

S E N A T E

S. No. 1519

PREPARED BY THE COMMITTEES ON BANKS, FINANCIAL INSTITUTIONS AND CURRENCIES; AND WAYS AND MEANS WITH SENATORS OSMEÑA III, DRILON, ROCO, TATAD AND ENRILE AS AUTHORS

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 the 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 1999". (1a)

SEC. 2. *Definition and Classification of Banks.* -

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

2.2. 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"); and

(F) 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. 3. *Supervisory Powers.* - The operations and activities of banks shall be subject to supervision of the Bangko Sentral. "Supervision" shall include the following:

3.1. 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;

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

1 3.3. Overseeing to ascertain that laws and regulations are
2 complied with;

3 3.4. Regular investigation or examination which shall not be
4 oftener than once a year from the last date of examination to
5 determine whether an institution is conducting its business on a safe
6 or sound basis: *Provided*, That the deficiencies/irregularities found
7 by or discovered by any regular or special audit shall be
8 immediately addressed;

9 3.5. Inquiring into the solvency and liquidity of the
10 institution (2-D); or

11 3.6. Enforcing prompt corrective action. (n)

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

16 For the purposes of this Act, "quasi-banks" shall refer to
17 entities engaged in the borrowing of funds through the issuance,
18 endorsement or assignment with recourse or acceptance of
19 deposit substitutes as defined in Section 95 of Republic Act No.
20 7653 (hereafter the "New Central Bank Act") for purposes of
21 relending or purchasing of receivables and other obligations. (2-Da)

22 SEC. 4. *Policy Direction; Ratios, Ceilings and Limitations.*

23 - The Bangko Sentral shall provide policy direction in the
24 areas of money, banking and credit. (n)

1 For this purpose, the Monetary Board may prescribe
2 ratios, ceilings, limitations, or other forms of regulation on the
3 different types of accounts and practices of banks and quasi-banks.
4 The Monetary Board may exempt particular categories of transactions
5 from such ratios, ceilings and limitations. (2-Ca)

6 SEC. 5. *Authority to Engage in Banking and Quasi-*
7 *Banking Functions.* - No person or entity shall engage in
8 banking operations or quasi-banking functions without
9 authority from the Bangko Sentral: *Provided, however*, That an
10 entity authorized by the Bangko Sentral to perform universal
11 or commercial banking functions shall likewise have the authority
12 to engage in quasi-banking functions.

13 The determination of whether a person or entity is
14 performing banking or quasi-banking functions without Bangko
15 Sentral authority shall be decided by the Monetary Board. For the
16 purpose of resolving such issue, the Monetary Board may, through
17 the appropriate supervising and examining department of the Bangko
18 Sentral, examine, inspect or investigate the books and records of
19 such person or entity.

20 The department head and the examiners of the appropriate
21 supervising and examining department are hereby authorized to
22 administer oaths to any such person, employee, officer, or director
23 of any such entity and to compel the presentation or production of
24 all books, documents, papers or records necessary in their judgment

1 to ascertain the facts relative to the true functions and operations
2 of such person or entity.

3 Failure or refusal to comply with the required presentation
4 or production of all books, documents, papers or records directly
5 related to banking transactions shall subject the persons responsible
6 therefor to the penal sanctions provided under Section 36 of the
7 New Central Bank Act.

8 Persons or entities found to be performing banking or
9 quasi-banking functions without authority from the Bangko
10 Sentral shall be subject to Section 36 of the New Central Bank
11 Act, and may be referred to the Securities and Exchange
12 Commission for the revocation of their license to do
13 business. (4a)

14 SEC. 6. *Examination by the Bangko Sentral.* - The Bangko
15 Sentral shall, when examining a bank, have the authority to examine
16 an enterprise which is wholly or majority-owned or controlled by
17 the bank. (21-Ba)

18 CHAPTER III

19 ORGANIZATION, MANAGEMENT AND ADMINISTRATION OF

20 BANKS, QUASI-BANKS AND TRUST ENTITIES

21 SEC. 7. *Organization.* - The Monetary Board may
22 authorize the organization of a bank or quasi-bank subject to the
23 following conditions:

24 7.1. That the entity is a stock corporation (7);

1 7.2. That its funds are obtained from the public, which shall
2 mean twenty (20) or more persons (2-Da); and

3 7.3. That the minimum capital requirements prescribed by the
4 Monetary Board for each category of banks are satisfied. (n)

5 SEC. 8. *Issuance of Stocks.* - Banks may issue par or no-par
6 value stock. For the purpose of determining compliance with laws
7 and regulations governing capital and equity structure of banks,
8 the Monetary Board may prescribe rules and regulations on the
9 types of stock a bank may issue, including the terms thereof and
10 rights appurtenant thereto. (8)

11 SEC. 9. *Treasury Stocks.* - No bank shall purchase or
12 acquire shares of its own capital stock or accept its own shares
13 as a security for a loan, except when authorized by the Monetary
14 Board: *Provided,* That in every case the stock so purchased or
15 acquired shall, within six months from the time of its purchase or
16 acquisition, be sold or disposed of at a public or private sale. (24a)

17 SEC. 10. *Foreign Stockholdings.* - Foreign individuals and
18 non-bank corporations may own up to forty percent (40%) of the
19 voting stock of a domestic bank. (12a; 12-Aa)

20 The percentage of foreign-owned voting stocks in a bank
21 shall be determined by the citizenship of the individual
22 stockholders in that bank. The citizenship of the corporation
23 which is a stockholder in a bank shall follow the citizenship of
24 the controlling stockholders of the corporation, irrespective of the
25 place of incorporation. (n)

1 SEC. 11. *Stockholdings of Family Groups or*
2 *Related Interests.* - Stockholdings of individuals related to each other
3 within the fourth degree of consanguinity or affinity, legitimate or
4 common-law, shall be considered family groups or related interests
5 and must be fully disclosed in all transactions by such an individual
6 with the bank. (12-Da)

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

12 SEC. 13. *Certificate of Authority to Register.* - The
13 Securities and Exchange Commission shall not register the
14 articles of incorporation of any bank, or any amendment
15 thereto, unless accompanied by a certificate of authority issued by
16 the Monetary Board, under its seal. Such certificate shall not
17 be issued unless the Monetary Board is satisfied from the evidence
18 submitted to it:

19 13.1. That all requirements of existing laws and regulations
20 to engage in the business for which the applicant is proposed
21 to be incorporated have been complied with;

22 13.2. That the public interest and economic conditions, both
23 general and local, justify the authorization; and

24 13.3. That the amount of capital, the financing,
25 organization, direction and administration, as well as the integrity

1 and responsibility of the organizers and administrators reasonably
2 assure the safety of deposits and the public interest. (9)

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

7 SEC. 14. *Board of Directors.* - The provisions of the
8 Corporation Code to the contrary notwithstanding, there shall be at
9 least seven (7), and a maximum of fifteen (15) members of the board
10 of directors of a bank, two (2) of whom shall be independent
11 directors. An "independent director" shall mean a person other
12 than an officer or employee of the bank, its subsidiaries or
13 affiliates or related interests. (n)

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

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

20 SEC. 15. *Fit and Proper Rule.* - To maintain the quality of
21 bank management and afford better protection to depositors
22 and the public in general, the Monetary Board shall prescribe, pass
23 upon and review the qualifications and disqualifications of individuals
24 elected or appointed bank directors or officers and disqualify those
25 found unfit.

