of this Act.

30 SEC. 19. *Certificate of Authority to Register.* – The Securities and
31 Exchange Commission shall not register the articles of incorporation of any
32 bank or a bank holding corporation, or any amendment thereto, unless
33 accompanied by a certificate of authority issued by the Bangko Sentral.

34 The Securities and Exchange Commission shall likewise not register
35 the by-laws of any bank or bank holding corporation, or any amendment
36 thereto, unless accompanied by a certificate of authority of the Bangko
37 Sentral.

38 SEC. 20. *Bank Directors.* – At least two-thirds of the members of
39 the board of directors of any bank which may be established after the
40 approval of this Act shall be citizens of the Philippines: *Provided,*

1 *however*, That where Filipino citizens own less than two-thirds of the
2 voting stock of the bank, then the number of aliens in the board may be
3 increased to the extent of their voting equity ownership/participation.

4 Notwithstanding any provision of law to the contrary, a bank may fix
5 the number of its directors at any number not less than five (5) nor more
6 than fifteen (15), unless otherwise provided for under this Act.

7 SEC. 21. *Bank Management.* – In order to maintain the quality of
8 bank management and afford better protection to bank depositors and the
9 public in general, the Monetary Board may prescribe, pass upon and review
10 the qualifications and disqualifications of individuals who are elected or
11 appointed bank directors or officers and disqualify those found unfit.

12 To promote quality bank management for the protection of the bank
13 creditors, depositors and the general public, the Monetary Board shall have
14 the authority, after due hearing, to disqualify, suspend or remove any bank
15 director or officer who commits or omits an act which renders him unfit for
16 the position. The period of such disqualification, suspension or removal
17 shall be determined by the Bangko Sentral, taking into consideration the
18 attendant circumstances, such as the nature and gravity of the act or
19 omission and the size of the bank, but in no case not to exceed a period of
20 twenty (20) years.

21 The decision of the Monetary Board disqualifying, suspending or
22 removing any bank director or officer under the next preceding paragraph
23 shall become final and executory after fifteen (15) days from receipt of a
24 copy thereof by the party adversely affected, unless:

25 (a) Within a period the latter files a motion for reconsideration
26 which shall suspend the running of the said period, or

27 (b) Within that period an administrative appeal or judicial review,
28 if proper, has been perfected in the meantime.”

29 The Monetary Board may also pass upon the qualifications and
30 disqualifications of individuals to hold other positions in the bank.

31 In determining whether an individual is fit and proper to hold the
32 position of a director or an officer of a bank, regard shall be given to his
33 integrity, experience, education and training, competence and soundness of
34 judgment for fulfilling the responsibilities appurtenant to the position, and
35 relevant personal and business relationships.

36 Unless otherwise authorized by the Monetary Board, no foreigner
37 shall be appointed to any management position in a bank where foreign
38 equity is less than sixty percent (60%) of the voting stock.

39 SEC. 22. *Duties and Responsibilities of Directors and Officers.* – In
40 addition to provisions in the by-laws of banks and quasi-banks, the

1 Monetary Board shall prescribe the duties and responsibilities of directors
2 and officers of banks and quasi-banks.

3 SEC. 23. *Directors of Merged or Consolidated Banks.* – In the case
4 of a bank merger or consolidation duly approved by the Monetary Board,
5 the limitation on the number of directors in a corporation, as provided for
6 in the Corporation Code of the Philippines, shall not be applied for a period
7 of one (1) year, so that membership in the new board may include up to the
8 total number of directors not exceeding twenty-five (25) provided for in the
9 respective articles of incorporation of the merging or consolidating banks.

10 SEC. 24. *Compensation and Other Benefits of Directors and*
11 *Officers.* – In exceptional cases and when the circumstances warrant, such
12 as but not limited to the following:

- 13 (a) when a bank is under comptrollership or conservatorship; or
14 (b) when a bank is found by the Monetary Board to be conducting
15 business in an unsafe or unsound manner; or
16 (c) when a bank is found by the Monetary Board to be in an
17 unsatisfactory financial condition.

18 The Monetary Board, in order to protect the funds of depositors and
19 creditors, may regulate the payment by the bank to its directors and officers
20 of compensation, allowance, fees, bonuses, stock options, profit sharing
21 and fringe benefits, and similar plans and arrangements.

22 SEC. 25. *Prohibition on Public Officials.* – No appointive or
23 elective public official, whether full-time or part-time shall at the same time
24 serve as officer of any private bank, except in cases where such service is
25 incident to financial assistance provided by the government or a
26 government-owned or controlled corporation to the bank or unless
27 otherwise provided under existing laws.

28 SEC. 26. *Bank Branches.* – Notwithstanding the provisions of any
29 law to the contrary, no bank may open branches or other offices in the
30 Philippines without prior approval of the Monetary Board.

31 No bank organized under the laws of the Philippines may, without
32 prior approval of the Monetary Board, establish branches or other offices
33 outside the Philippines.

34 A bank may, subject to prior approval of the Monetary Board, use
35 any or all of its branches as outlets for the presentation and/or sale of the
36 financial products of its allied undertaking or of its investment house units.

37 A bank authorized to establish branches or other offices shall be
38 responsible for all business conducted in such branches and offices to the
39 same extent and in the same manner as though such business had all been
40 conducted in the head office.

1 For the purpose of this Act, a bank and its branches and offices shall
2 be treated as one unit.

3 CHAPTER IV

4 UNIVERSAL BANKS

5 SEC. 27. *Powers of a Universal Bank.* – A universal bank shall
6 have the authority to exercise, in addition to the powers authorized for a
7 commercial bank in the following section, the powers of an investment
8 house as provided in existing laws and the power to invest in non-allied
9 enterprises as provided in this Act.

10 SEC. 28. *Equity Investments of a Universal Bank.* – A universal
11 bank may, subject to the conditions stated in the succeeding paragraph,
12 invest in the equities of allied and non-allied enterprises. Allied enterprises
13 may either be financial or non-financial.

14 Except as the Monetary Board may otherwise prescribe: (a) the total
15 investment in equities of allied and non-allied enterprises shall not exceed
16 fifty percent (50%) of the net worth of the bank; and (b) the equity
17 investment in any one enterprise, whether allied or non-allied, shall not
18 exceed twenty-five percent (25%) of the net worth of the bank.

19 The acquisition of such equity or equities is subject to the prior
20 approval of the Monetary Board which shall promulgate appropriate
21 guidelines to govern such investments.

22 For purposes of this Act, (a) “financial allied enterprises” shall
23 include, but is not limited to, universal banks, commercial banks, thrift
24 banks, rural banks, cooperative banks, insurance companies, finance
25 companies, venture capital corporations, leasing companies, investment
26 houses, credit card companies, financial institutions catering to small and
27 medium scale industries and companies engaged in foreign exchange
28 dealership/brokerage; and (b) “non-financial allied undertakings” shall
29 include, but not limited to, companies primarily engaged in the
30 management of mutual funds but not in the mutual funds themselves,
31 management corporations engaged or to be engaged in an activity similar to
32 the management of mutual funds, companies engaged in providing
33 computer services, insurance agencies/brokerage, companies engaged in
34 homebuilding and home development, companies providing drying and/or
35 milling facilities for agricultural crops, bank service corporations,
36 Philippine Clearing House Corporation, warehousing and other post-
37 harvest facilities, fertilizer and agricultural chemical and pesticides
38 distribution, farm equipment distribution, trucking and transportation of
39 agricultural products, marketing of agricultural products and leasing.

