

AMENDING REPUBLIC ACT NUMBERED THREE HUNDRED AND THIRTY-SEVEN, ENTITLED "THE GENERAL BANKING ACT";

PRESIDENTIAL DECREE NO. 71, November 29, 1972

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WHEREAS, there were pending before Congress prior to the promulgation of Proclamation No. 1081, dated September 21, 1972, urgent banking measures proposing amendments to Republic Act No. 337, entitled "The General Banking Act", which are vital to the national development program of the Government;

WHEREAS, an extensive survey and study of the banking and credit system had been undertaken for the purposes of assessing its adequacy in Philippine economic growth, and of facilitating the savings-investment process in development;

WHEREAS, the result of the survey was an integrated set of recommendations which were accepted, with modifications by the monetary authorities, and made the basis for this Decree to effect reforms in the banking system, and to render monetary and credit policies more responsive to the requirements of economic development;

NOW, THEREFORE, I, FERDINAND E. MARCOS, President of the Philippines, by virtue of the powers vested in me by the Constitution as Commander-in-Chief of the Armed Forces of the Philippines, and pursuant to Proclamation No. 1081, dated September 21, 1972, and General Order No. 1, dated September 22, 1972, as amended, and in order to effect the desired changes and reforms in the social, economic, and political structure of our society, do hereby order and decree the amendment of Republic Act No. 337, as follows:

SECTION 1. Section two of the Republic Act No. 337, is hereby amended to read as follows:

"SEC. 2. Only entities duly authorized by the Monetary Board of the Central Bank may engage in the lending of funds obtained from the public through the receipt of deposits of any kind, and all entities regularly conducting such operations shall be considered as banking institutions and shall be subject to the provisions of this Act, of the Central Bank Act, and of other pertinent laws. The terms 'banking institution' and 'bank', as used in this Act, are synonymous and interchangeable and specifically include commercial banks, savings banks, mortgage banks, development banks, rural banks, stock savings and loan associations, and branches and agencies in the Philippines of foreign banks hereinafter called Philippine branches,

"The Monetary Board may regulate the activities of the persons and entities which act as agents of banks. In no case may the Monetary Board authorize the drawing of checks against deposits not maintained in banks or branches or agencies thereof."

SEC. 2. The same Act is hereby amended by adding the following sections after section two thereof, which read as follows:

"SEC. 2-A. The following entities shall not be considered as banking institutions but shall be subject to regulation by the Monetary Board which may include, but need not be limited to, the imposition of net worth to risk assets ratios, reserve requirements, and interest rate ceilings:

"(a) Entities regularly engaged in the lending of funds or purchasing of receivables or other obligations with funds obtained from the public through the issuance, endorsement, or acceptance of debt instruments of any kind for their own account, or through the issuance of certificates of assignment or similar instruments with recourse, trust certificates, or of repurchase agreements, whether any of these means of obtaining funds from the public is done on a regular basis or only occasionally; "b) Entities regularly engaged in the lending of funds which receive deposits only occasionally; and

"(c) Trust companies, building and loan associations, and non-stock savings and loan associations, but such non-deposit accepting entities shall continue to be supervised and regulated by the Monetary Board under the pertinent provisions of this Act, and/or Republic Act Nos. 265 and 3779.

"SEC. 2-B. The operations and activities of non-bank financial intermediaries, except insurance companies, shall be subject to regulation by the Monetary Board which may include, but need not be limited to, the imposition of constraints covering the (a) Minimum size of funds received, (b) Methods of marketing and distribution, (c) Terms and maturities of funds received, and (d) Uses of funds: Provided, however, That, if such entities are found by the Central Bank to be performing quasi-banking functions, they may be further subject to regulation under Section Two-A of this Act.

"SEC. 2-C. The Monetary Board may, at its discretion, prescribe control ratios, ceilings, limitations, or other forms of regulation on the different types of contingent accounts of banking institutions and non-bank financial intermediaries performing quasi-banking functions.

