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[ REPUBLIC ACT NO. 8791 ]

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

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

CHAPTER I

Title And Classification Of Banks

SECTION 1. *Title.* - The short title of this Act shall be "The  
General Banking Law of 2000." (1a)

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. (n)

SEC. 3. *Definition and Classification of Banks.* -

3.1. "Banks" shall refer to entities engaged in the lending of funds obtained in the form of deposits. (2a)

3.2. Banks shall be classified into:

(a) Universal banks;

(b) Commercial banks;

(c) Thrift banks, composed of: (i) Savings and mortgage banks, (ii) Stock savings and loan associations, and (iii) Private development banks, as defined in Republic Act No. 7906 (hereafter the "Thrift Banks Act");

(d) Rural banks, as defined in Republic Act No. 7353 (hereafter the "Rural Banks Act");

(e) Cooperative banks, as defined in Republic Act No. 6938 (hereafter the "Cooperative Code");

(f) Islamic banks as defined in Republic Act No. 6848, otherwise known as the "Charter of Al Amanah Islamic Investment Bank of the Philippines"; and

(g) Other classifications of banks as determined by the Monetary Board of the Bangko Sentral ng Pilipinas. (6-Aa)

CHAPTER II

Authority of the Bangko Sentral

SEC. 4. *Supervisory Powers.* - The operations and activities of banks shall be subject to supervision of the Bangko Sentral. "Supervision" shall include the following:

4.1. The issuance of rules of conduct or the establishment of standards of operation for uniform application to all institutions or functions covered, taking into consideration the distinctive character of the operations of institutions and the substantive similarities of specific functions to which such rules, modes or standards are to be applied;

4.2. The conduct of examination to determine compliance with laws and regulations if the circumstances so warrant as determined by the Monetary Board;

4.3. Overseeing to ascertain that laws and regulations are complied with;

4.4. Regular investigation which shall not be oftener than once

a year from the last date of examination to determine whether an institution is conducting its business on a safe or sound basis: *Provided*, That the deficiencies/irregularities found by or discovered by an audit shall be immediately addressed;

4.5. Inquiring into the solvency and liquidity of the institution (2-D); or

4.6. Enforcing prompt corrective action. (n)

The Bangko Sentral shall also have supervision over the operations of and exercise regulatory powers over quasi-banks, trust entities and other financial institutions which under special laws are subject to Bangko Sentral supervision. (2-Ca)

For the purposes of this Act, "quasi-banks" shall refer to entities engaged in the borrowing of funds through the issuance, endorsement or assignment with recourse or acceptance of deposit substitutes as defined in Section 95 of Republic Act No. 7653 (hereafter the "New Central Bank Act") for purposes of relending or purchasing of receivables and other obligations. (2-Da)

SEC. 5. *Policy Direction; Ratios, Ceilings and Limitations.* - The Bangko Sentral shall provide policy direction in the areas of money, banking and credit. (n)

For this purpose, the Monetary Board may prescribe ratios, ceilings, limitations, or other forms of regulation on the different types of accounts and practices of banks and quasi-banks which shall, to the extent feasible, conform to internationally accepted standards, including those of the Bank for International Settlements (BIS). The Monetary Board may exempt particular categories of transactions from such ratios, ceilings and limitations, but not limited to exceptional cases or to enable a bank or quasi-bank under rehabilitation or during a merger or consolidation to continue in business with safety to its creditors, depositors and the general public. (2-Ca)

SEC. 6. *Authority to Engage in Banking and Quasi-Banking Functions.* - No person or entity shall engage in banking operations or quasi-banking functions without authority from the Bangko Sentral: *Provided, however*, That an entity authorized by the Bangko Sentral to perform universal or commercial banking functions shall likewise have the authority to engage in quasi-banking functions.

The determination of whether a person or entity is performing banking or quasi-banking functions without Bangko Sentral authority shall be decided by the Monetary Board. To resolve such issue, the Monetary Board may, through the appropriate supervising and examining department of the Bangko Sentral, examine, inspect or investigate the books and records of such person or entity. Upon issuance of this authority, such person or entity may commence to engage in banking operations or quasi-banking functions and shall continue to do so unless such authority is sooner surrendered, revoked, suspended or annulled

by the Bangko Sentral in accordance with this Act or other special laws.

The department head and the examiners of the appropriate supervising and examining department are hereby authorized to administer oaths to any such person, employee, officer, or director of any such entity and to compel the presentation or production of such books, documents, papers or records that are reasonably necessary to ascertain the facts relative to the true functions and operations of such person or entity. Failure or refusal to comply with the required presentation or production of such books, documents, papers or records within a reasonable time shall subject the persons responsible therefor to the penal sanctions provided under the New Central Bank Act.

Persons or entities found to be performing banking or quasi-banking functions without authority from the Bangko Sentral shall be subject to appropriate sanctions under the New Central Bank Act and other applicable laws. (4a)

SEC. 7. *Examination by the Bangko Sentral.* - The Bangko Sentral shall, when examining a bank, have the authority to examine an enterprise which is wholly or majority-owned or controlled by the bank. (21-Ba)

### CHAPTER III

#### Organization, Management And Administration Of Banks, Quasi-Banks And Trust Entities

SEC. 8. *Organization.* - The Monetary Board may authorize the organization of a bank or quasi-bank subject to the following conditions:

- 8.1. That the entity is a stock corporation (7);
- 8.2. That its funds are obtained from the public, which shall mean twenty (20) or more persons (2-Da); and
- 8.3. That the minimum capital requirements prescribed by the Monetary Board for each category of banks are satisfied. (n)

No new commercial bank shall be established within three (3) years from the effectivity of this Act. In the exercise of the authority granted herein, the Monetary Board shall take into consideration their capability in terms of their financial resources and technical expertise and integrity. The bank licensing process shall incorporate an assessment of the bank's ownership structure, directors and senior management, its operating plan and internal controls as well as its projected financial condition and capital base.

SEC. 9. *Issuance of Stocks.* - The Monetary Board may prescribe rules and regulations on the types of stock a bank may issue, including the terms thereof and rights appurtenant thereto to determine compliance with laws and regulations governing capital and equity structure of banks: *Provided*, That banks shall issue par value stocks only.