1 percent (35%) of the net worth of the bank; and (b) the equity investment in
2 any one enterprise shall not exceed twenty-five percent (25%) of the net
3 worth of the bank.

4 The acquisition of such equity or equities is subject to the prior
5 approval of the Monetary Board which shall promulgate appropriate
6 guidelines to govern such investments.

7 *SEC. 35. Equity Investments of a Commercial Bank in Financial*
8 *Allied Enterprises.* – A commercial bank can own up to one hundred
9 percent (100%) of the equity of a thrift bank or a rural bank.

10 A commercial bank may own only up to sixty percent (60%) of the
11 voting stock of another commercial bank or universal bank.

12 Where the equity investment of a commercial bank is in a financial
13 allied enterprise other than a bank, such investment shall remain a minority
14 holding in that enterprise.

15 *SEC. 36. Equity Investments of a Commercial Bank in Non-*
16 *Financial Allied Enterprises.* – A commercial bank may own up to one
17 hundred percent (100%) of the equity in a non-financial allied enterprise.

18 *SEC. 37. Equity Investments in Quasi-Banks.* – To promote
19 competitive conditions in financial markets, the Monetary Board may
20 further limit equity investments of commercial banks in quasi-banks.

21 *SEC. 38. Prohibition on Equity Investments in Non-Allied*
22 *Enterprises.* – A commercial bank cannot own equity in non-allied
23 enterprises.

24 CHAPTER VI

25 FOREIGN BANKS

26 *SEC. 39. Transacting Business in the Philippines.* – The entry of
27 foreign banks in the Philippines through the establishment of branches shall
28 be governed by the provisions of Republic Act No. 7721.

29 The conduct of offshore banking business in the Philippines shall be
30 governed by the provisions of Presidential Decree No. 1034.

31 *SEC. 40. Acquisition of Voting Stock in a Distressed Bank.* – In the
32 absence of qualified Filipino investors, the Monetary Board may authorize
33 foreign banks to acquire up to one hundred percent (100%) of a distressed
34 bank as may be determined by the Monetary Board: *Provided, however,*
35 *that for purposes of this Section, a distressed bank shall refer only to banks*
36 *organized under the laws of the Republic of the Philippines: Provided,*
37 *further, That a foreign bank proposing to acquire equity in a distressed*
38 *bank shall possess the qualifications prescribed under Section 3 of*
39 *Republic Act No. 7721 and its implementing rules and regulations:*
40 *Provided, further, that within five (5) years from date of infusion of such*

1 stockholdings, the foreign stock of the investee bank shall not exceed
2 eighty-five percent (85%) of the total voting stock, and within five (5) years
3 thereafter, such foreign voting stock shall not exceed seventy percent
4 (70%) of the voting stock of the investee bank: *Provided, finally*, That if at
5 the end of the ten (10) year period, the foreign bank investing under this
6 Section already holds, pursuant to Republic Act No. 7721 or Republic Act
7 No. 7906, at least sixty percent (60%) of the voting stock of another bank
8 organized under the laws of the Republic of the Philippines, then such
9 foreign voting stock in the investee bank shall not exceed forty percent
10 (40%) thereof.

11 A bank may be considered distressed should it exhibit any of the
12 following:

13 (a) Capital to risk asset ratio falls substantially below the required
14 minimum continuously for ninety (90) days, which , under existing
15 standards, would be below five percent (5%);

16 (b) Voluntary closure or declaration of bank holiday;

17 (c) Noncompliance continuously over one hundred eighty (180)
18 days of a rehabilitation plan duly approved by the Monetary Board;

19 (d) Outstanding emergency loans or loans are past due over one
20 hundred eighty (180) days; and

21 (e) Placed under receivership or under liquidation.

22 SEC. 41. *Local Branches of Foreign Banks.* – In the case of a
23 foreign bank which has more than one branch in the Philippines, all such
24 branches shall be treated as one unit for the purpose of this Act, and all
25 references to Philippine branches of foreign banks shall be held to refer to
26 such units.

27 SEC. 42. *Head Office Guarantee.* – In order to provide effective
28 protection of the interests of the depositors and other creditors of
29 Philippine branches of a foreign bank, the head office of such branches
30 shall fully guarantee the prompt payment of all liabilities of its Philippine
31 branch.

32 Residents and citizens of the Philippines who are creditors of a
33 branch in the Philippines of a foreign bank shall have preferential rights to
34 the assets of such branch in accordance with existing laws.

35 SEC. 43. *Summons and Legal Process.* – Summons and legal
36 process served upon the Philippine agent or head of any foreign bank
37 designated to accept service thereof shall give jurisdiction to the courts
38 over such bank, and service of notices on such agent or head shall be as
39 binding upon the bank which he represents as if made upon the bank itself.

Should the authority of such agent or head to accept service of summons and legal processes for the bank or notice to it be revoked, or such agent or head become mentally incompetent or otherwise unable to accept service while exercising such authority, it shall be the duty of the bank to name and designate promptly another agent or head upon whom service of summons and processes in legal proceedings against the bank and of notices affecting the bank may be made, and to file with the Securities and Exchange Commission a duly authenticated nomination of such agent.

In the absence of the agent or head or should there be no person authorized by the bank upon whom service of summons, processes and all legal notices may be made, service of summons, processes and legal notices may be made upon the Bangko Sentral Deputy Governor-In-Charge of supervising and examining departments and such service shall be as effective as if made upon the bank or upon its duly authorized agent or head. In case of service for the bank upon the Bangko Sentral Deputy Governor In-Charge of supervising and examining departments, the said Deputy Governor shall register and transmit by mail to the president or the secretary of the bank at its head or principal office a copy, duly certified by him, of the summons, process, or notice. The sending of such copy of the summons, process, or notice shall be a necessary part of the service and shall complete the service. The registry receipt of mailing shall be *prima facie* evidence of the transmission of the summons, process or notice. All costs necessarily incurred by the said Deputy Governor for the making and mailing and sending of a copy of the summons, process, or notice to the president or the secretary of the bank at its head or principal office shall be paid in advance by the party at whose instance the service is made.

SEC. 44. *Laws Applicable.* – In all matters not specifically covered by special provisions applicable only to a foreign bank or its branches and other offices in the Philippines, any foreign bank licensed to do business in the Philippines shall be bound by all laws, rules and regulations applicable to banks organized under the laws of the Philippines of the same class, except laws that provide for the creation, formation, organization or dissolution of corporations or those that fix the relations, liabilities, responsibilities or duties of stockholders, members, directors or officers of corporations to each other or to the corporation.