1 A bank director or officer may be disqualified, removed or
2 suspended by the Monetary Board for acts or omissions which
3 render him unfit for the position.

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

8 SEC. 16. *Directors of Merged or Consolidated Banks.* - In
9 the case of a bank merger or consolidation duly approved by the
10 Monetary Board, the limitation on the number of directors in
11 a corporation, as provided for in the Corporation Code, shall
12 not be applied so that membership in the new board may include
13 up to the total number of directors provided for in the
14 respective articles of incorporation of the merging or consolidating
15 banks: *Provided*, That the number of board directors may exceed
16 fifteen (15) for a period not exceeding one (1) year. (13)

17 SEC. 17. *Compensation and Other Benefits of Directors*
18 *and Officers.* - To protect the funds of depositors and creditors,
19 the Monetary Board may regulate the payment by the bank to
20 its directors and officers of compensation, allowance, fees, bonuses,
21 stock options, profit sharing and fringe benefits only in exceptional
22 cases and when the circumstances warrant, such as but not
23 limited to the following:

24 17.1. When a bank is under comptrollership or
25 conservatorship; or

1 17.2. When a bank is found by the Monetary Board to be
2 conducting business in an unsafe or unsound manner; or

3 17.3. When a bank is found by the Monetary Board to be in
4 an unsatisfactory financial condition. (n)

5 SEC. 18. *Prohibition on Public Officials.* - Except as
6 otherwise provided in the Rural Banks Act, no appointive or
7 elective public official, whether full-time or part-time shall at the
8 same time serve as officer of any private bank, save in cases where
9 such service is incident to financial assistance provided by the
10 government or a government-owned or controlled corporation to the
11 bank or unless otherwise provided under existing laws. (13)

12 SEC. 19. *Bank Branches.* - Universal or commercial
13 banks may open branches or other offices within or outside the
14 Philippines upon prior approval of the Bangko Sentral.

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

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

23 SEC. 20. *Banking Days and Hours.* - Unless otherwise
24 authorized by the Bangko Sentral in the interest of the banking
25 public, all banks including their branches and offices shall

1 transact business on all working days for at least six (6) hours
2 a day. In addition, banks or any of their branches or offices
3 may open for business on Saturdays, Sundays or holidays for at
4 least three (3) hours a day: Provided, That banks which opt to open
5 on days other than working days shall report to the Bangko
6 Sentral the additional days during which they or their branches
7 or offices shall transact business.

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

10 SEC. 21. *Strikes and Lockouts.* - The banking industry is
11 hereby declared as indispensable to the national interest and,
12 notwithstanding the provisions of any law to the contrary, any
13 strike or lockout involving banks, if unsettled after seven (7)
14 calendar days shall be reported by the *Bangko Sentral* to the
15 Secretary of Labor who may assume jurisdiction over the dispute or
16 decide it or certify the same to the National Labor Relations
17 Commission for compulsory arbitration. However, the President of the
18 Philippines may at any time intervene and assume jurisdiction over
19 such labor dispute in order to settle or terminate the same. (6-E)

20 CHAPTER IV

21 DEPOSITS, LOANS AND OTHER OPERATIONS

22 ARTICLE I. OPERATIONS OF UNIVERSAL BANKS

23 SEC. 22. *Powers of a Universal Bank.* - A universal
24 bank shall have the authority to exercise, in addition to the powers
25 authorized for a commercial bank in Section 28, the powers of an

1 investment house as provided in existing laws and the power to
2 invest in non-allied enterprises as provided in this Act. (21-B)

3 SEC. 23. *Equity Investments of a Universal Bank.* - A
4 universal bank may, subject to the conditions stated in the
5 succeeding paragraph, invest in the equities of allied and non-allied
6 enterprises as may be determined by the Monetary Board. Allied
7 enterprises may either be financial or non-financial.

8 Except as the Monetary Board may otherwise prescribe:

9 23.1 The total investment in equities of allied and non-allied
10 enterprises shall not exceed fifty percent (50%) of the net worth of
11 the bank; and

12 23.2. The equity investment in any one enterprise,
13 whether allied or non-allied, shall not exceed twenty-five percent
14 (25%) of the net worth of the bank.

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

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

22 SEC. 24. *Equity Investments of a Universal Bank in*
23 *Financial Allied Enterprises.* - A universal bank can own up to one
24 hundred percent (100%) of the equity in a thrift bank, a rural bank
25 or a financial allied enterprise.

1 A publicly-listed universal bank may own up to one
2 hundred percent (100%) of the voting stock of only one other
3 universal or commercial bank. For the purpose of complying
4 with this Section, a universal bank shall be considered
5 publicly-listed only if it shall publicly list with the Philippine
6 Stock Exchange thirty-five percent (35%) of its total outstanding
7 stocks. This rule shall also apply in the case of commercial banks.
8 (21-B; 21-Ca)

9 SEC. 25. *Equity Investments of a Universal Bank in Non-*
10 *Financial Allied Enterprises.* - A universal bank may own up to one
11 hundred percent (100%) of the equity in a non-financial allied
12 enterprise. (21-Ba)

13 SEC. 26. *Equity Investments of a Universal Bank in Non-*
14 *Allied Enterprises.* - The equity investment of a universal bank,
15 or of its wholly or majority-owned subsidiaries, in a single non-
16 allied enterprise shall not exceed thirty-five percent (35%) of the
17 total equity in that enterprise nor shall it exceed thirty-five percent
18 (35%) of the voting stock in that enterprise. (21-B)

19 SEC. 27. *Equity Investments in Quasi-Banks.* - To
20 promote competitive conditions in financial markets, the
21 Monetary Board may further limit to forty (40%) percent equity
22 investments of universal banks in quasi-banks. This rule shall also
23 apply in the case of commercial banks. (12-E)

1 ARTICLE II. OPERATIONS OF COMMERCIAL BANKS

2 SEC. 28. *Powers of a Commercial Bank.* - A commercial
3 bank shall have, in addition to the general powers incident to
4 corporations, all such powers as may be necessary to carry on
5 the business of commercial banking, such as accepting drafts
6 and issuing letters of credit; discounting and negotiating promissory
7 notes, drafts, bills of exchange, and other evidences of debt;
8 accepting or creating demand deposits; receiving other types of
9 deposits and deposit substitutes; buying and selling foreign exchange
10 and gold or silver bullion; acquiring marketable bonds and other
11 debt securities; and extending credit, subject to such rules as the
12 Monetary Board may promulgate. These rules may include, but not
13 limited to, the determination of bonds and other debt securities
14 eligible for investment, the maturities and aggregate amount of such
15 investment. (21a)

16 SEC. 29. *Equity Investments of a Commercial Bank.* - A
17 commercial bank may, subject to the conditions stated in the
18 succeeding paragraphs, invest only in the equities of allied
19 enterprises as may be determined by the Monetary Board.
20 Allied enterprises may either be financial or non-financial.