SEC. 10. *Treasury Stocks.* - No bank shall purchase or acquire shares of its own capital stock or accept its own shares as a security for a loan, except when authorized by the Monetary Board: *Provided*, That in every case the stock so purchased or acquired shall, within six (6) months from the time of its purchase or acquisition, be sold or disposed of at a public or private sale. (24a)

SEC. 11. *Foreign Stockholdings.* - Foreign individuals and non-bank corporations may own or control up to forty percent (40%) of the voting stock of a domestic bank. This rule shall apply to Filipinos and domestic non-bank corporations. (12a; 12-Aa)

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 of the corporation, irrespective of the place of incorporation.(n)

SEC. 12. *Stockholdings of Family Groups or Related Interests.* - Stockholdings of individuals related to each other within the fourth degree of consanguinity or affinity, legitimate or common-law, shall be considered family groups or related interests and must be fully disclosed in all transactions by such an individual with the bank. (12-Da)

SEC. 13. *Corporate Stockholdings.* - Two or more corporations owned or controlled by the same family group or same group of persons shall be considered related interests and must be fully disclosed in all transactions by such corporations or related groups of persons with the bank. (12-Ba)

SEC. 14. *Certificate of Authority to Register.* - The Securities and Exchange Commission shall not register the articles of incorporation of any bank, or any amendment thereto, unless accompanied by a certificate of authority issued by the Monetary Board, under its seal. Such certificate shall not be issued unless the Monetary Board is satisfied from the evidence submitted to it:

- 14.1. That all requirements of existing laws and regulations to engage in the business for which the applicant is proposed to be incorporated have been complied with;
- 14.2. That the public interest and economic conditions, both general and local, justify the authorization; and
- 14.3. That the amount of capital, the financing, organization, direction and administration, as well as the integrity and responsibility of the organizers and administrators reasonably assure the safety of deposits and the public interest. (9)

The Securities and Exchange Commission shall not register the by-laws of any bank, or any amendment thereto, unless accompanied by a certificate of authority from the Bangko Sentral. (10)

SEC. 15. *Board of Directors.* - The provisions of the Corporation Code to the contrary notwithstanding, there shall be at least five (5), and a maximum of fifteen (15) members of the board of directors of a bank, two (2) of whom shall be independent directors. An "independent director" shall mean a person other than an officer or employee of the bank, its subsidiaries or affiliates or related interests. (n)

Non-Filipino citizens may become members of the board of directors of a bank to the extent of the foreign participation in the equity of said bank. (Sec. 7, RA 7721)

The meetings of the board of directors may be conducted through modern technologies such as, but not limited to, teleconferencing and video-conferencing. (n)

SEC. 16. *Fit and Proper Rule.* - To maintain the quality of bank management and afford better protection to depositors and the public in general, the Monetary Board shall prescribe, pass upon and review the qualifications and disqualifications of individuals elected or appointed bank directors or officers and disqualify those found unfit.

After due notice to the board of directors of the bank, the Monetary Board may disqualify, suspend or remove any bank director or officer who commits or omits an act which render him unfit for the position.

In determining whether an individual is fit and proper to hold the position of a director or officer of a bank, regard shall be given to his integrity, experience, education, training, and competence. (9-Aa)

SEC. 17. *Directors of Merged or Consolidated Banks.* - In the case of a bank merger or consolidation, the number of directors shall not exceed twenty-one (21). (13a)

SEC. 18. *Compensation and Other Benefits of Directors and Officers.* - To protect the funds of depositors and creditors, the Monetary Board may regulate the payment by the bank to its directors and officers of compensation, allowance, fees, bonuses, stock options, profit sharing and fringe benefits only in exceptional cases and when the circumstances warrant, such as but not limited to the following:

18.1. When a bank is under comptrollership or conservatorship; or

18.2. When a bank is found by the Monetary Board to be conducting business in an unsafe or unsound manner; or

18.3. When a bank is found by the Monetary Board to be in an unsatisfactory financial condition. (n)

SEC. 19. *Prohibition on Public Officials.* - Except as otherwise provided in the Rural Banks Act, no appointive or elective public official, whether full-time or part-time shall at the same time serve as officer of any private bank, save in cases where such service is incident to financial assistance provided by the government or a government-

owned or controlled corporation to the bank or unless otherwise provided under existing laws. (13)

SEC. 20. *Bank Branches.* - Universal or commercial banks may open branches or other offices within or outside the Philippines upon prior approval of the Bangko Sentral.

Branching by all other banks shall be governed by pertinent laws.

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

A bank authorized to establish branches or other offices shall be responsible for all business conducted in such branches and offices to the same extent and in the same manner as though such business had all been conducted in the head office. A bank and its branches and offices shall be treated as one unit. (6-B; 27)

SEC. 21. *Banking Days and Hours.* - Unless otherwise authorized by the Bangko Sentral in the interest of the banking public, all banks including their branches and offices shall transact business on all working days for at least six (6) hours a day. In addition, banks or any of their branches or offices may open for business on Saturdays, Sundays or holidays for at least three (3) hours a day: *Provided*, That banks which opt to open on days other than working days shall report to the Bangko Sentral the additional days during which they or their branches or offices shall transact business.

For purposes of this Section, working days shall mean Mondays to Fridays, except if such days are holidays. (6-Ca)

SEC. 22. *Strikes and Lockouts.* - The banking industry is hereby declared as indispensable to the national interest and, notwithstanding the provisions of any law to the contrary, any strike or lockout involving banks, if unsettled after seven (7) calendar days shall be reported by the Bangko Sentral to the Secretary of Labor who may assume jurisdiction over the dispute or decide it or certify the same to the National Labor Relations Commission for compulsory arbitration. However, the President of the Philippines may at any time intervene and assume jurisdiction over such labor dispute in order to settle or terminate the same. (6-E)

## CHAPTER IV

### Deposits, Loans and Other Operations

#### Article I. Operations of Universal Banks

SEC. 23. *Powers of a Universal Bank.* - A universal bank shall have the authority to exercise, in addition to the powers

authorized for a commercial bank in Section 29, the powers of an investment house as provided in existing laws and the power to invest in non-allied enterprises as provided in this Act. (21-B)

SEC. 24. *Equity Investments of a Universal Bank.* - A universal bank may, subject to the conditions stated in the succeeding paragraph, invest in the equities of allied and non-allied enterprises as may be determined by the Monetary Board. Allied enterprises may either be financial or non-financial.

Except as the Monetary Board may otherwise prescribe:

24.1. The total investment in equities of allied and non-allied enterprises shall not exceed fifty percent (50%) of the net worth of the bank; and

24.2. The equity investment in any one enterprise, whether allied or non-allied, shall not exceed twenty-five percent (25%) of the net worth of the bank.

As used in this Act, "net worth" shall mean the total of the unimpaired paid-in capital including paid-in surplus, retained earnings and undivided profit, net of valuation reserves and other adjustments as may be required by the Bangko Sentral.

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

SEC. 25. *Equity Investments of a Universal Bank in Financial Allied Enterprises.* - A universal bank can own up to one hundred percent (100%) of the equity in a thrift bank, a rural bank or a financial allied enterprise.