"SEC. 2-D. For purposes of Sections Two, Two-A, Two-B, and Two-C the following definition of terms shall apply:

"(a) 'Public' shall mean twenty or more lenders;

"(b) 'Quasi-Banking Functions' shall mean borrowing funds, for the borrowers's own account, through the issuance, endorsement or acceptance of debt instruments of any kind other than deposits, or through the issuance of participations, certificates of assignment, or similar instruments with recourse, trust certificates, or of repurchase agreements, from twenty or more lenders at any one time, for purposes of relending or purchasing of receivables and other obligations: Provided, however, That commercials, industrial, and other non-financial companies, which borrow funds through any of these means for the limited purpose of financing their own needs or the needs of their agents or dealers, shall not be considered as performing quasi-banking functions;

"(c) 'Financial intermediaries shall mean persons or entities whose principal functions include the lending, investing or placement of funds or evidences of indebtedness or equity deposited with them, acquired by them, or otherwise coursed through them, either for their own account or for the account of others;

"(d) 'Regulation' shall mean the issuance of rules of conduct or the establishment of modes or standards of operations for uniform application to all institutions or functions covered, taking into consideration in determining such coverage 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: Provided, That, if the circumstances so warrant as determined by the Monetary Board, any of these institutions may be subject to special examination; and

"(e) Supervision shall include not only the issuance of rules, but also the overseeing to ascertain that regulations are complied with, investigating, or examining to determine whether an institution is conducting its business on a sound financial basis, and inquiring into the solvency and liquidity of the institution;"

SEC. 3. Section four of the same Act is hereby amended to read as follows:

"SEC. 4. The determination of whether a person or an entity is (a) performing banking or quasi-banking

functions or (b) engaged in other types of financial intermediation shall be decided by the Monetary Board subject to judicial review. The Board may, through the appropriate supervising department of the Central Bank, examine, inspect or investigate the books and records of such person or entity for the purpose of resolving the question."

SEC. 4. Section five of the same Act is hereby amended by adding the following subsection after subsection (e) thereof, which reads as follows:

"(f) 'Unimpaired Capital and Surplus', 'Combined Capital Accounts', and 'Net Worth', which terms shall mean, for the purposes of this Act, the total of the unimpaired paid-in capital, surplus, and undivided profits, net of such valuation reserves as may be required by the Central Bank."

SEC. 5. Section six of the same Act is hereby amended to read as follows:

"SEC. 6. No person, association, or corporation not conducting the business of a commercial banking corporation, trust corporation, savings and mortgage bank, development bank, rural bank, savings and loan association, or building 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, corporation, or association, or use in connection with its business title the word or words 'bank,' 'banking,' 'banker,' 'building and loan association,' 'savings and loan association,' 'trust corporation,' 'trust company,' or words of similar import, or solicit or receive deposits of money for deposit, disbursement, safekeeping, or otherwise, or transact in any manner the business of any such bank, corporation or association, without having first complied with the provisions of this Act or other banking laws. For any violation of the provisions of this section by a corporation, the officers and directors thereof shall be jointly and severally liable. Any violation of the provisions of this section shall be punished by a fine of five hundred pesos for each day during which such violation is continued or repeated, and in default of the payment thereof, subsidiary imprisonment as prescribed by law."

SEC. 6. The same Act is further amended by adding the following sections immediately after Section six thereof, which reads as follows:

"SEC. 6-A. For purposes of uniformity, simplicity, and equality of treatment, banking institutions shall be classified into the following general categories: (a) Commercial banks, (b) Thrift banks, composed of (1) Savings and mortgage banks, (2) Stock savings and loan associations, and (3) Private development banks, and (c) Regional unit banks composed of rural banks. Specialized and unique government banks, such as the Development Bank of the Philippines and the Land Bank, are not covered by this classification, but shall be subject to supervision and regulation by the Central Bank pursuant to the provisions of Section Twenty-Five of Republic Act No. 265.

"The Monetary Board shall determine the proper classification of other types of banking institutions that may be established after the approval of this Act.

"SEC. 6-B. With prior approval of the Monetary Board, commercial banks and thrift banks may establish branches, agencies, or extension offices, on a nationwide basis, but rural banks shall remain as regional unit banks.

"Notwithstanding the provisions of any law to the contrary, no government or private bank may open branches, agencies, or extension offices without prior approval of the Monetary Board.

"SEC. 6-C. The hours during which all banks, including their branches, agencies, and extension offices, shall transact business shall not be less than six (6) hours a day to be selected by the banking institution concerned between eight o'clock in the morning and eight o'clock in the evening, which time shall be reported to the Monetary Board: Provided, That banks may, at their discretion and after prior notice to the Monetary Board, remain open beyond the minimum six (6) hours and for as long as they find it necessary even before eight

o'clock in the morning or after eight o'clock in the evening for the purpose of servicing deposits and withdrawals: Provided, finally, That other banking services may be extended beyond the minimum six hours: Provided, finally, That the additional hours during which any of these other banking services may be conducted may be limited by regulation of the Monetary Board.