21 Except as the Monetary Board may otherwise prescribe:

22 29.1. The total investment in equities of allied enterprises
23 shall not exceed thirty-five percent (35%) of the net worth of the
24 bank; and

1 29.2. The equity investment in any one enterprise shall not
2 exceed twenty-five percent (25%) of the net worth of the bank.

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

6 SEC. 30. *Equity Investments of a Commercial Bank in*
7 *Financial Allied Enterprises.* - A commercial bank may own up to
8 one hundred percent (100%) of the equity of a thrift bank or a rural
9 bank.

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

14 SEC. 31. *Equity Investments of a Commercial Bank in*
15 *Non-Financial Allied Enterprises.* - A commercial bank may
16 own up to one hundred percent (100%) of the equity in a non-
17 financial allied enterprise. (21-Aa)

18 ARTICLE III. PROVISIONS APPLICABLE TO ALL BANKS,

19 QUASI-BANKS, AND TRUST ENTITIES

20 SEC. 32. *Acceptance of Demand Deposits.* - A bank other
21 than a universal or commercial bank cannot accept or create
22 demand deposits except upon prior approval of, and subject to such
23 conditions and rules as may be prescribed by the Monetary Board.
24 (72-Aa)

1 SEC. 33. *Risk-Based Capital.* - The Monetary Board
2 shall prescribe the minimum ratio which the net worth of a bank must
3 bear to its total risk assets which may include contingent accounts.

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

16 In case a bank does not comply with the prescribed
17 minimum ratio, the Monetary Board may limit or prohibit the
18 distribution of net profits by such bank and may require that part
19 or all of the net profits be used to increase the capital accounts
20 of the bank until the minimum requirement has been met. The
21 Monetary Board may, furthermore, restrict or prohibit the acquisition
22 of major assets and the making of new investments by the bank,
23 with the exception of purchases of readily marketable evidences
24 of indebtedness of the Republic of the Philippines and of the
25 Bangko Sentral and any other evidences of indebtedness or

1 obligations the servicing and repayment of which are fully guaranteed
2 by the Republic of the Philippines, until the minimum required
3 capital ratio has been restored.

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

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

15 SEC. 34. *Limit on Loans, Credit Accommodations and*
16 *Guarantees.* -

17 34.1. Except as the Monetary Board may otherwise
18 prescribe for reasons of national interest, the total amount of loans,
19 credit accommodations and guarantees as may be defined by the
20 Monetary Board that may be extended by a bank to any person,
21 partnership, association, corporation or other entity shall at no
22 time exceed fifteen percent (15%) of the net worth of such bank.
23 The basis for determining compliance with single-borrower limit is
24 the total credit commitment of the bank to the borrower.

1 34.2. Unless the Monetary Board prescribes otherwise, the
2 total amount of loans, credit accommodations and guarantees
3 prescribed in the preceding paragraph may be increased by an
4 additional ten percent (10%) of the net worth of such bank
5 provided the additional liabilities of any borrower are adequately
6 secured by trust receipts, shipping documents, warehouse receipts
7 or other similar documents transferring or securing title covering
8 readily marketable, non-perishable goods which must be fully
9 covered by insurance.

10 34.3. The above prescribed ceilings shall include: (A) the
11 direct liability of the maker or acceptor of paper discounted with
12 or sold to such bank and the liability of a general indorser, drawer
13 or guarantor who obtains a loan or other credit accommodation from
14 or discounts paper with or sells papers to such bank; (B) in the case
15 of an individual who owns or controls a majority interest in a
16 corporation, partnership, association or any other entity, the
17 liabilities of said entities to such bank; (C) in the case of a
18 corporation, all liabilities to such bank of all subsidiaries in
19 which such corporation owns or controls a majority interest; and
20 (D) in the case of a partnership, association or other entity, the
21 liabilities of the members thereof to such bank.

22 34.4. Even if a parent corporation, partnership, association,
23 entity or an individual who owns or controls a majority interest
24 in such entities has no liability to the bank, the Monetary Board
25 may prescribe the combination of the liabilities of subsidiary

1 corporations or members of the partnership, association, entity or
2 such individual under certain circumstances, including but not
3 limited to any of the following situations: (A) the parent
4 corporation, partnership, association, entity or individual guarantees
5 the repayment of the liabilities; (B) the liabilities were incurred for
6 the accommodation of the parent corporation or another subsidiary
7 or of the partnership or association or entity or such individual;
8 or (C) the subsidiaries though separate entities operate merely as
9 departments or divisions of a single entity.

10 34.5. For purposes of this Section, loans, other credit
11 accommodations and guarantees shall exclude: (A) loans and
12 other credit accommodations secured by obligations of the
13 Bangko Sentral or of the Philippine Government; (B) loans and
14 other credit accommodations fully guaranteed by the government
15 as to the payment of principal and interest; (C) loans and other credit
16 accommodations covered by assignment of deposits maintained in
17 the lending bank and held in the Philippines; (D) loans, credit
18 accommodations and acceptances under letters of credit to the extent
19 covered by margin deposits; and (E) other loans or credit
20 accommodations which the Monetary Board may from time to
21 time, specify as non-risk items.

22 34.6. Loans and other credit accommodations, deposits
23 maintained with, and usual guarantees by a bank to any other
24 bank or non-bank entity, whether locally or abroad, shall be
25 subject to the limits as herein prescribed.

1 34.7. Certain types of contingent accounts of borrowers may be
2 included among those subject to the herein limit as may be
3 determined by the Monetary Board. (23a)

4 SEC. 35. *Restriction on Bank Exposure to Directors,*
5 *Officers, Stockholders and Their Related Interests.* - No director
6 or officer of any bank shall, directly or indirectly, for himself
7 or as the representative or agent of others, borrow from such bank
8 nor shall he become a guarantor, indorser or surety for loans
9 from such bank to others, or in any manner be an obligor
10 or incur any contractual liability to the bank except with the
11 written approval of the majority of all the directors of the bank,
12 excluding the director concerned: *Provided,* That such written
13 approval shall not be required for loans, other credit accommodations
14 and advances granted to officers under a fringe benefit plan
15 approved by the Bangko Sentral. The required approval shall be
16 entered upon the records of the bank and a copy of such entry shall
17 be transmitted forthwith to the appropriate supervising and
18 examining department of the Bangko Sentral. The office of any
19 bank director or officer who violates the provisions of this Section
20 shall immediately become vacant and the director or officer
21 shall be subject to Sections 36 and 37 of the New Central Bank
22 Act.