SEC. 45. *Revocation of License.* – The Monetary Board, by the affirmative vote of at least five (5) of its members, shall revoke the license to transact business in the Philippines of any foreign bank not formed, organized or existing under the laws of the Philippines, if the said Board

1 finds that the foreign bank is insolvent or in imminent danger thereof or
2 that its continuance in business will involve probable loss to those
3 transacting business with it. After the revocation of its license, it shall be
4 unlawful for any such foreign bank to transact business in the Philippines
5 unless its license is renewed or reissued. After the revocation of such
6 license, the Bangko Sentral shall take the necessary action to protect the
7 creditors of such foreign bank and the public. The provisions of Republic
8 Act No. 7653 on sanctions and penalties shall likewise be applicable.

9 CHAPTER VII

10 LAWS GOVERNING OTHER TYPES OF BANKS

11 SEC. 46. *Other Banking Laws.* – The organization, ownership and
12 capital requirements, powers, supervision and general conduct of business
13 of thrift banks, rural banks and cooperative banks shall be governed by the
14 provisions of Republic Act No. 7906, otherwise known as the “Thrift
15 Banks Act of 1995”, Republic Act No. 7353, otherwise known as the
16 “Rural Banks Act of 1992” and Republic Act No. 6938, otherwise known
17 as the “Cooperative Code of the Philippines”, respectively.

18 The organization, ownership and capital requirements, powers,
19 supervision and general conduct of business of Islamic banks shall be
20 governed by special laws.

21 The provisions of this Act, however, insofar as they are not in
22 conflict with the provisions of Republic Act Nos. 7906, 7353, 6938 and
23 special laws shall likewise apply to thrift banks, rural banks, cooperative
24 banks and Islamic banks, respectively.

25 CHAPTER VIII

26 TRUST ENTITIES

27 SEC. 47. *Authority to Engage in Trust Business.* – A corporation,
28 bank or an investment house may be authorized to engage in trust business
29 which shall be subject to the provisions of this Chapter and the rules
30 promulgated by the Monetary Board.

31 For purposes of this Act, a trust entity shall include a corporation,
32 bank or investment house duly authorized to engage in trust business in
33 accordance with the preceding paragraph and Section 49 hereof.

34 SEC. 48. *Conduct of Trust Business.* – A trust entity shall
35 administer the funds or property under its custody with the skill, care,
36 prudence, and diligence necessary under the circumstances then prevailing
37 that a prudent man, acting in like capacity and familiar with such matters,
38 would exercise in the conduct of an enterprise of a like character and with
39 similar aims.

1 No trust entity shall, for the account of the trustor or the beneficiary
2 of the trust, purchase or acquire property from, or sell, transfer, assign or
3 lend money or property to, or purchase debt instruments of, any of the
4 departments, directors, officers, stockholders, or employees of the trust
5 entity, relatives within the first degree of consanguinity or affinity, or the
6 related interests, of such directors, officers and stockholders, unless the
7 transaction is specifically authorized by the trustor and the relationship of
8 the trustee and the other party involved in the transaction is fully disclosed
9 to the trustor or beneficiary of the trust prior to the transaction.

10 The Monetary Board shall promulgate such rules and regulations as
11 may be necessary to prevent circumvention of this prohibition or the
12 evasion of the responsibility herein imposed on a trust entity.

13 SEC. 49. *Registration of Articles of Incorporation and By-Laws of*
14 *a Trust Entity.* – The Securities and Exchange Commission shall not
15 register the articles of incorporation and by-laws or any amendment
16 thereto, of any trust entity, unless accompanied by a certificate of authority
17 issued by the Bangko Sentral.

18 SEC. 50. *Duties and Responsibilities of Directors and Officers.* – In
19 addition to provisions in the by-laws of trust entities, the Monetary Board
20 shall prescribe the duties and responsibilities of directors and officers of
21 trust entities.

22 SEC. 51. *Minimum Capitalization.* – A trust entity, before it can
23 engage in trust or other fiduciary business, shall comply with the minimum
24 paid-in capital requirement which will be determined by the Monetary
25 Board.

26 SEC. 52. *Powers of a Trust Entity.* – A trust entity, in addition to
27 the general powers incident to corporations, shall have the power to:

28 (a) Act as trustee on any mortgage or bond issued by any
29 municipality, corporation, or any body politic and to accept and execute
30 any trust not inconsistent with law;

31 (b) Act under the order or appointment of any court of record as
32 guardian, receiver, trustee, or depository of the estate of any minor or other
33 incompetent person, and as receiver and depository of any moneys paid
34 into court by parties to any legal proceedings and of property of any kind
35 which may be brought under the jurisdiction of the court by proper legal
36 proceedings;

37 (c) Act as the executor of any will when it is named in the will as
38 the executor thereof;

39 (d) Act under appointment of a court of competent jurisdiction as
40 administrator of the estate of any deceased person, with the will annexed,

1 or as administrator of the estate of any deceased person when there is no
2 will;

3 (e) Accept and execute any trust confided to it by any court or by
4 any person or corporation for the holding, management, and administration
5 of any estate, real or personal, and the rents, issues and profits thereof; and

6 (f) Establish and manage common trust funds, subject to such rules
7 and regulations as may be prescribed by the Monetary Board.

8 SEC. 53. *Deposit for the Faithful Performance of Trust Duties.* –
9 As security for the faithful performance of its trust duties, every trust entity,
10 before transacting trust business, shall carry on deposit with the Bangko
11 Sentral, cash or securities approved by the Monetary Board in an amount
12 equal to not less than five hundred thousand pesos (P500,000.00) or such
13 amount as may be fixed by the Monetary Board: *Provided, however,* That
14 the Monetary Board shall require every trust entity to increase the amount
15 of its cash or securities on deposit with the Bangko Sentral whenever in the
16 judgment of the Monetary Board such increase is necessary by reason of
17 the trust business of such entity: *Provided, further,* That the paid-in capital
18 and surplus of such entity must be at least equal to the amount required to
19 be deposited with the Bangko Sentral in accordance with the provisions of
20 this paragraph. Should the capital and surplus fall below said amount, the
21 Monetary Board shall have the same authority as that granted to it under
22 the provisions of the fourth paragraph of Section 68 of this Act.

23 A trust entity so long as it shall continue to be solvent and comply
24 with laws or regulations shall have the right to collect the interest earned on
25 such securities deposited with the Bangko Sentral and, from time to time,
26 with the approval of the Bangko Sentral, to exchange the securities for
27 others. If the trust entity fails to comply with any law or regulation, the
28 Bangko Sentral shall retain such interest on the securities deposited with it
29 for the benefit of rightful claimants.

30 All claims arising out of the trust business of a trust entity shall have
31 priority over all other claims as regards the cash or securities deposited as
32 above provided. The Monetary Board may not permit the cash or securities
33 deposited in accordance with the provisions of this Section to be reduced
34 below the prescribed minimum amount until the depositing entity shall
35 discontinue its trust business and shall satisfy the Monetary Board that it
36 has complied with all its obligations in connection with such business.