"SEC. 6-D. The Monetary Board may, at its discretion, in specific cases where the circumstances so warrant, require a bank to engage the services of an independent auditor to be chosen by the bank concerned from a list of certified public accountants acceptable to the Monetary Board. The terms 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 not only to the bank's board of directors, but to the Monetary Board as well; Provided, That nothing in this section shall be understood to preclude the Monetary Board from directing the board of directors of banking institutions 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, to review the internal audit and control system of the bank, and to submit a report of such audit.

"SEC. 6-E. 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 Central Bank to the President of the Philippines who shall immediately certify the same to the appropriate court, government agency or commission for resolution. In accordance with the provisions of Section one hundred six of Republic Act No. 265, as amended, the Monetary Board may, at its discretion, modify or set aside the penalties for reserve deficiencies accruing during the entire period, or part thereof, of any bank strike or lockout, or of any national emergency affecting bank operations."

SEC. 7. The same Act is further amended by adding the following section after Section nine thereof, which reads as follows:

"SEC. 9-A. In order to maintain the quality of bank management and afford better protection to depositors and the public in general, the Monetary Board may pass upon and review the qualifications of persons who are elected or appointed bank directors and officers and disqualify those found unfit. The Monetary Board shall prescribe the qualifications of bank directors and officers for purposes of this section."

SEC. 8. Section twelve of the same Act is hereby amended to read as follows:

"SEC. 12. At least seventy per cent (70%) of the voting stock of any banking institution which may be established after the approval of this Act shall be owned by citizens of the Philippines, except where a new bank is established as a result of: (a) The local incorporation of any of the existing branches or agencies of foreign banks in the Philippines pursuant to Section sixty-eight of this Act or (b) The consolidation of existing banks in any of which there are foreign-owned voting stocks at the time of consolidation.

"The computation of the minimum percentage of Filipino-owned voting stocks required herein shall be governed by the provisions of the second paragraph of Section twelve-A of this Act. The Monetary Board may, if the national interest so requires, set a higher percentage of Filipino-owned voting stocks in banking institutions that may be established after the approval of this Act."

SEC. 9. The same Act is further amended by adding the following sections after Section twelve thereof, which read as follows:

"SEC. 12-A. The percentage of foreign-owned voting stocks in any domestic bank existing upon the effectivity of this Act, if such percentage is in excess of thirty per cent (30%) of the voting stock of the bank, shall not be increased, but may be reduced, and, once reduced, shall not be increased thereafter beyond thirty per cent (30%) of the voting stock of the bank. If the percentage of the foreign-owned voting stocks existing upon the

effectivity of this Act is less than thirty per cent (30%) of the voting stock of the bank, this percentage may be increased up to thirty per cent (30%) of the voting stock of the bank with prior approval of the Monetary Board. These limitations on the increase of the percentage of foreign-owned voting stocks shall also apply to a merged or constituent bank arising from the merger or consolidation of domestic banks with foreign-owned voting stocks, and to a bank which has been established as a result of the local incorporation of a branch or agency of a foreign bank pursuant to Section sixty-eight of this Act.

"Provided, however, That the Monetary Board may, with the approval of the President of the Philippines, increase the percentage of foreign-owned voting stocks in any domestic bank prescribed in the preceding paragraph from thirty per cent (30%) to forty per cent (40%).

"The percentage of foreign-owned voting stocks in a bank shall be determined by the citizenship of the individual stockholders in that bank. In the case of corporations owning bank shares, the citizenship of each stockholders in that corporation shall be the basis of computing the percentage. In case the percentage of foreign-owned voting stocks in any domestic bank increases beyond that allowed under the first paragraph of this section due to: (a) A change in the citizenship of any stockholder of the bank or of any stockholder of a corporation owning shares of stock in that bank, and (b) A transfer to foreigners of Filipino-owned voting stocks in a corporation owning shares in the bank, the Monetary Board may, at its discretion, direct the bank concerned to take steps, within a reasonable period of time, to reduce the percentage of foreign-owned voting stocks in the bank to the original level before the increase.