A publicly-listed universal or commercial bank may own up to one hundred percent (100%) of the voting stock of only one other universal or commercial bank. (21-B; 21-Ca)

SEC. 26. *Equity Investments of a Universal Bank in Non-Financial Allied Enterprises.* - A universal bank may own up to one hundred percent (100%) of the equity in a non-financial allied enterprise. (21-Ba)

SEC. 27. *Equity Investments of a Universal Bank in Non-Allied Enterprises.* - The equity investment of a universal bank, or of its wholly or majority-owned subsidiaries, in a single non-allied enterprise shall not exceed thirty-five percent (35%) of the total equity in that enterprise nor shall it exceed thirty-five percent (35%) of the voting stock in that enterprise. (21-B)

SEC. 28. *Equity Investments in Quasi-Banks.* - To promote competitive conditions in financial markets, the Monetary Board may further limit to forty percent (40%) equity investments of universal banks in quasi-banks. This rule shall also apply in the case of commercial banks. (12-E)

## Article II. Operations Of Commercial Banks

SEC. 29. *Powers of a Commercial Bank.* - A commercial bank shall have, in addition to the general powers incident to corporations, all such powers as may be necessary to carry on the business of commercial banking, such as accepting drafts and issuing letters of credit; discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; accepting or creating demand deposits; receiving other types of deposits and deposit substitutes; buying and selling foreign exchange and gold or silver bullion; acquiring marketable bonds and other debt securities; and extending credit, subject to such rules as the Monetary Board may promulgate. These rules may include the determination of bonds and other debt securities eligible for investment, the maturities and aggregate amount of such investment. (21a)

SEC. 30. *Equity Investments of a Commercial Bank.* - A commercial bank may, subject to the conditions stated in the succeeding paragraphs, invest only in the equities of allied enterprises as may be determined by the Monetary Board. Allied enterprises may either be financial or non-financial.

Except as the Monetary Board may otherwise prescribe:

30.1. The total investment in equities of allied enterprises shall not exceed thirty-five percent (35%) of the net worth of the bank; and

30.2. The equity investment in any one enterprise shall not exceed twenty-five percent (25%) of the net worth of the bank.

The acquisition of such equity or equities is subject to the prior approval of the Monetary Board which shall promulgate appropriate guidelines to govern such investments. (21A-a; 21-Ca)

SEC. 31. *Equity Investments of a Commercial Bank in Financial Allied Enterprises.* - A commercial bank may own up to one hundred percent (100%) of the equity of a thrift bank or a rural bank.

Where the equity investment of a commercial bank is in other financial allied enterprises, including another commercial bank, such investment shall remain a minority holding in that enterprise. (21-Aa; 21-Ca)

SEC. 32. *Equity Investments of a Commercial Bank in Non-Financial Allied Enterprises.* - A commercial bank may own up to one hundred percent (100%) of the equity in a non-financial allied enterprise. (21-Aa)

## Article III. Provisions Applicable To All Banks, Quasi-Banks, And Trust Entities

SEC. 33. *Acceptance of Demand Deposits.* - A bank other than a universal or commercial bank cannot accept or create demand

deposits except upon prior approval of, and subject to such conditions and rules as may be prescribed by the Monetary Board. (72-Aa)

SEC. 34. *Risk-Based Capital.* - The Monetary Board shall prescribe the minimum ratio which the net worth of a bank must bear to its total risk assets which may include contingent accounts.

For purposes of this Section, the Monetary Board may require that such ratio be determined on the basis of the net worth and risk assets of a bank and its subsidiaries, financial or otherwise, as well as prescribe the composition and the manner of determining the net worth and total risk assets of banks and their subsidiaries: *Provided*, That in the exercise of this authority, the Monetary Board shall, to the extent feasible, conform to internationally accepted standards, including those of the Bank for International Settlements (BIS), relating to risk-based capital requirements: *Provided, further*, That it may alter or suspend compliance with such ratio whenever necessary for a maximum period of one (1) year: *Provided, finally*, That such ratio shall be applied uniformly to banks of the same category.

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

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

Before the effectivity of the rules which the Monetary Board is authorized to prescribe under this provision, Section 22 of the General Banking Act, as amended, Section 9 of the Thrift Banks Act, and all pertinent rules issued pursuant thereto, shall continue to be in force. (22a)

SEC. 35. *Limit on Loans, Credit Accommodations and Guarantees.* -

35.1. Except as the Monetary Board may otherwise prescribe for reasons of national interest, the total amount of loans, credit accommodations and guarantees as may be defined by the Monetary Board that may be extended by a bank to any person, partnership, association, corporation or other entity shall at no time exceed twenty percent (20%) of the net worth of such bank. The basis for determining compliance with single-borrower limit is the total credit commitment of

the bank to the borrower.

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

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

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

35.5. For purposes of this Section, loans, other credit accommodations and guarantees shall exclude: (a) loans and other credit accommodations secured by obligations of the Bangko Sentral or of the Philippine Government; (b) loans and other credit accommodations fully guaranteed by the government as to the payment of principal and interest; (c) loans and other credit accommodations covered by assignment of deposits maintained in the lending bank and held in the Philippines; (d) loans, credit accommodations and acceptances under letters of credit to the extent covered by margin deposits; and (e) other loans or credit accommodations which the Monetary Board may from time to time, specify as non-risk items.

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

35.7. Certain types of contingent accounts of borrowers may be included among those subject to these prescribed limits as may be determined by the Monetary Board.(23a)

SEC. 36. *Restriction on Bank Exposure to Directors, Officers, Stockholders and Their Related Interests.* - No director or officer of any bank shall, directly or indirectly, for himself or as the representative or agent of others, borrow from such bank nor shall he become a guarantor, indorser or surety for loans from such bank to others, or in any manner be an obligor or incur any contractual liability to the bank except with the written approval of the majority of all the directors of the bank, excluding the director concerned: *Provided*, That such written approval shall not be required for loans, other credit accommodations and advances granted to officers under a fringe benefit plan approved by the Bangko Sentral. The required approval shall be entered upon the records of the bank and a copy of such entry shall be transmitted forthwith to the appropriate supervising and examining department of the Bangko Sentral.

Dealings of a bank with any of its directors, officers or stockholders and their related interests shall be upon terms not less favorable to the bank than those offered to others.

After due notice to the board of directors of the bank, the office of any bank director or officer who violates the provisions of this Section may be declared vacant and the director or officer shall be subject to the penal provisions of the New Central Bank Act.

The Monetary Board may regulate the amount of loans, credit accommodations and guarantees that may be extended, directly or indirectly, by a bank to its directors, officers, stockholders and their related interests, as well as investments of such bank in enterprises owned or controlled by said directors, officers, stockholders and their related interests. However, the outstanding loans, credit accommodations and guarantees which a bank may extend to each of its stockholders, directors, or officers and their related interests, shall be limited to an amount equivalent to their respective unencumbered deposits and book value of their paid-in capital contribution in the bank: *Provided, however*, That loans, credit accommodations and guarantees secured by assets considered as non-risk by the Monetary Board shall be excluded from such limit: *Provided, further*, That loans, credit accommodations and advances to officers in the form of fringe benefits granted in accordance with rules as may be prescribed by the Monetary Board shall not be subject to the individual limit.

The Monetary Board shall define the term "related interests."