37 SEC. 54. *Bond of Certain Persons for the Faithful Performance of*
38 *Duties.* – Before an executor, administrator, guardian, trustee, receiver or
39 depositary appointed by the court enters upon the execution of his duties,

1 he shall, upon order of the court, file a bond in such sum as the court may
2 direct.

3 Upon the application of any executor, administrator, guardian,
4 trustee, receiver, depository or any other person in interest, the court having
5 jurisdiction over such persons and over the subject matter of the trust or
6 deposit may, upon due notice and hearing, order that the subject matter of
7 the trust or any part thereof be deposited with some trust entity lawfully
8 doing business in the Philippines. Upon presentation of proof to the court
9 that the subject matter of the trust has been deposited with a trust entity, the
10 court may order that the bond given by such persons for the faithful
11 performance of their duties be reduced to such sums as the court may deem
12 proper: *Provided, however,* That the reduced bond shall be sufficient to
13 secure adequately the proper administration and care of any property
14 remaining in the hands or under the control of such persons and the proper
15 accounting for such property.

16 Property deposited with any trust entity in conformity with this
17 Section shall be held by such entity under the orders and direction of the
18 court.

19 *SEC. 55. Exemption of Trust Entity from Bond Requirement.* – No
20 bond or other security shall be required by the court from a trust entity for
21 the faithful performance of its duties as court-appointed trustee, executor,
22 administrator, guardian, receiver, or depository. However, the court may,
23 upon proper application with it showing special cause therefor, require the
24 trust entity to post a bond or other security for the protection of funds or
25 property confided to such entity.

26 *SEC. 56. Separation of Trust Business from General Business.* –
27 The trust business and all moneys, properties or securities received by any
28 trust entity as executor, administrator, guardian, trustee, receiver, or
29 depository shall be kept separate and distinct from the general business
30 including all other funds, properties, and assets of such trust entity. The
31 accounts of all such moneys, properties, or securities shall likewise be kept
32 separate and distinct from the accounts of the general business of the trust
33 entity.

34 *SEC. 57. Prohibition Against Unlawful Trusts.* – No trust entity
35 shall accept any trust which would be unlawful to make, accept or execute.
36 It shall be the duty of a trust entity acting as trustee of any trust to execute
37 the same in accordance with its lawful terms.

38 *SEC. 58. Investment Limitations of a Trust Entity.* – Unless
39 otherwise directed by the instrument creating the trust, the lending and
40 investment of funds and other assets acquired by a trust entity as executor,

1 administrator, guardian, trustee, receiver or depository of the estate of any
2 minor or other incompetent person shall be limited to loans or investments
3 as may be prescribed by law, the Monetary Board or any court of
4 competent jurisdiction.

5 SEC. 59. *Real Estate Acquired by a Trust Entity.* – Unless
6 otherwise specifically directed by the trustor or the nature of the trust, real
7 estate acquired by a trust entity in whatever manner and for whatever
8 purpose, shall likewise be governed by the relevant provisions of Section
9 66 of this Act.

10 SEC. 60. *Investment of Non-Trust Funds.* – The investment of funds
11 other than trust funds of a trust entity which is a bank or an investment
12 house shall be governed by the relevant provisions of this Act and other
13 applicable laws.

14 SEC. 61. *Sanctions and Penalties.* – A trust entity or any of its
15 officers and directors found to have willfully violated any pertinent
16 provisions of this Act, shall be subject to the sanctions and penalties
17 provided under Section 101 of this Act as well as Sections 36 and 37 of
18 Republic Act No. 7653.

19 SEC. 62. *Exemption of Trust Assets from Claims.* – No assets held
20 by a trust entity in its capacity as trustee shall be subject to any claims other
21 than those of the parties interested in the specific trusts.

22 SEC. 63. *Establishment of Branches of a Trust Entity.* – The
23 ordinary business of a trust entity shall be transacted at the place of
24 business specified in its articles of incorporation. Such trust entity may,
25 with prior approval of the Monetary Board, establish branches in the
26 Philippines, and the said entity shall be responsible for all business
27 conducted in such branches to the same extent and in the same manner as
28 though such business had all been conducted in the head office.

29 For the purpose of this Act, the trust entity and its branches shall be
30 treated as one unit.

31 CHAPTER IX

32 PRUDENTIAL STANDARDS

33 SEC. 64. *Major Investments.* – For the purpose of enhancing bank
34 supervision, the Monetary Board shall establish criteria for reviewing
35 major acquisitions or investments by a bank including corporate affiliations
36 or structures that may expose the bank to undue risks or in any way hinder
37 effective supervision.

38 SEC. 65. *Ceiling on Investments in Certain Assets.* – Any bank may
39 acquire real estate as shall be necessary for its own use in the conduct of its
40 business: *Provided, however,* That the total investment in such real estate

1 and improvements thereof, including bank equipment, shall not exceed fifty
2 percent (50%) of combined capital accounts: *Provided, further,* That the
3 equity investment of a bank in another corporation engaged primarily in
4 real estate shall be considered as part of the bank's total investment in real
5 estate, unless otherwise provided by the Monetary Board.

6 **SEC. 66. Acquisition of Real Estate by Way of Satisfaction of**
7 **Claims.** – Notwithstanding the limitations of the preceding section, a bank
8 may acquire, hold or convey real property under the following
9 circumstances:

10 (a) Such as shall be mortgaged to it in good faith by way of security
11 for debts;

12 (b) Such as shall be conveyed to it in satisfaction of debts
13 previously contracted in the course of its dealings; or

14 (c) Such as it shall purchase at sales under judgments, decrees,
15 mortgages, or trust deeds held by it and such as it shall purchase to secure
16 debts due it.

17 Any real property acquired or held under the circumstances
18 enumerated in the above paragraph shall be disposed of by the bank within
19 a period of five (5) years or as may be prescribed by the Monetary Board:
20 *Provided, however,* That the bank may, after said period, continue to hold
21 the property for its own use, subject to the limitations of the preceding
22 section.

23 **SEC. 67. Minimum Capital.** – The Monetary Board shall determine
24 the minimum capital for each category of bank taking into account the
25 minimum basic capital expenditure and earning assets requirements that
26 would promote the bank's operational viability.

27 **SEC. 68. Risk-Based Capital.** – The Monetary Board shall,
28 consistent with prudent banking and the general economic conditions
29 obtaining at the time, prescribe the minimum ratio which the combined
30 capital accounts of a bank must bear to its total risk assets which may
31 include contingent accounts.

32 For purposes of this Section, the Monetary Board may require that
33 such ratio be determined on the basis of the combined capital accounts and
34 risk assets of a bank and its subsidiaries, financial or otherwise, as well as
35 prescribe the composition and the manner of determining the combined
36 capital accounts and total risk assets of banks and their subsidiaries:
37 *Provided,* That in the exercise of this authority, the Monetary Board shall,
38 to the extent feasible, conform to internationally accepted standards
39 relating to risk-based capital requirements: *Provided, further,* That it may

1 alter such ratio whenever necessary: *Provided, finally,* That such ratio
2 shall be applied uniformly to banks of the same category.