"Upon the effectivity of this Act, any sale or other forms of transfer of ownership of foreign-owned voting stocks in any domestic bank to other foreigners of entities with foreign-owned voting stocks, which sale shall raise the total of foreign-owned voting stocks thus sold or transferred from the effective date of this Act to more than forty per cent (40%) of the bank's voting stock, shall be subject to prior approval of the Central Bank.

"Banks with foreign-owned voting stocks shall report to the Central Bank any sale or other forms of transfer of ownership of these stocks for purposes of determining compliance with the limitations on the percentage of foreign-owned voting stocks in domestic banks.

"SEC. 12-B. The total voting stocks which any corporation, including its wholly or majority-owned subsidiaries, may own in any bank shall not exceed thirty per cent (30%) of the voting stock of that bank. In the case of a corporation which is wholly-owned, or the majority of the voting stock of which is owned by any one person or by persons related to each other within the third degree of consanguinity or affinity, that corporation may own not more than twenty per cent (20%) of the voting stock of any bank. However, the aggregate corporate holdings in any single bank shall be without limit: Provided, That if two or more corporations are owned or controlled by the same group of persons, the aggregate voting stocks which these corporations may own in any single bank shall not exceed thirty per cent (30%) of the voting stock of that bank. Provided, further, That if these corporations are owned or controlled by one person or groups of persons related to each other within the third degree of consanguinity or affinity, the aggregate voting stocks shall not exceed twenty per cent (20%) of the voting stock of that bank.

"Any corporation owning more than thirty per cent (30%) of the voting stock of any bank upon the effectivity of this Act shall not increase such equity holdings in that bank, but these holdings may be reduced, and, once reduced, shall not be increased thereafter beyond thirty per cent (30%) of the voting stock of the bank.

"Banks shall report to the Central Bank any sale or other forms of transfer of ownership of their shares of stock by and between corporations or individuals and corporations, for purposes of determining compliance with the limitations on bank equity holdings of corporations.

"For purposes of this section, the term 'Corporation' shall include partnerships, cooperatives and associations.

"SEC. 12-C. Corporations formed to hold equities of rural banks may only own equities in rural banks located within a particular region, as may be defined by the Central Bank, to the extent allowed by the preceding section. Any corporation organized to hold equities of rural banks must be partly owned by residents of the particular region where the rural bank or banks in which the equities are held are located.

"SEC. 12-D. In order to promote the diffusion of bank ownership, especially of commercial banks, no new commercial bank shall be licensed to operate if the stockholdings of any person or persons related to each other within the third degree of consanguinity or affinity, constitute more than twenty per cent (20%) of the voting stock of the new bank. This limitation, as well as the limitations established under Section twelve-B of this Act, shall apply at all times to individual and corporate equity holdings in commercial banks that may be established hereafter.

"Any person or persons with relations as specified in Section twelve-D of this Act, or any corporation which is wholly-owned or the majority of the voting stock of which is owned by such person or persons, owning more than twenty per cent (20%) of the voting stock of any bank upon the effectivity of this Act shall not increase these equity holdings in that bank, but these holdings may be reduced, and, once reduced, shall not be increased thereafter beyond twenty per cent (20%) of the voting stock of the bank."

SEC. 10. Section thirteen of the same Act is hereby amended to read as follows;

"SEC. 13. At least two-thirds of the members of the board of directors of any bank or banking institution which may be established after the approval of this Act shall be citizens of the Philippines: Provided, That no full-time appointive or elective public official shall at the same time serve as officer, director, legal counsel, or consultant of any private bank, except in cases where such service is incident to financial assistance provided by the Government or by a government-owned or controlled corporation to the bank: Provided, further, That in the case of a bank merger or consolidation duly approved by the Monetary Board, the limitation on the number of directors in a corporation, as provided for in Section twenty-eight of the Corporation Law (Act No. 1459), shall not be applied so that membership in the new board may include up to the total number of directors provided for in the respective articles of incorporation of the merging or consolidating banks."

SEC. 11. The same Act is hereby amended by adding the following section immediately after Section fourteen thereof, which reads as follows:

"SEC. 14-A. Foreign banking institutions without branches in the Philippines, including (a) their wholly or majority owned subsidiaries, and (b) their holding companies having majority holdings in such foreign banking institutions, may invest, with prior approval of the Monetary Board, in equities of local companies engaged in financial allied undertakings under the same restrictions imposed on domestic banks of the same category, as provided for in Sections twenty-one-A and thirty-one of this Act, or in other banking laws. In any case, the aggregate holdings of voting stocks of all foreign entities in any single domestic financial enterprise shall remain a minority participation in that enterprise.