23 The Monetary Board may regulate the amount of loans,
24 credit accommodations and guarantees that may be extended,
25 directly or indirectly, by a bank to its directors, officers,

1 stockholders and their related interests, as well as investments of
2 such bank in enterprises owned or controlled by said directors,
3 officers, stockholders and their related interests. However, the
4 outstanding loans, credit accommodations and guarantees which a
5 bank may extend to each of its stockholders, directors, or officers
6 and their related interests, shall be limited to an amount
7 equivalent to their respective unencumbered deposits and book
8 value of their paid-in capital contribution in the bank:
9 *Provided, however,* That loans, credit accommodations and
10 advances to officers in the form of fringe benefits granted in
11 accordance with rules as may be prescribed by the Monetary
12 Board shall not be subject to the individual limit.

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

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

18 SEC. 36. *Loans and Other Credit Accommodations Against*
19 *Real Estate.* - Except as the Monetary Board may otherwise
20 prescribe, loans and other credit accommodations against real
21 estate shall not exceed sixty percent (60%) of the appraised value
22 of the respective real estate security, plus sixty percent (60%) of the
23 appraised value of the insured improvements, and such loans shall
24 not be made unless title to the real estate shall be in the name of
25 the mortgagor. (78a)

1 SEC. 37. *Loans And Other Credit Accommodations on*
2 *Security of Chattels and Intangible Properties.* - Except as the
3 Monetary Board may otherwise prescribe, loans and other credit
4 accommodations on security of chattels and intangible properties, such
5 as, but not limited to, patents, trademarks, trade names, and
6 copyrights shall not exceed fifty percent (50%) of the appraised value
7 of the security, and such loans and other credit accommodations
8 shall not be made unless title to the chattels and intangible properties,
9 free from all encumbrances, shall be in the name of the mortgagor.
10 (78)

11 SEC. 38. *Grant and Purpose of Loans and Other Credit*
12 *Accommodations.* - A bank shall grant loans and other credit
13 accommodations only in amounts and for the periods of time
14 essential for the effective completion of the operations to be
15 financed. Such grant of loans and other credit accommodations
16 shall be consistent with safe and sound banking practices. (75a)

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

1 SEC. 39. *Requirement for Grant of Loans or Other Credit*
2 *Accommodations.* - Before granting a loan or other credit
3 accommodation, a bank must ascertain that the debtor is
4 capable of fulfilling his commitments to the bank.

5 Toward this end, a bank may demand from its credit
6 applicants a statement of their assets and liabilities and of their
7 income and expenditures and such information as may be prescribed
8 by law or by rules and regulations of Monetary Board to enable
9 the bank to properly evaluate the credit application. Should such
10 statements prove to be false or incorrect in any material detail, the
11 bank may terminate any loan or other credit accommodation granted
12 on the basis of said statements and shall have the right to demand
13 immediate repayment or liquidation of the obligation. In formulating
14 rules and regulations under this Section, the Monetary Board shall
15 recognize the peculiar characteristics of microfinancing, such as cash
16 flow-based lending to the basic sectors that are not covered by
17 traditional collateral. (76a)

18 SEC. 40. *Unsecured Loans or Other Credit*
19 *Accommodations.* - The Monetary Board is hereby authorized to
20 issue such regulations as it may deem necessary with respect to
21 unsecured loans or other credit accommodations that may be granted
22 by banks. (n)

23 SEC. 41. *Other Security Requirements for Bank Credits.* - The
24 Monetary Board may, by regulation, prescribe further security
25 requirements to which the various types of bank credits shall be

1 subject, and, in accordance with the authority granted to it in
2 Section 106 of the New Central Bank Act, the Board may by
3 regulation, reduce the maximum ratios established in Sections 36
4 and 37 of this Act, or, in special cases, increase the maximum
5 ratios established therein. (78)

6 SEC. 42. *Authority to Prescribe Terms and Conditions of*
7 *Loans and Other Credit Accommodations.* - The Monetary Board
8 may, similarly, in accordance with the authority granted to it in
9 Section 106 of the New Central Bank Act, and taking into account
10 the requirements of the economy for the effective utilization
11 of long-term funds, prescribe the maturities, as well as related
12 terms and conditions for various types of bank loans and other
13 credit accommodations. Any change by the Board in the maximum
14 maturities shall apply only to loans and other credit accommodations
15 made after the date of such action. (78)

16 SEC. 43. *Amortization on Loans and Other Credit*
17 *Accommodations.* - The amortization schedule of bank loans
18 and other credit accommodations shall be adapted to the
19 nature of the operations to be financed.

20 In case of loans and other credit accommodations with
21 maturities of more than five (5) years, provisions must be made
22 for periodic amortization payments, but such payments must be made
23 at least annually: *Provided, however,* That when the borrowed funds
24 are to be used for purposes which do not initially produce revenues
25 adequate for regular amortization payments therefrom, the bank

1 may permit the initial amortization payment to be deferred until
2 such time as said revenues are sufficient for such purpose, but
3 in no case shall the initial amortization date be later than five years
4 from the date on which the loan or other credit
5 accommodation is granted. (79a)

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

10 SEC. 44. *Prepayment of Loans and Other Credit*
11 *Accommodations.* - A borrower may at any time prior to the
12 agreed maturity date prepay, in whole or in part, the unpaid
13 balance of any bank loan and other credit accommodation,
14 subject to such reasonable terms and conditions as may be
15 agreed upon between the bank and its borrower. (80a)

16 SEC. 45. *Development Assistance Incentives.* - The
17 Bangko Sentral shall provide incentives to banks which,
18 without government guarantee, extend loans to finance
19 educational institutions, cooperatives, hospitals and other medical
20 services, socialized or low-cost housing, local government units
21 and other activities with social content. (n)

22 SEC. 46. *Foreclosure of Real Estate Mortgage.* - In the
23 event of foreclosure, whether judicially or extra-judicially,
24 of any mortgage on real estate which is security for any loan or
25 other credit accommodation granted, the mortgagor or debtor

1 whose real property has been sold for the full or partial payment
2 of his obligation shall have the right within one year after the sale
3 of the real estate, to redeem the property by paying the amount
4 due under the mortgage deed, with interest thereon at the rate
5 specified in the mortgage, and all the costs and expenses incurred by
6 the bank or institution from the sale and custody of said property
7 less the income derived therefrom. However, the purchaser at the
8 auction sale concerned whether in a judicial or extra-judicial
9 foreclosure shall have the right to enter upon and take possession
10 of such property immediately after the date of the confirmation
11 of the auction sale and administer the same in accordance with law.
12 Any petition in court to enjoin or restrain the conduct of
13 foreclosure proceedings instituted pursuant to this provision
14 shall be given due course only upon the filing by the petitioner
15 of a bond in an amount fixed by the court conditioned that he will
16 pay all the damages which the bank may suffer by the enjoining
17 or the restraint of the foreclosure proceeding. (78a)

18 SEC. 47. *Renewal or Extension of Loans and Other*
19 *Credit Accommodations.* - The Monetary Board may, by
20 regulation, prescribe the conditions and limitations under which
21 a bank may grant extensions or renewals of its loans and other credit
22 accommodations. (81)

23 SEC. 48. *Provisions for Losses and Write-Offs.* - All debts
24 due to any bank on which interest is past due and unpaid for
25 such period as may be determined by the Monetary Board, unless

1 the same are well-secured and in the process of collection shall
2 be considered bad debts within the meaning of this Section.