The limit on loans, credit accommodations and guarantees prescribed herein shall not apply to loans, credit accommodations and guarantees extended by a cooperative bank to its cooperative shareholders. (83a)

SEC. 37. *Loans and Other Credit Accommodations Against Real Estate.* - Except as the Monetary Board may otherwise prescribe, loans and other credit accommodations against real estate

shall not exceed seventy-five percent (75%) of the appraised value of the respective real estate security, plus sixty percent (60%) of the appraised value of the insured improvements, and such loans may be made to the owner of the real estate or to his assignees. (78a)

SEC. 38. *Loans And Other Credit Accommodations on Security of Chattels and Intangible Properties.* - Except as the Monetary Board may otherwise prescribe, loans and other credit accommodations on security of chattels and intangible properties, such as, but not limited to, patents, trademarks, trade names, and copyrights shall not exceed seventy-five percent (75%) of the appraised value of the security, and such loans and other credit accommodations may be made to the title-holder of the chattels and intangible properties or his assignees. (78a)

SEC. 39. *Grant and Purpose of Loans and Other Credit Accommodations.* - A bank shall grant loans and other credit accommodations only in amounts and for the periods of time essential for the effective completion of the operations to be financed. Such grant of loans and other credit accommodations shall be consistent with safe and sound banking practices. (75a)

The purpose of all loans and other credit accommodations shall be stated in the application and in the contract between the bank and the borrower. If the bank finds that the proceeds of the loan or other credit accommodation have been employed, without its approval, for purposes other than those agreed upon with the bank, it shall have the right to terminate the loan or other credit accommodation and demand immediate repayment of the obligation. (77)

SEC. 40. *Requirement for Grant of Loans or Other Credit Accommodations.* - Before granting a loan or other credit accommodation, a bank must ascertain that the debtor is capable of fulfilling his commitments to the bank.

Toward this end, a bank may demand from its credit applicants a statement of their assets and liabilities and of their income and expenditures and such information as may be prescribed by law or by rules and regulations of Monetary Board to enable the bank to properly evaluate the credit application which includes the corresponding financial statements submitted for taxation purposes to the Bureau of Internal Revenue. Should such statements prove to be false or incorrect in any material detail, the bank may terminate any loan or other credit accommodation granted on the basis of said statements and shall have the right to demand immediate repayment or liquidation of the obligation.

In formulating rules and regulations under this Section, the Monetary Board shall recognize the peculiar characteristics of microfinancing, such as cash flow-based lending to the basic sectors that are not covered by traditional collateral. (76a)

SEC. 41. *Unsecured Loans or Other Credit Accommodations.* - The Monetary Board is hereby authorized to issue such regulations as it may deem necessary with respect to unsecured loans or other

credit accommodations that may be granted by banks. (n)

SEC. 42. *Other Security Requirements for Bank Credits.* - The Monetary Board may, by regulation, prescribe further security requirements to which the various types of bank credits shall be subject, and, in accordance with the authority granted to it in Section 106 of the New Central Bank Act, the Board may by regulation, reduce the maximum ratios established in Sections 36 and 37 of this Act, or, in special cases, increase the maximum ratios established therein. (78)

SEC. 43. *Authority to Prescribe Terms and Conditions of Loans and Other Credit Accommodations.* - The Monetary Board may, similarly, in accordance with the authority granted to it in Section 106 of the New Central Bank Act, and taking into account the requirements of the economy for the effective utilization of long-term funds, prescribe the maturities, as well as related terms and conditions for various types of bank loans and other credit accommodations. Any change by the Board in the maximum maturities shall apply only to loans and other credit accommodations made after the date of such action.

The Monetary Board shall regulate the interest imposed on microfinance borrowers by lending investors and similar lenders, such as, but not limited to, the unconscionable rates of interest collected on salary loans and similar credit accommodations. (78a)

SEC. 44. *Amortization on Loans and Other Credit Accommodations.* - The amortization schedule of bank loans and other credit accommodations shall be adapted to the nature of the operations to be financed.

In case of loans and other credit accommodations with maturities of more than five (5) years, provisions must be made for periodic amortization payments, but such payments must be made at least annually: *Provided, however,* That when the borrowed funds are to be used for purposes which do not initially produce revenues adequate for regular amortization payments therefrom, the bank may permit the initial amortization payment to be deferred until such time as said revenues are sufficient for such purpose, but in no case shall the initial amortization date be later than five (5) years from the date on which the loan or other credit accommodation is granted. (79a)

In case of loans and other credit accommodations to microfinance sectors, the schedule of loan amortization shall take into consideration the projected cash flow of the borrower and adopt this into the terms and conditions formulated by banks. (n)

SEC. 45. *Prepayment of Loans and Other Credit Accommodations.* - A borrower may at any time prior to the agreed maturity date prepay, in whole or in part, the unpaid balance of any bank loan and other credit accommodation, subject to such reasonable terms and conditions as may be agreed upon between the bank and its borrower. (80a)

SEC. 46. *Development Assistance Incentives.* - The Bangko

Sentral shall provide incentives to banks which, without government guarantee, extend loans to finance educational institutions, cooperatives, hospitals and other medical services, socialized or low-cost housing, local government units and other activities with social content. (n)

SEC. 47. *Foreclosure of Real Estate Mortgage.* - In the event of foreclosure, whether judicially or extra-judicially, of any mortgage on real estate which is security for any loan or other credit accommodation granted, the mortgagor or debtor whose real property has been sold for the full or partial payment of his obligation shall have the right within one year after the sale of the real estate, to redeem the property by paying the amount due under the mortgage deed, with interest thereon at the rate specified in the mortgage, and all the costs and expenses incurred by the bank or institution from the sale and custody of said property less the income derived therefrom. However, the purchaser at the auction sale concerned whether in a judicial or extra-judicial foreclosure shall have the right to enter upon and take possession of such property immediately after the date of the confirmation of the auction sale and administer the same in accordance with law. Any petition in court to enjoin or restrain the conduct of foreclosure proceedings instituted pursuant to this provision shall be given due course only upon the filing by the petitioner of a bond in an amount fixed by the court conditioned that he will pay all the damages which the bank may suffer by the enjoining or the restraint of the foreclosure proceeding.

Notwithstanding Act 3135, juridical persons whose property is being sold pursuant to an extrajudicial foreclosure, shall have the right to redeem the property in accordance with this provision until, but not after, the registration of the certificate of foreclosure sale with the applicable Register of Deeds which in no case shall be more than three (3) months after foreclosure, whichever is earlier. Owners of property that has been sold in a foreclosure sale prior to the effectivity of this Act shall retain their redemption rights until their expiration. (78a)

SEC. 48. *Renewal or Extension of Loans and Other Credit Accommodations.* - The Monetary Board may, by regulation, prescribe the conditions and limitations under which a bank may grant extensions or renewals of its loans and other credit accommodations. (81)

SEC. 49. *Provisions for Losses and Write-Offs.* - All debts due to any bank on which interest is past due and unpaid for such period as may be determined by the Monetary Board, unless the same are well-secured and in the process of collection shall be considered bad debts within the meaning of this Section.