3 In case a bank does not comply with the prescribed minimum ratio,
4 the Monetary Board may limit or prohibit the distribution of net profits by
5 such bank and may require that part or all of the net profits be used to
6 increase the capital accounts of the institution until the minimum
7 requirement has been met. The Monetary Board may, furthermore, restrict
8 or prohibit the acquisition of major assets and the making of new
9 investments by the bank, with the exception of purchases of readily
10 marketable evidences of indebtedness of the Republic of the Philippines
11 and of the Bangko Sentral and any other evidences of indebtedness or
12 obligations the servicing and repayment of which are fully guaranteed by
13 the Republic of the Philippines, until the minimum required capital ratio
14 has been restored.

15 In case of a bank merger or consolidation, or when a bank is under
16 rehabilitation under a program approved by the Bangko Sentral, the
17 Monetary Board may, at its discretion, temporarily relieve the surviving
18 bank, consolidated bank, or constituent bank or corporations under
19 rehabilitation from full compliance with the required capital ratio under
20 such conditions as the Monetary Board may prescribe.

21 Before the effectivity of the rules the Monetary Board is authorized
22 to prescribe under this provision, Section 22 of Republic Act No. 337, as
23 amended, Section 9 of Republic Act No. 7906, and all pertinent rules
24 issued pursuant thereto, shall continue to be in force.

25 *SEC. 69. Grant and Purpose of Loans and Other Credit*
26 *Accommodations.* – A bank shall grant loans and other credit
27 accommodations only in amounts and for the periods of time essential for
28 the effective completion of the operations to be financed. Such grant of
29 loans and other credit accommodations shall always be consistent with safe
30 and sound banking practices.

31 The purpose of all loans and other credit accommodations shall be
32 stated in the application and in the contract between the bank and the
33 borrower. If the bank finds that the proceeds of the loan or other credit
34 accommodation have been employed, without its approval, for purposes
35 other than those agreed upon with the bank, it shall have the right to
36 terminate the loan or other credit accommodation and demand immediate
37 repayment of the obligation.

38 *SEC. 70. Limit on Loans, Credit Accommodations and Guarantees.*
39 – Except as the Monetary Board may otherwise prescribe, the total amount
40 of loans, credit accommodations and guarantees as may be defined by the

1 Monetary Board that may be extended by a bank to any person,
2 partnership, association, corporation or other entity shall at no time exceed
3 twenty-five percent (25%) of the combined capital accounts of such bank.

4 Unless the Monetary Board prescribes otherwise, the total amount of
5 loans, credit accommodations and guarantees prescribed in the preceding
6 paragraph may be increased by an additional ten percent (10%) of the
7 combined capital accounts of such bank provided the additional liabilities
8 of any borrower are adequately secured by trust receipts, shipping
9 documents, warehouse receipts or other similar documents transferring or
10 securing title covering readily marketable, non-perishable goods which
11 must be fully covered by insurance.

12 The above prescribed ceilings shall include (a) the direct liability of
13 the maker or acceptor of paper discounted with or sold to such bank and
14 the liability of a general indorser, drawer or guarantor who obtains a loan
15 or other credit accommodation from or discounts paper with or sells papers
16 to such bank; (b) in the case of an individual who owns or controls a
17 majority interest in a corporation, partnership, association or any other
18 entity, the liabilities of said entities to such bank; (c) in the case of a
19 corporation, all liabilities to such bank of all subsidiaries in which such
20 corporation owns or controls a majority interest; and (d) in the case of a
21 partnership, association or other entity, the liabilities of the members
22 thereof to such bank.

23 Even if a parent corporation, partnership, association, entity or an
24 individual who owns or controls a majority interest in such entities has no
25 liability to the bank, the Monetary Board may prescribe the combination of
26 the liabilities of subsidiary corporations or members of the partnership,
27 association, entity or such individual under certain circumstances,
28 including, but need not be limited to, any of the following situations: (a)
29 the parent corporation, partnership, association, entity or individual
30 guarantees the repayment of the liabilities; (b) the liabilities were incurred
31 for the accommodation of the parent corporation or another subsidiary or of
32 the partnership or association or entity or such individual; or (c) the
33 subsidiaries though separate entities operate merely as departments or
34 divisions of a single entity.

35 For purposes of this Section, loans, other credit accommodations
36 and guarantees shall exclude (a) loans and other credit accommodations
37 secured by obligations of the Bangko Sentral or of the Philippine
38 Government; (b) loans and other credit accommodations fully guaranteed
39 by the government as to the payment of principal and interest; (c) loans and
40 other credit accommodations covered by assignment of deposits maintained

1 in the lending bank and held in the Philippines; (d) loans, credit
2 accommodations and acceptances under letters of credit to the extent
3 covered by margin deposits; and (e) other loans or credit accommodations
4 which the Monetary Board may from time to time, specify as non-risk
5 items.

6 Loans and other credit accommodations, deposits maintained with
7 and usual guarantees by a bank to or with any other bank or non-bank
8 entity, whether locally or abroad, shall be subject to the limits as herein
9 prescribed.

10 Certain types of contingent accounts of borrowers may be included
11 among those subject to the herein limit as may be determined by the
12 Monetary Board.

13 *SEC. 71. Restriction on Bank Exposure to Directors, Officers,*
14 *Stockholders and Their Related Interests. – Dealings of a bank with any of*
15 *its directors, officers or stockholders and their related interests shall be upon*
16 *terms not less favorable to the bank than those offered to others.*

17 No director or officer of any bank shall, directly or indirectly, for
18 himself or as the representative or agent of others, borrow from such bank,
19 nor shall he become a guarantor, indorser, or surety for loans from such
20 bank to others, or in any manner incur any contractual liability to the bank
21 except with the written approval of the majority of the directors of the
22 bank, excluding the director concerned: *Provided*, That such written
23 approval shall not be required for loans, other credit accommodations and
24 advances granted to officers under a fringe benefit plan approved by the
25 Bangko Sentral. The required approval shall be entered upon the records
26 of the bank and a copy of such entry shall be transmitted forthwith to the
27 appropriate supervising and examining department of the Bangko Sentral.
28 The office of any bank director or officer who is found to have violated the
29 provisions of this Section shall immediately become vacant and the director
30 or officer shall be subject to the penal provisions of Sections 36 and 37 of
31 Republic Act No. 7653.

32 The Monetary Board shall regulate the amount of loans, credit
33 accommodations and guarantees that may be extended, directly or
34 indirectly, by a bank to its directors, officers, stockholders and their related
35 interests, as well as investments of such bank in enterprises owned or
36 controlled by said directors, officers, stockholders and their related
37 interests. However, the outstanding loans, credit accommodations and
38 guarantees which a bank may extend to each of its stockholders, directors,
39 or officers and their related interests, shall be limited to an amount
40 equivalent to their respective unencumbered deposits and book value of

1 their paid-in capital contribution in the bank: *Provided, however,* That
2 loans, credit accommodations and guarantees secured by assets considered
3 as non-risk by the Monetary Board shall be excluded from such limit:
4 *Provided, further,* That loans, credit accommodations and advances to
5 officers in the form of fringe benefits granted in accordance with rules as
6 may be prescribed by the Monetary Board shall not be subject to the
7 individual limit.