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

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

9 SEC. 49. *Ceiling on Investments in Certain Assets.* - Any
10 bank may acquire real estate as shall be necessary for its own use
11 in the conduct of its business: *Provided, however,* That the total
12 investment in such real estate and improvements thereof, including
13 bank equipment, shall not exceed fifty percent (50%) of combined
14 capital accounts: *Provided, further,* That the equity investment of
15 a bank in another corporation engaged primarily in real estate shall
16 be considered as part of the bank's total investment in real estate,
17 unless otherwise provided by the Monetary Board. (25a)

18 SEC. 50. *Acquisition of Real Estate by Way of*
19 *Satisfaction of Claims.* - Notwithstanding the limitations of the
20 preceding Section, a bank may acquire, hold or convey real property
21 under the following circumstances:

22 50.1. Such as shall be mortgaged to it in good faith by way
23 of security for debts;

24 50.2. Such as shall be conveyed to it in satisfaction of debts
25 previously contracted in the course of its dealings; or

1 50.3. Such as it shall purchase at sales under
2 judgments, decrees, mortgages, or trust deeds held by it and such
3 as it shall purchase to secure debts due it.

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

11 SEC. 51. *Other Banking Services.* - In addition to the
12 operations specifically authorized in this Act, a bank may
13 perform the following services:

14 51.1. Receive in custody funds, documents and valuable
15 objects;

16 51.2. Act as financial agent and buy and sell, by order of and
17 for the account of their customers, shares, evidences of indebtedness
18 and all types of securities;

19 51.3. Make collections and payments for the account of
20 others and perform such other services for their customers as are
21 not incompatible with banking business;

22 51.4. Upon prior approval of the Monetary Board, act as
23 managing agent, adviser, consultant or administrator of
24 investment management/advisory/consultancy accounts; and

25 51.5. Rent out safety deposit boxes.

1 The bank shall perform the services permitted under
2 Subsections 51.1, 51.2, 51.3 and 51.4 as depositary or as an agent.
3 Accordingly, it shall keep the funds, securities and other effects
4 which it receives duly separate from the bank's own assets and
5 liabilities.

6 The Monetary Board may regulate the operations
7 authorized by this Section in order to ensure that such
8 operations do not endanger the interests of the depositors and other
9 creditors of the bank. (72)

10 SEC. 52. *Prohibition to Act as Insurer.* - A bank shall not
11 directly engage in insurance business as the insurer. (73)

12 SEC. 53. *Prohibited Transactions.* -

13 53.1. No director, officer, employee, or agent of any bank
14 shall -

15 (A) Make false entries in any bank report or statement or
16 participate in any fraudulent transaction, thereby affecting the
17 financial interest of, or causing damage to, the bank or any person;

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

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

4 (D) Overvalue or aid in overvaluing any security for the
5 purpose of influencing in any way the actions of the bank or any
6 bank; or

7 (E) Outsourcing of inherent banking functions.

8 53.2. No borrower of a bank shall-

9 (A) Fraudulently overvalue property offered as security for a
10 loan or other credit accommodation from the bank;

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

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

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

22 53.3. No examiner, officer or employee of the Bangko
23 Sentral or of any department, bureau, office, branch or agency
24 of the Government that is assigned to supervise, examine, assist
25 or render technical assistance to any bank shall commit any of the

1 acts enumerated in this Section or aid in the commission of the same.
2 (87-Aa)

3 The making of false reports or misrepresentation or suppression
4 of material facts by personnel of the Bangko Sentral ng Pilipinas shall
5 constitute fraud and shall be subject to the administrative and
6 criminal sanctions provided under the Bangko Sentral Law.

7 53.4. Consistent with the provisions of Republic Act No. 1405,
8 otherwise known as the Banks Secrecy Law, no bank shall employ
9 casual or nonregular personnel or too lengthy probationary personnel
10 in the conduct of its business involving bank deposits.

11 SEC. 54. *Conducting Business in an Unsafe or Unsound*
12 *Manner.* - In determining whether a particular act or
13 omission, which is not otherwise prohibited by any law, rule or
14 regulation affecting banks, quasi-banks or trust entities, may be
15 deemed as conducting business in an unsafe or unsound manner for
16 purposes of this Section, the Monetary Board shall consider any of
17 the following circumstances:

18 54.1 The act or omission has resulted or may result in
19 material loss or damage, or abnormal risk or danger to the
20 safety, stability, liquidity or solvency of the institution;

21 54.2 The act or omission has resulted or may result in
22 material loss or damage or abnormal risk to the
23 institution's depositors, creditors, investors, stockholders or to the
24 Bangko Sentral or to the public in general;

1 54.3. The act or omission has caused any undue injury, or
2 has given any unwarranted benefits, advantage or preference
3 to the bank or any party in the discharge by the director or officer
4 of his duties and responsibilities through manifest partiality,
5 evident bad faith or gross inexcusable negligence; or

6 54.4 The act or omission involves entering into any
7 contract or transaction manifestly and grossly disadvantageous to the
8 bank, quasi-bank or trust entity, whether or not the director or
9 officer profited or will profit thereby.

10 Whenever a bank, quasi-bank or trust entity persists in
11 conducting its business in an unsafe or unsound manner, the
12 Monetary Board may, without prejudice to the administrative
13 sanctions provided in Section 37 of the New Central Bank Act, take
14 action under Section 30 of the same Act and/or immediately exclude
15 the erring bank from clearing, the provisions of law to the contrary
16 notwithstanding. (n)

17 SEC. 55. *Prohibition on Dividend Declaration.* - No bank or
18 quasi-bank shall declare dividends greater than its accumulated
19 net profits then on hand, deducting therefrom its losses and bad
20 debts. Neither shall the bank nor quasi-bank declare dividends, if
21 at the time of declaration:

22 55.1 Its clearing account with the Bangko Sentral is
23 overdrawn; or

24 55.2 It is deficient in the required liquidity floor for
25 government deposits for five or more consecutive days; or

1 55.3 It does not comply with the liquidity
2 standards/ratios prescribed by the Bangko Sentral for purposes
3 of determining funds available for dividend declaration; or

4 55.4 It has committed a major violation as may be
5 determined by the Bangko Sentral. (84a)