The Monetary Board may fix, by regulation or by order in a specific case, the amount of reserves for bad debts or doubtful accounts or other contingencies.

Writing off of loans, other credit accommodations, advances and other assets shall be subject to regulations issued by the Monetary Board. (84c)



SEC. 50. *Major Investments.* - For the purpose of enhancing bank supervision, the Monetary Board shall establish criteria for reviewing major acquisitions or investments by a bank including corporate affiliations or structures that may expose the bank to undue risks or in any way hinder effective supervision.

SEC. 51. *Ceiling on Investments in Certain Assets.* - Any bank may acquire real estate as shall be necessary for its own use in the conduct of its business: *Provided, however,* That the total investment in such real estate and improvements thereof, including bank equipment, shall not exceed fifty percent (50%) of combined capital accounts: *Provided, further,* That the equity investment of a bank in another corporation engaged primarily in real estate shall be considered as part of the bank's total investment in real estate, unless otherwise provided by the Monetary Board. (25a)

SEC. 52. *Acquisition of Real Estate by Way of Satisfaction of Claims.* - Notwithstanding the limitations of the preceding Section, a bank may acquire, hold or convey real property under the following circumstances:

52.1. Such as shall be mortgaged to it in good faith by way of security for debts;

52.2. Such as shall be conveyed to it in satisfaction of debts previously contracted in the course of its dealings; or

52.3. Such as it shall purchase at sales under judgments, decrees, mortgages, or trust deeds held by it and such as it shall purchase to secure debts due it.

Any real property acquired or held under the circumstances enumerated in the above paragraph shall be disposed of by the bank within a period of five (5) years or as may be prescribed by the Monetary Board: *Provided, however,* That the bank may, after said period, continue to hold the property for its own use, subject to the limitations of the preceding Section. (25a)

SEC. 53. *Other Banking Services.* - In addition to the operations specifically authorized in this Act, a bank may perform the following services:

53.1. Receive in custody funds, documents and valuable objects;

53.2. Act as financial agent and buy and sell, by order of and for the account of their customers, shares, evidences of indebtedness and all types of securities;

53.3. Make collections and payments for the account of others and perform such other services for their customers as are not incompatible with banking business;

53.4. Upon prior approval of the Monetary Board, act as managing agent, adviser, consultant or administrator of investment

management/advisory/consultancy accounts; and

53.5. Rent out safety deposit boxes.

The bank shall perform the services permitted under Subsections 53.1, 53.2, 53.3 and 53.4 as depository or as an agent. Accordingly, it shall keep the funds, securities and other effects which it receives duly separate from the bank's own assets and liabilities.

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

In case a bank or quasi-bank notifies the Bangko Sentral or publicly announces a bank holiday, or in any manner suspends the payment of its deposit liabilities continuously for more than thirty (30) days, the Monetary Board may summarily and without need for prior hearing close such banking institution and place it under receivership of the Philippine Deposit Insurance Corporation. (72a)

SEC. 54. *Prohibition to Act as Insurer.* - A bank shall not directly engage in insurance business as the insurer. (73)

SEC. 55. *Prohibited Transactions.* -

55.1. No director, officer, employee, or agent of any bank shall - (a) Make false entries in any bank report or statement or participate in any fraudulent transaction, thereby affecting the financial interest of, or causing damage to, the bank or any person;

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

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

(d) Overvalue or aid in overvaluing any security for the purpose of influencing in any way the actions of the bank or any bank; or

(e) Outsource inherent banking functions.

55.2. No borrower of a bank shall - (a) Fraudulently overvalue property offered as security for a loan or other credit accommodation from the bank;

(b) Furnish false or make misrepresentation or suppression of material facts for the purpose of obtaining, renewing, or increasing a loan or other credit accommodation or extending the period thereof;

(c) Attempt to defraud the said bank in the event of a court action to recover a loan or other credit accommodation; or

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

55.3. No examiner, officer or employee of the Bangko Sentral or of any department, bureau, office, branch or agency of the Government that is assigned to supervise, examine, assist or render technical assistance to any bank shall commit any of the acts enumerated in this Section or aid in the commission of the same. (87-Aa)

The making of false reports or misrepresentation or suppression of material facts by personnel of the Bangko Sentral ng Pilipinas shall constitute fraud and shall be subject to the administrative and criminal sanctions provided under the New Central Bank Act.

55.4. Consistent with the provisions of Republic Act No. 1405, otherwise known as the Banks Secrecy Law, no bank shall employ casual or nonregular personnel or too lengthy probationary personnel in the conduct of its business involving bank deposits.

SEC. 56. *Conducting Business in an Unsafe or Unsound Manner.* - In determining whether a particular act or omission, which is not otherwise prohibited by any law, rule or regulation affecting banks, quasi-banks or trust entities, may be deemed as conducting business in an unsafe or unsound manner for purposes of this Section, the Monetary Board shall consider any of the following circumstances:

56.1 The act or omission has resulted or may result in material loss or damage, or abnormal risk or danger to the safety, stability, liquidity or solvency of the institution;

56.2 The act or omission has resulted or may result in material loss or damage or abnormal risk to the institution's depositors, creditors, investors, stockholders or to the Bangko Sentral or to the public in general;

56.3. The act or omission has caused any undue injury, or has given any unwarranted benefits, advantage or preference to the bank or any party in the discharge by the director or officer of his duties and responsibilities through manifest partiality, evident bad faith or gross inexcusable negligence; or

56.4. The act or omission involves entering into any contract or transaction manifestly and grossly disadvantageous to the bank, quasi-bank or trust entity, whether or not the director or officer profited or will profit thereby.

Whenever a bank, quasi-bank or trust entity persists in conducting its business in an unsafe or unsound manner, the Monetary Board may, without prejudice to the administrative

sanctions provided in Section 37 of the New Central Bank Act, take action under Section 30 of the same Act and/or immediately exclude the erring bank from clearing, the provisions of law to the contrary notwithstanding. (n)

SEC. 57. *Prohibition on Dividend Declaration.* - No bank or quasi-bank shall declare dividends greater than its accumulated net profits then on hand, deducting therefrom its losses and bad debts. Neither shall the bank nor quasi-bank declare dividends, if at the time of declaration:

57.1 Its clearing account with the Bangko Sentral is overdrawn; or

57.2 It is deficient in the required liquidity floor for government deposits for five (5) or more consecutive days; or

57.3 It does not comply with the liquidity standards/ratios prescribed by the Bangko Sentral for purposes of determining funds available for dividend declaration; or