8 Stockholders as used in this Section shall refer to those owning or
9 controlling shares of stock sufficient to elect a director of such banks.

10 The Monetary Board shall define the term "related interests" as used
11 in this Section.

12 The limit on loans, credit accommodations and guarantees
13 prescribed herein shall not apply to loans, credit accommodations and
14 guarantees extended by a cooperative bank to its cooperative shareholders.

15 *SEC. 72. Requirement for Grant of Loans or Other Credit*
16 *Accommodations.* – Before granting a loan or other credit accommodation,
17 a bank must exercise proper caution, due diligence and prudence to
18 ascertain that the debtor is capable of fulfilling his commitments to the
19 bank.

20 Toward this end, a bank shall demand from its credit applicants a
21 statement of their assets and liabilities and of their income and
22 expenditures, including the corresponding financial statements submitted
23 for taxation purposes to the Bureau of Internal Revenue, which shall be the
24 basis for assessing the loan application. Should such statements prove to
25 be false or incorrect in any material detail, the bank may terminate any loan
26 or other credit accommodation granted on the basis of said statement and
27 shall have the right to demand immediate repayment or liquidation of the
28 obligation.

29 *SEC. 73. Foreclosure of Real Estate Mortgage.* – In the event of
30 foreclosure, whether judicially or extrajudicially, of any mortgage on real
31 estate which is security for any loan or other credit accommodation
32 granted, a natural person whose real property has been sold for the full or
33 partial payment of his obligation shall have the right within one (1) year
34 after the sale of the real estate, to redeem the property by paying the
35 amount due under the mortgage deed, with interest thereon at the rate
36 specified in the mortgage, and all the costs and expenses incurred by the
37 bank or institution from the sale and custody of said property, less the
38 income derived therefrom. Notwithstanding Act 3135, juridical persons
39 whose property is being sold pursuant to an extrajudicial foreclosure, shall
40 have the right to redeem the property in accordance with this provision

1 until, but not after, the registration of the certificate of foreclosure sale with
2 the applicable Register of Deeds which in no case shall be more than three
3 (3) months after foreclosure, whichever is earlier. Owners of property that
4 has been sold in a foreclosure sale prior to the effectivity of this Act shall
5 retain their redemption rights until their expiration.

6 *SEC. 74. Loans And Other Credit Accommodations on Security of*
7 *Chattels.* – Except as the Monetary Board may otherwise prescribe, loans
8 and other credit accommodations on security of chattels shall not exceed
9 fifty percent (50%) of the appraised value of the security, and such loans
10 and other credit accommodations shall not be made unless title to the
11 chattels, free from all encumbrances, shall be in the name of the mortgagor.

12 *SEC. 75. Unsecured Loans or Other Credit Accommodations.* –
13 The Monetary Board is hereby authorized to issue such regulations as it
14 may deem necessary with respect to unsecured loans or other credit
15 accommodations that may be granted by banks. The Monetary Board
16 regulations shall recognize the appropriateness of cash flow-based lending
17 for small loans that are not efficiently covered by traditional collateral.

18 *SEC. 76. Other Security Requirements for Bank Credits.* – The
19 Monetary Board may, by regulation, prescribe further security requirements
20 to which the various types of bank credits shall be subject, and, in
21 accordance with the authority granted to it in Section 106 of Republic Act
22 No. 7653, the Board may by regulation, reduce the maximum ratios
23 established in Section 74 of this Act, or, in special cases, increase the
24 maximum ratios established therein.

25 *SEC. 77. Authority to Prescribe Terms and Conditions of Loans*
26 *and Other Credit Accommodations.* – The Monetary Board may, similarly,
27 in accordance with the authority granted to it in Section 106 of Republic
28 Act No. 7653, and taking into account the requirements of the economy for
29 the effective utilization of long-term funds, prescribe the maturities, as well
30 as related terms and conditions for various types of bank loans and other
31 credit accommodations. Any change by the Board in the maximum
32 maturities shall apply only to loans and other credit accommodations made
33 after the date of such action.

34 *SEC. 78. Amortization on Loans and Other Credit*
35 *Accommodations.* – The nature of the operations to be financed and the
36 projected cash flow of the borrowers, especially in the micro-finance
37 sector, shall be considered in determining the amortization schedule of
38 bank loans and other credit accommodations.

39 In case of loans and other credit accommodations with maturities of
40 more than five years, provisions must be made for periodic amortization

1 payments, but such payments must be made at least annually: *Provided,*
2 *however,* That when the borrowed funds are to be used for purposes which
3 do not initially produce revenues adequate for regular amortization
4 payments therefrom, the bank may permit the initial amortization payment
5 to be deferred until such time as said revenues are sufficient for such
6 purpose, provided the initial amortization date shall not be later than five
7 (5) years from the date on which the loan or other credit accommodation is
8 granted, unless special circumstances warrant the extension of the period.

9 *SEC. 79. Prepayment of Loans and Other Credit Accommodations.*

10 – A borrower may at any time prior to the agreed maturity date prepay, in
11 whole or in part, the unpaid balance of any bank loan and other credit
12 accommodation, subject to such reasonable terms and conditions as may be
13 agreed upon between the bank and its borrower.

14 *SEC. 80. Renewal or Extension of Loans and Other Credit*
15 *Accommodations.* – The Monetary Board may, by regulation, prescribe the
16 conditions and limitations under which a bank may grant extensions or
17 renewals of its loans and other credit accommodations.

18 *SEC. 81. Risk Monitoring System.* – The Monetary Board shall
19 require banks to have adequate and sound policies, procedures, systems and
20 useful indicators in monitoring market risks spawned by institutional and
21 structural infirmities or macroeconomic factors and in recognizing losses
22 arising from such risk. The Monetary Board shall require banks to establish
23 an appropriate system for measuring and monitoring market risks under such
24 guidelines it may prescribe considering factors relative to the condition of
25 specific classes or types of banks such as, but not limited to, the capitalization
26 and total asset size of the institution. The Bangko Sentral may, if warranted,
27 impose minimum requirements on specific loss provisions on banks' market
28 risk exposure. For the purposes of this Section, market risk means the risk of
29 loss due to adverse changes in the market value of an instrument or portfolio
30 of instruments

31 *SEC. 82. Provisions for Losses and Write-Offs.* – All debts due to
32 any bank on which interest is past due and unpaid for such period as may
33 be determined by the Monetary Board, unless the same are well-secured
34 and in the process of collection shall be considered bad debts within the
35 meaning of this Section.

36 The Monetary Board shall fix, by regulation or by order in a specific
37 case, the amount of reserves for bad debts or doubtful accounts or other
38 contingencies and shall require banks to have adequate policies and
39 procedures for maintaining adequate reserve against loss.