6 SEC. 56. *Independent Auditor.* - The Monetary Board may
7 require a bank, quasi-bank or trust entity to engage the services
8 of an independent auditor to be chosen by the bank, quasi-
9 bank or trust entity concerned from a list of certified public
10 accountants acceptable to the Monetary Board. The term of the
11 engagement shall be as prescribed by the Monetary Board which may
12 either be on a continuing basis where the auditor shall act as resident
13 examiner, or on the basis of special engagements; but in any
14 case, the independent auditor shall be responsible not only to
15 the bank's, quasi-bank's or trust entity's board of directors, but
16 to the Monetary Board as well. The Monetary Board may also
17 direct the board of directors of a bank, quasi-bank, trusty entity
18 and/or the individual members thereof, to conduct, either personally
19 or by a committee created by the board, an annual balance sheet
20 audit of the bank, quasi-bank or trust entity to review the internal
21 audit and control system of the bank, quasi-bank or trust entity
22 and to submit a report of such audit. (6-Da)

23 SEC. 57. *Authority to Regulate Electronic Transactions.* - The
24 Bangko Sentral shall have full authority to regulate the use of
25 electronic devices, such as computers, and processes for

1 recording, storing and transmitting information or data in
2 connection with the operations of a bank, quasi-bank or trust entity,
3 including the delivery of services and products to customers by such
4 entity. (n)

5 SEC. 58. *Financial Statements.* - Every bank, quasi-bank
6 or trust entity shall submit to the appropriate supervising and
7 examining department of the Bangko Sentral financial statements
8 in such form and frequency as may be prescribed by the Bangko
9 Sentral. Such statements, which shall be as of a specific date
10 designated by the Bangko Sentral, shall show the actual financial
11 condition of the institution submitting the statement, and of its
12 branches, offices, subsidiaries and affiliates, including the results
13 of its operations, and shall contain such information as may be
14 required in Bangko Sentral regulations, or as may be called for
15 by the Bangko Sentral in special inquiries. (n)

16 SEC. 59. *Publication of Financial Statements.* - Every
17 bank, quasi-bank or trust entity, shall publish a statement of its
18 financial condition, including those of its subsidiaries and affiliates,
19 in such terms understandable to the layman and in such frequency
20 as may be prescribed by the Bangko Sentral, in English or Filipino,
21 at least once every quarter in a newspaper of general circulation in
22 the city or province where the principal office, in the case of
23 a domestic institution, or the principal branch or office in the case
24 of a foreign bank, is located, but if no newspaper is published in

1 duly authorized to engage in the business of a bank, quasi-bank, trust
 2 entity, or savings and loan association as defined in this Act, or other
 3 banking laws, shall advertise or hold itself out as being engaged in
 4 the business of such bank, quasi-bank, trust entity, or association,
 5 or use in connection with its business title, the word or words
 6 "bank", "banking", "banker", "quasi-bank", "quasi-banking",
 7 "quasi-banker", "savings and loan association", "trust
 8 corporation", "trust company" or words of similar import or
 9 transact in any manner the business of any such bank,
 10 corporation or association. (6)

11 SEC. 63. *Service Fees.* - The Bangko Sentral may charge
 12 equitable rates, commissions or fees, as may be prescribed by the
 13 Monetary Board for supervision, examination and other services which
 14 it renders under this Act. (n)

15 SEC. 64. *Penalty for Violation of this Act.* - Unless
 16 otherwise herein provided, the violation of any of the
 17 provisions of this Act shall be subject to Sections 34, 35, 36 and
 18 37 of the New Central Bank Act. If the offender is a director or
 19 officer of a bank, quasi-bank or trust entity, the Monetary Board may
 20 also suspend or remove such director or officer. If the violation
 21 is committed by a corporation, such corporation may be
 22 dissolved by *quo warranto* proceedings instituted by the Solicitor
 23 General. (87)

CHAPTER V

PLACEMENT UNDER CONSERVATORSHIP

1
 2
 3 SEC. 65. *Conservatorship.* - The grounds and procedures
 4 for placing a bank under conservatorship, as well as, the powers
 5 and duties of the conservator appointed for the bank shall be
 6 governed by the provisions of Section 29 and the last two
 7 paragraphs of Section 30 of the New Central Bank Act: *Provided,*
 8 That this Section shall also apply to conservatorship proceedings
 9 of quasi-banks. (n)

CHAPTER VI

CESSATION OF BANKING BUSINESS

10
 11
 12 SEC. 66. *Voluntary Liquidation.* - In case of the
 13 voluntary liquidation of any bank organized under the laws of the
 14 Philippines, or of any branch or office in the Philippines of
 15 a foreign bank, written notice of such liquidation shall be sent
 16 to the Monetary Board before such liquidation is undertaken, and
 17 the Monetary Board shall have the right to intervene and take
 18 such steps as may be necessary to protect the interests of creditors.
 19 (86)

20 SEC. 67. *Receivership and Involuntary Liquidation.* - The
 21 grounds and procedures for placing a bank under receivership
 22 or liquidation, as well as the powers and duties of the receiver
 23 or liquidator appointed for the bank shall be governed by the
 24 provisions of Sections 30, 31, 32, and 33 of the New Central
 25 Bank Act: *Provided,* That the petitioner or plaintiff files with the

1 clerk or judge of the court in which the action is pending a bond,
 2 executed in favor of the Bangko Sentral, in an amount to be fixed
 3 by the court: *Provided, further,* That the restraining order or
 4 injunction shall be refused or if granted, shall be dissolved
 5 upon filing by the Bangko Sentral of a bond, which shall be in
 6 the form of cash or Bangko Sentral cashier's check, in an amount
 7 twice the amount of the bond of the petitioner or plaintiff
 8 conditioned that it will pay the damages which the petitioner or
 9 plaintiff may suffer by the refusal or the dissolution of the injunction.
 10 This Section shall also apply to the extent possible to the
 11 receivership and liquidation proceedings of quasi-banks. (n)

12 SEC. 68. *Penalty for Transactions After a Bank Becomes*
 13 *Insolvent.* - Any director or officer of any bank who
 14 receives or permits or causes to be received in said bank any
 15 deposit, or who pays out or permits or causes to be transferred
 16 any funds of said bank, or who transfers or permits or causes
 17 to be transferred any securities or property of said bank, after
 18 said bank has been declared insolvent by the Monetary Board
 19 shall be subject to Sections 36 and 37 of the New Central Bank Act.
 20 (85a)

21 CHAPTER VII

22 LAWS GOVERNING OTHER TYPES OF BANKS

23 SEC. 69. *Other Banking Laws.* - The organization,
 24 ownership and capital requirements, powers, supervision and
 25 general conduct of business of thrift banks, rural banks and

1 cooperative banks shall be governed by the provisions of the Thrift
 2 Banks Act, the Rural Banks Act, and the Cooperative Code,
 3 respectively.