57.4 It has committed a major violation as may be determined by the Bangko Sentral. (84a)

SEC. 58. *Independent Auditor.* - The Monetary Board may require a bank, quasi-bank or trust entity to engage the services of an independent auditor to be chosen by the bank, quasi-bank or trust entity concerned from a list of certified public accountants acceptable to the Monetary Board. The term of the engagement shall be as prescribed by the Monetary Board which may either be on a continuing basis where the auditor shall act as resident examiner, or on the basis of special engagements; but in any case, the independent auditor shall be responsible to the bank's, quasi-bank's or trust entity's board of directors. A copy of the report shall be furnished to the Monetary Board. The Monetary Board may also direct the board of directors of a bank, quasi-bank, trusty entity and/or the individual members thereof, to conduct, either personally or by a committee created by the board, an annual balance sheet audit of the bank, quasi-bank or trust entity to review the internal audit and control system of the bank, quasi-bank or trust entity and to submit a report of such audit. (6-Da)

SEC. 59. *Authority to Regulate Electronic Transactions.* - The Bangko Sentral shall have full authority to regulate the use of electronic devices, such as computers, and processes for recording, storing and transmitting information or data in connection with the operations of a bank, quasi-bank or trust entity, including the delivery of services and products to customers by such entity. (n)

SEC. 60. *Financial Statements.* - Every bank, quasi-bank or trust entity shall submit to the appropriate supervising and examining department of the Bangko Sentral financial statements in such form and frequency as may be prescribed by the Bangko Sentral. Such statements, which shall be as of a specific date designated by the Bangko Sentral, shall show the actual financial condition of the institution submitting the statement, and of its branches, offices,

subsidiaries and affiliates, including the results of its operations, and shall contain such information as may be required in Bangko Sentral regulations. (n)

SEC. 61. *Publication of Financial Statements.* - Every bank, quasi-bank or trust entity, shall publish a statement of its financial condition, including those of its subsidiaries and affiliates, in such terms understandable to the layman and in such frequency as may be prescribed by the Bangko Sentral, in English or Filipino, at least once every quarter in a newspaper of general circulation in the city or province where the principal office, in the case of a domestic institution, or the principal branch or office in the case of a foreign bank, is located, but if no newspaper is published in the same province, then in a newspaper published in Metro Manila or in the nearest city or province.

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

The Monetary Board may allow the posting of the financial statements of a bank, quasi-bank or trust entity in public places it may determine, in lieu of the publication required in the preceding paragraph, when warranted by the circumstances.

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

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

SEC. 62. *Publication of Capital Stock.* - A bank, quasi-bank or trust entity incorporated under the laws of the Philippines shall not publish the amount of its authorized or subscribed capital stock without indicating at the same time and with equal prominence, the amount of its capital actually paid up.

No branch of any foreign bank doing business in the Philippines shall in any way announce the amount of the capital and surplus of its head office, or of the bank in its entirety without indicating at the same time and with equal prominence the amount of the capital, if any, definitely assigned to such branch. In case no capital has been definitely assigned to such branch, such fact shall be stated in, and shall form part of the publication. (82)

SEC. 63. *Settlement of Disputes.* - The provisions of any law to the contrary notwithstanding, the Bangko Sentral shall be consulted by other government agencies or instrumentalities in

actions or proceedings initiated by or brought before them involving controversies in banks, quasi-banks or trust entities arising out of and involving relations between and among their directors, officers or stockholders, as well as disputes between any or all of them and the bank, quasi-bank or trust entity of which they are directors, officers or stockholders. (n)

SEC. 64. *Unauthorized Advertisement or Business Representation.* - No person, association, or corporation unless duly authorized to engage in the business of a bank, quasi-bank, trust entity, or savings and loan association as defined in this Act, or other banking laws, shall advertise or hold itself out as being engaged in the business of such bank, quasi-bank, trust entity, or association, or use in connection with its business title, the word or words "bank", "banking", "banker", "quasi-bank", "quasi-banking", "quasi-banker", "savings and loan association", "trust corporation", "trust company" or words of similar import or transact in any manner the business of any such bank, corporation or association. (6)

SEC. 65. *Service Fees.* - The Bangko Sentral may charge equitable rates, commissions or fees, as may be prescribed by the Monetary Board for supervision, examination and other services which it renders under this Act. (n)

SEC. 66. *Penalty for Violation of this Act.* - Unless otherwise herein provided, the violation of any of the provisions of this Act shall be subject to Sections 34, 35, 36 and 37 of the New Central Bank Act. If the offender is a director or officer of a bank, quasi-bank or trust entity, the Monetary Board may also suspend or remove such director or officer. If the violation is committed by a corporation, such corporation may be dissolved by *quo warranto* proceedings instituted by the Solicitor General. (87)

#### CHAPTER V

##### Placement Under Conservatorship

SEC. 67. *Conservatorship.* - The grounds and procedures for placing a bank under conservatorship, as well as, the powers and duties of the conservator appointed for the bank shall be governed by the provisions of Section 29 and the last two paragraphs of Section 30 of the New Central Bank Act: *Provided*, That this Section shall also apply to conservatorship proceedings of quasi-banks. (n)

#### CHAPTER VI

##### Cessation of Banking Business

SEC. 68. *Voluntary Liquidation.* - In case of the voluntary liquidation of any bank organized under the laws of the Philippines, or of any branch or office in the Philippines of a foreign bank, written notice of such liquidation shall be sent to the Monetary Board before such liquidation is undertaken, and the Monetary Board shall have the right to intervene and take such steps as may be necessary to protect the interests of creditors. (86)

SEC. 69. *Receivership and Involuntary Liquidation.* - The grounds and procedures for placing a bank under receivership or liquidation, as well as the powers and duties of the receiver or liquidator appointed for the bank shall be governed by the provisions of Sections 30, 31, 32, and 33 of the New Central Bank Act: *Provided*, That the petitioner or plaintiff files with the clerk or judge of the court in which the action is pending a bond, executed in favor of the Bangko Sentral, in an amount to be fixed by the court. This Section shall also apply to the extent possible to the receivership and liquidation proceedings of quasi-banks. (n)

SEC. 70. *Penalty for Transactions After a Bank Becomes Insolvent.* - Any director or officer of any bank declared insolvent or placed under receivership by the Monetary Board who refuses to turn over the bank's records and assets to the designated receivers, or who tampers with banks records, or who appropriates for himself or another party or destroys or causes the misappropriation and destruction of the bank's assets, or who receives or permits or causes to be received in said bank any deposit, collection of loans and/or receivables, or who pays out or permits or causes to be paid out any funds of said bank, or who transfers or permits or causes to be transferred any securities or property of said bank shall be subject to the penal provisions of the New Central Bank Act. (85a)

#### CHAPTER VII

##### Laws Governing Other Types of Banks

SEC. 71. *Other Banking Laws.* - The organization, ownership and capital requirements, powers, supervision and general conduct of business of thrift banks, rural banks and cooperative banks shall be governed by the provisions of the Thrift Banks Act, the Rural Banks Act, and the Cooperative Code, respectively.