1 Writing off of loans, other credit accommodations, advances and
2 other assets shall be subject to regulations issued by the Monetary Board.

3 CHAPTER X

4 GENERAL PROVISIONS

5 SEC. 83. *Independent Auditor.* -- The Monetary Board may, at its
6 discretion, in specific cases where the circumstances so warrant, require a
7 bank to engage the services of a reputable auditor acceptable to the
8 Monetary Board. Nothing in this Section shall be understood to preclude
9 the Monetary Board from directing the board of directors of a banking
10 institutions and/or individual members thereof, to conduct, either
11 personally or by a committee created by the board, an annual balance sheet
12 audit of the bank, to review the internal audit and control system of the
13 bank and to submit a report of such audit.

14 SEC. 84. *Other Banking Services.* -- In addition to the operations
15 specifically authorized in this Act, a bank may perform the following
16 services:

17 (a) Receive in custody funds, documents and valuable objects;

18 (b) Act as financial agent and buy and sell, by order of and for the
19 account of their customers, shares, evidences of indebtedness and all types
20 of securities;

21 (c) Make collections and payments for the account of others and
22 perform such other services for their customers as are not incompatible
23 with banking business;

24 (d) Upon prior approval of the Monetary Board, act as managing
25 agent, adviser, consultant or administrator of investment
26 management/advisory/consultancy accounts; and

27 (e) Rent out safe deposit boxes.

28 The bank shall perform the services permitted under Subsections (a),
29 (b), (c) and (d) of this section as depository or as an agent. Accordingly, it
30 shall keep the funds, securities and other effects which it thus receives duly
31 separated and apart from the bank's own assets and liabilities.

32 The Monetary Board may regulate the operations authorized by this
33 Section in order to ensure that such operations do not endanger the interests
34 of the depositors and other creditors of the bank.

35 SEC. 85. *Banking Days and Hours.* -- Unless otherwise authorized
36 by the Bangko Sentral in the interest of the banking public, all banks
37 including their branches and offices shall transact business on all working
38 days for at least six hours a day. In addition, banks or any of their branches
39 or offices may open for business on Saturdays, Sundays or holidays for at
40 least three hours a day: *Provided,* That banks which opt to open on days

1 other than working days shall report to the Bangko Sentral the additional
2 days during which they or their branches or offices shall transact business.
3 In case a bank or quasi-bank notifies the Bangko Sentral or publicly
4 announces a bank holiday, or in any manner suspends the payment of its
5 deposit liabilities continuously for more than thirty (30) days, the Monetary
6 Board shall summarily and without need for prior hearing close such
7 banking institution and place it under receivership of the Philippine Deposit
8 Insurance Corporation. For purposes of this Section, working days shall
9 mean Mondays to Fridays, except if such days are holidays.

10 SEC. 86. *Acceptance of Demand Deposits.* – A bank other than a
11 universal or commercial bank cannot accept or create demand deposits
12 except upon prior approval of, and subject to such conditions and rules as
13 may be prescribed by the Monetary Board.

14 SEC. 87. *Prohibition to Act as Insurer.* – A bank shall not directly
15 engage in insurance business as the insurer, except upon prior approval of
16 the Monetary Board, which approval may be given only after considering
17 conditions and developments in the domestic and/or international financial
18 markets.

19 SEC. 88. *Financial Statements.* – Every bank, quasi-bank or trust
20 entity shall submit to the appropriate supervising and examining
21 department of the Bangko Sentral financial statements in such form and
22 frequency as may be prescribed by the Bangko Sentral. Such statements,
23 which shall be as of a specific date designated by the Bangko Sentral, shall
24 show the actual financial condition of the institution submitting the
25 statement, and of its branches, offices, subsidiaries and affiliates, including
26 the results of its operations, and shall contain such information as may be
27 required in Bangko Sentral regulations.

28 SEC. 89. *Publication of Financial Statements.* – Every bank, quasi-
29 bank or trust entity, shall publish a statement of its financial condition,
30 including those of its subsidiaries and affiliates, in such form and frequency
31 as may be prescribed by the Bangko Sentral, in English or Filipino, at least
32 once every quarter in a newspaper of general circulation in the city or
33 province where the principal office, in the case of a domestic institution, or
34 the principal branch or office in the case of a foreign bank, is located, but if
35 no newspaper is published in the same province, then in a newspaper
36 published in Metro Manila or in the nearest city or province.

37 The Bangko Sentral may by regulation prescribe the newspaper
38 where the statements prescribed herein shall be published.

39 The Monetary Board may allow the posting of the financial
40 statements of a bank, quasi-bank or trust entity in public places it may

1 determine, in lieu of the publication required in the preceding paragraph,
2 when warranted by the circumstances.

3 Additionally, banks shall make available to the public in such form
4 and manner as the Bangko Sentral may prescribe the complete set of its
5 audited financial statements as well as such other relevant information
6 including those on enterprises majority-owned or controlled by the bank,
7 that will inform the public of the true financial condition of a bank as of
8 any given time.

9 In periods of national and/or local emergency or imminent panic
10 which directly threaten monetary and banking stability, the Monetary
11 Board, by a vote of at least five (5) of its members, in special cases and
12 upon application of the bank, quasi-bank or trust entity, may allow such
13 bank, quasi-bank or trust entity to defer for a stated period of time the
14 publication of the statement of financial condition required herein.

15 SEC. 90. *Publication of Capital Stock.* – A bank, quasi-bank or
16 trust entity incorporated under the laws of the Philippines shall not publish
17 the amount of its authorized or subscribed capital stock without indicating
18 at the same time and with equal prominence, the amount of its capital
19 actually paid up.

20 No branch of any foreign bank doing business in the Philippines
21 shall in any way announce the amount of the capital and surplus of its head
22 office, or of the bank in its entirety without indicating at the same time and
23 with equal prominence the amount of the capital, if any, definitely assigned
24 to such branch. In case no capital has been definitely assigned to such
25 branch, such fact shall be stated in, and shall form part of the publication.

26 SEC. 91. *Power of the Bangko Sentral with Respect to Certain*
27 *Documents.* – The provision of any law or regulation to the contrary
28 notwithstanding, the Bangko Sentral shall prescribe by regulation the
29 manner of recording, storing and transmitting information regarding all
30 transactions, including those involving local and foreign exchange, by a
31 bank, quasi-bank or trust entity including the use of computers for such
32 purposes.

33 SEC. 92. *Prohibition on Dividend Declaration.* – No bank or quasi-
34 bank shall declare dividends greater than its accumulated net profits then
35 on hand, deducting therefrom its losses and bad debts. Neither shall the
36 bank nor quasi-bank declare dividends, if at the time of declaration:

- 37 (a) Its clearing account with the Bangko Sentral is overdrawn; or
38 (b) It is deficient in the required liquidity floor for government
39 deposits for five (5) or more consecutive days; or
40 (c) It does not comply with the liquidity standards/ratios prescribed

1 by the Bangko Sentral for purposes of determining funds available for
2 dividend declaration; or

3 (d) It has committed a major violation as may be determined by the
4 Bangko Sentral.