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

11 CHAPTER VIII

12 FOREIGN BANKS

13 SEC. 70. *Transacting Business in the Philippines.* - The
 14 entry of foreign banks in the Philippines through the establishment
 15 of branches shall be governed by the provisions of the Foreign
 16 Banks Liberalization Act.

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

21 SEC. 71. *Acquisition of Voting Stock in a Domestic*
 22 *Bank.* - Subject to guidelines provided under Section 3 of the
 23 Foreign Banks Liberalization Act, the Monetary Board may authorize
 24 a foreign bank to acquire up to one hundred percent (100%)
 25 of the voting stock of only one (1) bank organized under the laws

1 of the Republic of the Philippines: *Provided*, That the Monetary Board
2 may authorize any foreign bank, which prior to the effectivity of
3 this Act has availed itself of the privilege to acquire up to sixty
4 percent (60%) of the voting stock of a bank under the Foreign Banks
5 Liberalization Act and the Thrift Banks Act, to further acquire
6 voting shares of such bank to the extent necessary for it to own
7 one hundred percent (100%) of the voting stock thereof.

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

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

17 *SEC. 72. Local Branches of Foreign Banks.* - In the case of
18 a foreign bank which has more than one (1) branch in the
19 Philippines, all such branches shall be treated as one (1) unit for
20 the purpose of this Act, and all references to the Philippine branches
21 of foreign banks shall be held to refer to such units. (68)

22 *SEC. 73. Head Office Guarantee.* - In order to provide
23 effective protection of the interests of the depositors and other
24 creditors of Philippine branches of a foreign bank, the head office

1 of such branches shall fully guarantee the prompt payment of all
2 liabilities of its Philippine branch. (69)

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

7 *SEC. 74. Summons and Legal Process.* - Summons and
8 legal process served upon the Philippine agent or head of any
9 foreign bank designated to accept service thereof shall give
10 jurisdiction to the courts over such bank, and service of notices
11 on such agent or head shall be as binding upon the bank which
12 he represents as if made upon the bank itself.

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

23 In the absence of the agent or head or should there be no
24 person authorized by the bank upon whom service of
25 summons, processes and all legal notices may be made, service

1 of summons, processes and legal notices may be made upon the
2 Bangko Sentral Deputy Governor In-Charge of the supervising and
3 examining departments and such service shall be as effective as
4 if made upon the bank or its duly authorized agent or head.

5 In case of service for the bank upon the Bangko Sentral
6 Deputy Governor In-charge of the supervising and examining
7 departments, the said Deputy Governor shall register and
8 transmit by mail to the president or the secretary of the bank at
9 its head or principal office a copy, duly certified by him, of the
10 summons, process, or notice. The sending of such copy of the
11 summons, process, or notice shall be a necessary part of the
12 services and shall complete the service. The registry receipt
13 of mailing shall be *prima facie* evidence of the transmission of
14 the summons, process or notice. All costs necessarily incurred
15 by the said Deputy Governor for the making and mailing and
16 sending of a copy of the summons, process, or notice to the president
17 or the secretary of the bank at its head or principal office shall
18 be paid in advance by the party at whose instance the service is
19 made. (17)

20 SEC. 75. *Revocation of License of a Foreign Bank.* - The
21 Monetary Board may revoke the license to transact business
22 in the Philippines of any foreign bank, if it finds that the foreign
23 bank is insolvent or in imminent danger thereof or that its
24 continuance in business will involve probable loss to those
25 transacting business with it. After the revocation of its license, it shall

1 be unlawful for any such foreign bank to transact business in the
2 Philippines unless its license is renewed or reissued. After the
3 revocation of such license, the Bangko Sentral shall take the
4 necessary action to protect the creditors of such foreign bank
5 and the public. The provisions of the New Central Bank Act
6 on sanctions and penalties shall likewise be applicable. (16)

7 SEC. 76. *Laws Applicable.* - In all matters not
8 specifically covered by special provisions applicable only to a
9 foreign bank or its branches and other offices in the Philippines, any
10 foreign bank licensed to do business in the Philippines shall be bound
11 by the provisions of this Act, all other laws, rules and regulations
12 applicable to banks organized under the laws of the Philippines
13 of the same class, except those that provide for the creation,
14 formation, organization or dissolution of corporations or for the
15 fixing of the relations, liabilities, responsibilities, or duties of
16 stockholders, members, directors or officers of corporations to each
17 other or to the corporation. (18)

18 CHAPTER IX

19 TRUST OPERATIONS

20 SEC. 77. *Authority to Engage in Trust Business.* - Only a stock
21 corporation duly authorized by the Monetary Board to engage in
22 trust business shall act as a trustee or administer any trust
23 or hold property in trust or on deposit for the use, benefit, or behoof

1 of others. For purposes of this Act, such a corporation shall be
2 referred to as a trust entity. (56a; 57a)

3 SEC. 78. *Conduct of Trust Business.* - A trust entity shall
4 administer the funds or property under its custody with the
5 diligence that a prudent man would exercise in the conduct of an
6 enterprise of a like character and with similar aims.

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

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

22 SEC. 79. *Registration of Articles of Incorporation and By-Laws*
23 *of a Trust Entity.* - The Securities and Exchange Commission shall
24 not register the articles of incorporation and by-laws or any

1 amendment thereto, of any trust entity, unless accompanied by a
2 certificate of authority issued by the Bangko Sentral. (n)

3 SEC. 80. *Minimum Capitalization.* - A trust entity,
4 before it can engage in trust or other fiduciary business, shall
5 comply with the minimum paid-in capital requirement which will
6 be determined by the Monetary Board. (n)

7 SEC. 81. *Powers of a Trust Entity.* - A trust entity, in
8 addition to the general powers incident to corporations, shall have
9 the power to:

10 81.1. Act as trustee on any mortgage or bond issued by any
11 municipality, corporation, or any body politic and to accept and
12 execute any trust consistent with law;

13 81.2. Act under the order or appointment of any court as
14 guardian, receiver, trustee, or depository of the estate of any minor
15 or other incompetent person, and as receiver and depository of any
16 moneys paid into court by parties to any legal proceedings and of
17 property of any kind which may be brought under the jurisdiction
18 of the court;

19 81.3. Act as the executor of any will when it is named the
20 executor thereof;

21 81.4. Act as administrator of the estate of any
22 deceased person, with the will annexed, or as administrator of the
23 estate of any deceased person when there is no will;

1 81.5. Accept and execute any trust for the holding,
2 management, and administration of any estate, real or
3 personal, and the rents, issues and profits thereof; and

4 81.6. Establish and manage common trust funds, subject to
5 such rules and regulations as may be prescribed by the Monetary
6 Board. (58)

7 SEC. 82. *Deposit for the Faithful Performance of Trust*
8 *Duties.* - Before transacting trust business, every trust entity shall
9 deposit with the Bangko Sentral as security for the faithful
10 performance of its trust duties, cash or securities approved by
11 the Monetary Board in an amount equal to not less than five hundred
12 thousand pesos (P500,000.00) or such higher amount as may be fixed
13 by the Monetary Board: *Provided, however,* That the Monetary
14 Board shall require every trust entity to increase the amount of
15 its cash or securities on deposit with the Bangko Sentral whenever
16 in its judgment such increase is necessary by reason of the trust
17 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
19 required to be deposited with the Bangko Sentral in accordance with
20 the provisions of this paragraph. Should the capital and surplus fall
21 below said amount, the Monetary Board shall have the same
22 authority as that granted to it under the provisions of the fifth
23 paragraph of Section 33 of this Act.