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

The provisions of this Act, however, insofar as they are not in conflict with the provisions of the Thrift Banks Act, the Rural Banks Act, and the Cooperative Code shall likewise apply to thrift banks, rural banks, and cooperative banks, respectively. However, for purposes of prescribing the minimum ratio which the net worth of a thrift bank must bear to its total risk assets, the provisions of Section 33 of this Act shall govern. (n)

#### CHAPTER VIII

##### Foreign Banks

SEC. 72. *Transacting Business in the Philippines.* - The entry of foreign banks in the Philippines through the establishment of branches shall be governed by the provisions of the Foreign Banks Liberalization Act.

The conduct of offshore banking business in the Philippines shall be governed by the provisions of the Presidential Decree No. 1034, otherwise known as the "Offshore Banking System Decree." (14a)

SEC. 73. *Acquisition of Voting Stock in a Domestic Bank.* - Within seven (7) years from the effectivity of this Act and subject to guidelines issued pursuant to the Foreign Banks Liberalization Act, the Monetary Board may authorize a foreign bank to acquire up to one hundred percent (100%) of the voting stock of only one (1) bank organized under the laws of the Republic of the Philippines.

Within the same period, the Monetary Board may authorize any foreign bank, which prior to the effectivity of this Act availed itself of the privilege to acquire up to sixty percent (60%) of the voting stock of a bank under the Foreign Banks Liberalization Act and the Thrift Banks Act, to further acquire voting shares of such bank to the extent necessary for it to own one hundred percent (100%) of the voting stock thereof.

In the exercise of this authority, the Monetary Board shall adopt measures as may be necessary to ensure that at all times the control of seventy percent (70%) of the resources or assets of the entire banking system is held by banks which are at least majority-owned by Filipinos.

Any right, privilege or incentive granted to a foreign bank under this Section shall be equally enjoyed by and extended under the same conditions to banks organized under the laws of the Republic of the Philippines. (Secs. 2 and 3, RA 7721)

SEC. 74. *Local Branches of Foreign Banks.* - In the case of a foreign bank which has more than one (1) branch in the Philippines, all such branches shall be treated as one (1) unit for the purpose of this Act, and all references to the Philippine branches of foreign banks shall be held to refer to such units. (68)

SEC. 75. *Head Office Guarantee.* - In order to provide effective protection of the interests of the depositors and other creditors of Philippine branches of a foreign bank, the head office of such branches shall fully guarantee the prompt payment of all liabilities of its Philippine branch. (69)

Residents and citizens of the Philippines who are creditors of a branch in the Philippines of a foreign bank shall have preferential rights to the assets of such branch in accordance with existing laws. (19)

SEC. 76. *Summons and Legal Process.* - Summons and legal process served upon the Philippine agent or head of any foreign bank designated to accept service thereof shall give jurisdiction to the courts over such bank, and service of notices on such agent or head shall be as 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 should 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 the supervising and examining departments and such service shall be as effective as if made upon the bank or its duly authorized agent or head.

In case of service for the bank upon the Bangko Sentral Deputy Governor In-charge of the 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 services 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. (17)

SEC. 77. *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 the provisions of this Act, all other laws, rules and regulations applicable to banks organized under the laws of the Philippines of the same class, except those that provide for the creation, formation, organization or dissolution of corporations or for the fixing of the relations, liabilities, responsibilities, or duties of stockholders, members, directors or officers of corporations to each other or to the corporation. (18)

SEC. 78. *Revocation of License of a Foreign Bank.* - The Monetary Board may revoke the license to transact business in the Philippines of any foreign bank, if it finds that the foreign bank is insolvent or in imminent danger thereof or that its continuance in business will involve probable loss to those transacting business with it. After the revocation of its license, it shall be unlawful for any such foreign bank to transact business in the Philippines unless its license is renewed or reissued. After the revocation of such license, the Bangko Sentral shall take the necessary action to protect the creditors of such foreign bank and the public. The provisions of the New Central Bank Act on sanctions and penalties shall likewise be applicable. (16)

## CHAPTER IX

### Trust Operations

SEC. 79. *Authority to Engage in Trust Business.* - Only a stock corporation or a person duly authorized by the Monetary Board to engage in trust business shall act as a trustee or administer any trust or hold property in trust or on deposit for the use, benefit, or behoof of others. For purposes of this Act, such a corporation shall be referred to as a trust entity. (56a; 57a)

SEC. 80. *Conduct of Trust Business.* - A trust entity shall administer the funds or property under its custody with the diligence that a prudent man would exercise in the conduct of an enterprise of a like character and with similar aims.

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

The Monetary Board shall promulgate such rules and regulations as may be necessary to prevent circumvention of this prohibition or the evasion of the responsibility herein imposed on a trust entity. (56)

SEC. 81. *Registration of Articles of Incorporation and By-Laws of a Trust Entity.* - The Securities and Exchange Commission shall not register the articles of incorporation and by-laws or any amendment thereto, of any trust entity, unless accompanied by a certificate of authority issued by the Bangko Sentral. (n)

SEC. 82. *Minimum Capitalization.* - A trust entity, before it can engage in trust or other fiduciary business, shall comply with the minimum paid-in capital requirement which will be determined by the Monetary Board. (n)

SEC. 83. *Powers of a Trust Entity.* - A trust entity, in addition to the general powers incident to corporations, shall have the power to:

83.1. Act as trustee on any mortgage or bond issued by any municipality, corporation, or any body politic and to accept and execute any trust consistent with law;

83.2. Act under the order or appointment of any court as guardian, receiver, trustee, or depository of the estate of any minor or other incompetent person, and as receiver and depository of any

moneys paid into court by parties to any legal proceedings and of property of any kind which may be brought under the jurisdiction of the court;

83.3. Act as the executor of any will when it is named the executor thereof;

83.4. Act as administrator of the estate of any deceased person, with the will annexed, or as administrator of the estate of any deceased person when there is no will;

83.5. Accept and execute any trust for the holding, management, and administration of any estate, real or personal, and the rents, issues and profits thereof; and

83.6. Establish and manage common trust funds, subject to such rules and regulations as may be prescribed by the Monetary Board. (58)

SEC. 84. *Deposit for the Faithful Performance of Trust Duties.* - Before transacting trust business, every trust entity shall deposit with the Bangko Sentral as security for the faithful performance of its trust duties, cash or securities approved by the Monetary Board in an amount equal to not less than Five hundred thousand pesos (P500,000.00) or such higher amount as may be fixed by the Monetary Board: *Provided, however,* That the Monetary Board shall require every trust entity to increase the amount of its cash or securities on deposit with the Bangko Sentral whenever in its judgment such increase is necessary by reason of the trust business of such entity: *Provided, further,* That the paid-in capital and surplus of such entity must be at least equal to the amount required to be deposited with the Bangko Sentral in accordance with the provisions of this paragraph. Should the capital and surplus fall below said amount, the Monetary Board shall have the same authority as that granted to it under the provisions of the fifth paragraph of Section 34 of this Act.