5 *SEC. 93. Penalty for Transactions After a Bank Becomes Insolvent.*

6 – Any director or officer of any bank declared insolvent or placed under
7 receivership by the Monetary Board who refuses to turn over the bank's
8 records and assets to the designated receivers, or who tampers with banks
9 records, or who appropriates for himself or another party or destroys or
10 causes the misappropriation and destruction of the bank's assets, or who
11 receives or permits or causes to be received in said bank any deposit,
12 collection of loans and/or receivables, or who pays out or permits or causes
13 to be paid out any funds of said bank, or who transfers or permits or causes
14 to be transferred any securities or property of said bank shall be subject to
15 the penal provisions of Sections 36 and 37 of Republic Act No. 7653.

16 *SEC. 94. Voluntary Liquidation.* – In case of the voluntary
17 liquidation of any bank organized under the laws of the Philippines, or of
18 any branch or office in the Philippines of a foreign bank, written notice of
19 such liquidation shall be sent to the Monetary Board before such
20 liquidation is undertaken. The Monetary Board and the Philippine Deposit
21 Insurance Corporation, as the legally designated bank receiver and liquidator,
22 shall have the right to intervene and take such steps as may be necessary to
23 protect the interests of creditors.

24 *SEC. 95. Strikes and Lockouts.* – The banking industry is hereby
25 declared as indispensable to the national interest and, notwithstanding the
26 provisions of any law to the contrary, any strike or lockout involving banks,
27 if unsettled within five (5) working days after receipt of notice by the
28 Bangko Sentral from the bank concerned, shall be immediately certified by
29 the Bangko Sentral to the appropriate court, government agency or
30 commission for resolution and reported to the President of the Philippines.

31 *SEC. 96. Settlement of Disputes.* – The provisions of any law to the
32 contrary notwithstanding, the Bangko Sentral shall be consulted by other
33 government agencies or instrumentalities in actions or proceedings initiated
34 by or brought before them involving controversies in banks, quasi-banks or
35 trust entities arising out of and involving relations between and among their
36 directors, officers or stockholders, as well as disputes between any or all of
37 them and the bank, quasi-bank or trust entity of which they are directors,
38 officers or stockholders.

39 *SEC. 97. Conducting Business in an Unsafe or Unsound Manner.* –
40 In determining whether a particular act or omission, which is not otherwise

1 prohibited by any law, rule or regulation affecting banks, quasi-banks or
2 trust entities, may be deemed as conducting business in an unsafe or
3 unsound manner for purposes of this Section, the Monetary Board shall
4 consider any of the following circumstances:

5 (a) The act or omission has resulted or may result in material loss
6 or damage, or abnormal risk or danger to the safety, stability, liquidity or
7 solvency of the institution; or

8 (b) The act or omission has resulted or may result in material loss
9 or damage or abnormal risk to the institution's depositors, creditors,
10 investors or stockholders, Bangko Sentral, or to the public in general, or

11 (c) The act or omission has caused any undue injury, or has given
12 any unwarranted benefits, advantage or preference to any party in the
13 discharge by the director or officer of his duties and responsibilities
14 through manifest partiality, evident bad faith or gross inexcusable
15 negligence; or

16 (d) The act or omission involves entering into any contract or
17 transaction manifestly and grossly disadvantageous to the bank, quasi-bank
18 or trust entity, whether or not the director or officer profited or will profit
19 thereby.

20 Whenever a bank, quasi-bank or trust entity persists in conducting
21 its business in an unsafe or unsound manner, the Monetary Board may,
22 without prejudice to the administrative sanctions provided in the first
23 paragraph of this Section, take action under Section 30 of Republic Act
24 No. 7653.

25 SEC. 98. *Prohibited Transactions.* -

26 (a) No director, officer, employee, consultant, independent
27 contractor or agent of any bank shall -

28 (1) Make false entries in any bank report or statement or participate
29 in any fraudulent transaction, thereby affecting the financial interest of, or
30 causing damage to, the bank or any person; or

31 (2) Without order of a court of competent jurisdiction, disclose to
32 any unauthorized person any information relative to the funds or properties
33 in the custody of the bank belonging to private individuals, corporations, or
34 any other entity: *Provided*, That with respect to bank deposits, the
35 provisions of existing laws shall prevail; or

36 (3) Accept gifts, fees or commissions or any other form of
37 remuneration in connection with the approval of a loan or other credit
38 accommodation from said bank; or

39 (4) Overvalue or aid in overvaluing any security for the purpose of
40 influencing in any way the actions of the bank or any bank.

1 (b) No borrower of a bank shall -

2 (1) Fraudulently overvalue property offered as security for a loan or
3 other credit accommodation from the bank; or

4 (2) Furnish false, or make willfull misrepresentation of, material
5 facts for the purpose of obtaining, renewing, or increasing a loan or other
6 credit accommodation or extending the period thereof; or

7 (3) Attempt to defraud the said bank in the event of a court action
8 to recover a loan or other credit accommodation, or

9 (4) Offer any director, officer, employee or agent of a bank any gift,
10 fee, commission, or any other form of compensation in order to influence
11 such persons into approving a loan or other credit accommodation
12 application.

13 (c) No examiner, officer or employee of the Bangko Sentral or of
14 any department, bureau, office, branch or agency of the Government that is
15 assigned to supervise, examine, assist or render technical assistance to any
16 bank shall commit any of the acts enumerated in this Section or aid in the
17 commission of the same.

18 SEC. 99. *Unauthorized Advertisement or Business Representation.*

19 – No person, association, or corporation unless duly authorized to engage
20 in the business of a bank, quasi-bank, trust entity, or savings and loan
21 association as defined in this Act, or other banking laws, shall advertise or
22 hold itself out as being engaged in the business of such bank, quasi-bank,
23 trust entity, or association, or use in connection with its business title, the
24 word or words “bank”, “banking”, “banker”, “quasi-bank”, “quasi-
25 banking”, “quasi-banker”, “savings and loan association”, “trust
26 corporation”, “trust company” or words of similar import or transact in any
27 manner the business of any such bank, corporation or association.

28 SEC. 100. *Service Fees.* – The Bangko Sentral may charge
29 equitable rates, commissions or fees, as may be prescribed by the Monetary
30 Board for supervision, examination and other services which it renders
31 under this Act.

32 SEC. 101. *Penalty for Violation of this Act.* – Unless otherwise
33 herein provided, the violation of any of the provisions of this Act shall be
34 subject to the penal provisions of Sections 34, 35, 36 and 37 of Republic
35 Act No. 7653. If the offender is a director or officer of a bank, quasi-bank
36 or trust entity, the Monetary Board may also suspend or remove such
37 director or officer. If the violation is committed by a corporation, such
38 corporation may be dissolved by *quo warranto* proceedings instituted by
39 the Solicitor General: *Provided*, That nothing in this Section shall be
40 construed as repealing the other causes for the dissolution of corporations