24 A trust entity so long as it shall continue to be solvent
25 and comply with laws or regulations shall have the right to collect

1 the interest earned on such securities deposited with the Bangko
2 Sentral and, from time to time, with the approval of the Bangko
3 Sentral, to exchange the securities for others. If the trust entity
4 fails to comply with any law or regulation, the Bangko Sentral shall
5 retain such interest on the securities deposited with it for the
6 benefit of rightful claimants. All claims arising out of the trust
7 business of a trust entity shall have priority over all other claims as
8 regards the cash or securities deposited as above provided. The
9 Monetary Board may not permit the cash or securities
10 deposited in accordance with the provisions of this Section to be
11 reduced below the prescribed minimum amount until the
12 depositing entity shall discontinue its trust business and shall satisfy
13 the Monetary Board that it has complied with all its obligations in
14 connection with such business. (65a)

15 SEC. 83. *Bond of Certain Persons for the Faithful*
16 *Performance of Duties.* - Before an executor, administrator,
17 guardian, trustee, receiver or depository appointed by the court
18 enters upon the execution of his duties, he shall, upon order of
19 the court, file a bond in such sum as the court may direct.

20 Upon the application of any executor, administrator,
21 guardian, trustee, receiver, depository or any other person in interest,
22 the court may, after notice and hearing, order that the subject matter
23 of the trust or any part thereof be deposited with a trust entity. Upon
24 presentation of proof to the court that the subject matter of the trust
25 has been deposited with a trust entity, the court may order that the

1 bond given by such persons for the faithful performance of their
2 duties be reduced to such sums as it may deem proper: *Provided,*
3 *however,* That the reduced bond shall be sufficient to secure
4 adequately the proper administration and care of any property
5 remaining under the control of such persons and the proper
6 accounting for such property.

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

10 SEC. 84. *Exemption of Trust Entity from Bond*
11 *Requirement.* - No bond or other security shall be required by the
12 court from a trust entity for the faithful performance of its
13 duties as court-appointed trustee, executor, administrator, guardian,
14 receiver, or depository. However, the court may, upon proper
15 application with it showing special cause therefor, require the trust
16 entity to post a bond or other security for the protection of funds
17 or property confided to such entity. (59)

18 SEC. 85. *Separation of Trust Business from General*
19 *Business.* - The trust business and all funds, properties or
20 securities received by any trust entity as executor,
21 administrator, guardian, trustee, receiver, or depository shall be
22 kept separate and distinct from the general business including
23 all other funds, properties, and assets of such trust entity. The
24 accounts of all such funds, properties, or securities shall likewise

1 be kept separate and distinct from the accounts of the general
2 business of the trust entity. (61)

3 SEC. 86. *Investment Limitations of a Trust Entity.* - Unless
4 otherwise directed by the instrument creating the trust, the lending
5 and investment of funds and other assets acquired by a trust entity
6 as executor, administrator, guardian, trustee, receiver or depository
7 of the estate of any minor or other incompetent person shall be
8 limited to loans or investments as may be prescribed by law,
9 the Monetary Board or any court of competent jurisdiction. (63a)

10 SEC. 87. *Real Estate Acquired by a Trust Entity.* - Unless
11 otherwise specifically directed by the trustor or the nature of the trust,
12 real estate acquired by a trust entity in whatever manner and for
13 whatever purpose, shall likewise be governed by the relevant
14 provisions of Section 50 of this Act. (64a)

15 SEC. 88. *Investment of Non-Trust Funds.* - The
16 investment of funds other than trust funds of a trust entity which
17 is a bank, financing company or an investment house shall be
18 governed by the relevant provisions of this Act and other applicable
19 laws. (64)

20 SEC. 89. *Sanctions and Penalties.* - A trust entity or any
21 of its officers and directors found to have willfully violated any
22 pertinent provisions of this Act, shall be subject to the sanctions
23 and penalties provided under Section 64 of this Act as well as
24 Sections 36 and 37 of the New Central Bank Act. (63)

1 SEC. 90. *Exemption of Trust Assets from Claims.* - No
2 assets held by a trust entity in its capacity as trustee shall be
3 subject to any claims other than those of the parties interested
4 in the specific trusts. (65)

5 SEC. 91. *Establishment of Branches of a Trust Entity.* - The
6 ordinary business of a trust entity shall be transacted at the
7 place of business specified in its articles of incorporation. Such
8 trust entity may, with prior approval of the Monetary Board,
9 establish branches in the Philippines, and the said entity shall be
10 responsible for all business conducted in such branches to the
11 same extent and in the same manner as though such business had
12 all been conducted in the head office.

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

15 CHAPTER X

16 FINAL PROVISIONS

17 SEC. 92. *Phase Out of Bangko Sentral Powers Over*
18 *Building and Loan Associations.* - Within a period of three (3)
19 years from the effectivity of this Act, the Bangko Sentral shall
20 phase out and transfer its supervising and regulatory powers over
21 building and loan associations to the Home Insurance and Guaranty
22 Corporation which shall assume the same. Until otherwise provided
23 by law, building and loan associations shall continue to be governed
24 by Sections 39 to 55, Chapter VI of the General Banking Act, as
25 amended, including such rules and regulations issued pursuant

1 thereto. Upon assumption by the Home Insurance and Guaranty
2 Corporation of supervising and regulatory powers over
3 building and loan associations, all references in Sections 39 to 55
4 of the General Banking Act, as amended, to the Bangko Sentral
5 and the Monetary Board shall be deemed to refer to the Home
6 Insurance and Guaranty Corporation and its board of directors,
7 respectively. (n)

8 SEC. 93. *Repealing Clause.* - Except as may be
9 provided for in Sections 33 and 92 of this Act, the General
10 Banking Act, as amended, and the provisions of any other law,
11 special charters, rule or regulation issued pursuant to said General
12 Banking Act, as amended, or parts thereof, which may be
13 inconsistent with the provisions of this Act are hereby repealed.(90)

14 SEC. 94. *Separability Clause.* - If any provision or
15 section of this Act or the application thereof to any person or
16 circumstance is held invalid, the other provisions or sections of
17 this Act, and the application of such provision or section to other
18 persons or circumstances, shall not be affected thereby. (n)

19 SEC. 95. *Effectivity Clause.* - This Act shall take effect
20 fifteen (15) days following its publication in the *Official Gazette*
21 or in two (2) national newspapers of general circulation. (91)

Approved,