A trust entity so long as it shall continue to be solvent and comply with laws or regulations shall have the right to collect the interest earned on such securities deposited with the Bangko Sentral and, from time to time, with the approval of the Bangko Sentral, to exchange the securities for others. If the trust entity fails to comply with any law or regulation, the Bangko Sentral shall retain such interest on the securities deposited with it for the benefit of rightful claimants. All claims arising out of the trust business of a trust entity shall have priority over all other claims as regards the cash or securities deposited as above provided. The Monetary Board may not permit the cash or securities deposited in accordance with the provisions of this Section to be reduced below the prescribed minimum amount until the depositing entity shall discontinue its trust business and shall satisfy the Monetary Board that it has complied with all its obligations in connection with such business. (65a)

SEC. 85. *Bond of Certain Persons for the Faithful Performance of Duties.* - Before an executor, administrator, guardian, trustee, receiver or depositary appointed by the court enters upon the execution of his duties, he shall, upon order of the court, file a bond in such sum as

the court may direct.

Upon the application of any executor, administrator, guardian, trustee, receiver, depositary or any other person in interest, the court may, after notice and hearing, order that the subject matter of the trust or any part thereof be deposited with a trust entity. Upon presentation of proof to the court that the subject matter of the trust has been deposited with a trust entity, the court may order that the bond given by such persons for the faithful performance of their duties be reduced to such sums as it may deem proper: *Provided, however,* That the reduced bond shall be sufficient to secure adequately the proper administration and care of any property remaining under the control of such persons and the proper accounting for such property.

Property deposited with any trust entity in conformity with this Section shall be held by such entity under the orders and direction of the court. (59)

SEC. 86. *Exemption of Trust Entity from Bond Requirement.* - No bond or other security shall be required by the court from a trust entity for the faithful performance of its duties as court-appointed trustee, executor, administrator, guardian, receiver, or depositary. However, the court may, upon proper application with it showing special cause therefor, require the trust entity to post a bond or other security for the protection of funds or property confided to such entity. (59)

SEC. 87. *Separation of Trust Business from General Business.* - The trust business and all funds, properties or securities received by any trust entity as executor, administrator, guardian, trustee, receiver, or depositary shall be kept separate and distinct from the general business including all other funds, properties, and assets of such trust entity. The accounts of all such funds, properties, or securities shall likewise be kept separate and distinct from the accounts of the general business of the trust entity. (61)

SEC. 88. *Investment Limitations of a Trust Entity.* - Unless otherwise directed by the instrument creating the trust, the lending and investment of funds and other assets acquired by a trust entity as executor, administrator, guardian, trustee, receiver or depositary of the estate of any minor or other incompetent person shall be limited to loans or investments as may be prescribed by law, the Monetary Board or any court of competent jurisdiction. (63a)

SEC. 89. *Real Estate Acquired by a Trust Entity.* - Unless otherwise specifically directed by the trustor or the nature of the trust, real estate acquired by a trust entity in whatever manner and for whatever purpose, shall likewise be governed by the relevant provisions of Section 52 of this Act. (64a)

SEC. 90. *Investment of Non-Trust Funds.* - The investment of funds other than trust funds of a trust entity which is a bank, financing company or an investment house shall be governed by the relevant provisions of this Act and other applicable laws. (64)

SEC. 91. *Sanctions and Penalties.* - A trust entity or any of its officers and directors found to have willfully violated any pertinent provisions of this Act, shall be subject to the sanctions and penalties provided under Section 66 of this Act as well as Sections 36 and 37 of the New Central Bank Act. (63)

SEC. 92. *Exemption of Trust Assets from Claims.* - No assets held by a trust entity in its capacity as trustee shall be subject to any claims other than those of the parties interested in the specific trusts. (65)

SEC. 93. *Establishment of Branches of a Trust Entity.* - The ordinary business of a trust entity shall be transacted at the place of business specified in its articles of incorporation. Such trust entity may, with prior approval of the Monetary Board, establish branches in the Philippines, and the said entity shall be responsible for all business conducted in such branches to the same extent and in the same manner as though such business had all been conducted in the head office.

For the purpose of this Act, the trust entity and its branches shall be treated as one unit. (67)

#### CHAPTER X

##### Final Provisions

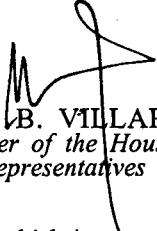
SEC. 94. *Phase Out of Bangko Sentral Powers Over Building and Loan Associations.* - Within a period of three (3) years from the effectivity of this Act, the Bangko Sentral shall phase out and transfer its supervising and regulatory powers over building and loan associations to the Home Insurance and Guaranty Corporation which shall assume the same. Until otherwise provided by law, building and loan associations shall continue to be governed by Sections 39 to 55, Chapter VI of the General Banking Act, as amended, including such rules and regulations issued pursuant thereto. Upon assumption by the Home Insurance and Guaranty Corporation of supervising and regulatory powers over building and loan associations, all references in Sections 39 to 55 of the General Banking Act, as amended, to the Bangko Sentral and the Monetary Board shall be deemed to refer to the Home Insurance and Guaranty Corporation and its board of directors, respectively. (n)

SEC. 95. *Repealing Clause.* - Except as may be provided for in Sections 34 and 94 of this Act, the General Banking Act, as amended, and the provisions of any other law, special charters, rule or regulation issued pursuant to said General Banking Act, as amended, or parts thereof, which may be inconsistent with the provisions of this Act are hereby repealed. The provisions of paragraph 8, Section 8, Republic Act No. 3591, as amended by Republic Act No. 7400, are likewise repealed. (90a)

SEC. 96. *Separability Clause.* - If any provision or section of this Act or the application thereof to any person or circumstance is held invalid, the other provisions or sections of this Act, and the application of such provision or section to other persons or circumstances, shall not be affected thereby. (n)

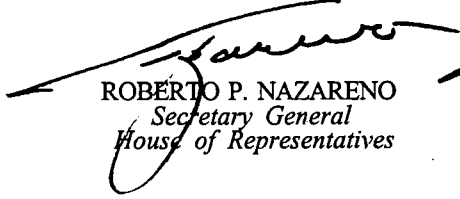
SEC. 97. *Effectivity Clause.* - This Act shall take effect fifteen (15) days following its publication in the *Official Gazette* or in two (2) national newspapers of general circulation. (91)


Approved,

  
MANUEL B. VILLAR JR.  
Speaker of the House  
of Representatives

  
FRANKLIN M. DRILON  
President of the Senate

This Act, which is a consolidation of Senate Bill No. 1519 and House Bill No. 6814, was finally passed by the Senate and the House of Representatives on April 12, 2000.

  
ROBERTO P. NAZARENO  
Secretary General  
House of Representatives

  
OSCAR G. YABES  
Secretary of the Senate

Approved:

MAY 23 2000

  
JOSEPH EJERCITO ESTRADA  
President of the Philippines

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MARIANITO M. DIMAANDAL

Director III

Malacañang Records Office

7/31/02