"With prior approval of the Central Bank, these foreign entities may also purchase foreign-owned equities in domestic banks: Provided, That their aggregate holdings of voting stocks shall remain at all times a minority in the local bank.

"Equity investment of foreign non-bank corporations, excluding the wholly or majority-owned subsidiaries of foreign banking institutions and their holding companies referred to in this section, in domestic non-financial undertakings need not be subject to the above limitations except as may otherwise be provided for by special laws.

"The foregoing limitations shall not apply either to international or regional inter-governmental financial organizations and their subsidiaries of which the Philippines is a member."

SEC. 12. Section twenty of the same Act is hereby amended to read as follows:

"SEC. 20. A commercial banking corporation shall be any corporation which accepts or creates demand deposits subject to withdrawal by check. Upon the effectivity of this Act, only commercial banks may accept or create demand deposits subject to withdrawal by check: Provided, That any other bank, which has been heretofore authorized by the Central Bank to accept demand deposits, may continue accepting demand deposits at the discretion of the Monetary Board."

SEC. 13. Section twenty-one of the same Act is hereby amended to read as follows:

"SEC. 21. A commercial banking corporation, in addition to the general powers incident to corporations, shall have all such powers as shall be necessary to carry on the business of commercial banking, by accepting drafts and issuing letters of credit, by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debts; by receiving deposits; by buying and selling foreign exchange and gold or silver bullion, and by lending money against personal security or against securities consisting of personal property or first mortgages on improved real estate and the insured improvements thereon. No loan on the security of real estate shall have a maturity in excess of fifteen years, except loans for home building or home development, which may have maturities up to twenty years. Loans on real estate security of over one year maturity for real estate, personal, and commercial purposes, or for the refinancing of similar loans, shall not exceed fifty per cent (50%) of the total savings and time deposits of the bank.

"Nothing in this section shall be construed as preventing a commercial bank from accepting real estate security in order to protect itself from loss on account of a loan previously contracted in good faith, nor shall there be included in the foregoing limitations loans made on the security of real estate arising out of the sale of property owned by such bank.

"Commercial banks may acquire high-grade bonds and other evidences of indebtedness. Except in exceptional circumstances, however, the Monetary Board shall not permit commercial banks to invest in securities having maturities greater than three years from the date of acquisition by the bank an amount in excess of twenty per cent (20%) of its total deposits."

SEC. 14. The same Act is hereby amended by adding the following section after Section twenty-one thereof, which reads as follows:

"SEC. 21-A. Commercial banks, including Government banks and foreign banks with existing local branches, may invest in equities of the following allied undertakings: warehousing companies, leasing companies, storage companies, safe deposit box companies, companies engaged in the management of mutual funds but not in the mutual funds themselves, banks other than rural banks, and such other similar activities as the Monetary Board may declare as appropriate from time to time: Provided, That (a) the total investment in equities shall not exceed twenty-five per cent (25%) of the net worth of the bank, (b) the equity investment in any one enterprise shall not exceed fifteen per cent (15%) of the net worth of the bank, (c) the total equity investment of the bank in any single enterprise shall remain a minority holding in that enterprise, except where the enterprise is not a financial intermediary, and (d) the equity investment in other banks shall be deducted from the investing bank's net worth for purposes of computing the prescribed ratio of net worth to risk assets. Equity investments shall not be permitted in non-related activities.

"Where the allied undertaking is a wholly or majority-owned subsidiary of the bank, it may be subject to examination by the Central Bank.

"The authority of commercial banks, the majority of the voting stock of which is owned by foreigners and/or foreign entities, and any bank which may be established as a result of the local incorporation of a branch of a foreign bank pursuant to Section sixty-eight of this Act, to invest in equities of banks, shall be limited to the purchase of foreign-owned equities in local banks."

SEC. 15. Section twenty-two of the same Act is hereby amended to read as follows:

"SEC. 22. The combined capital accounts of each commercial bank shall not be less than an amount equal to ten per cent (10%) of its risk assets which is defined as its total assets minus the following assets:

"(a) Cash on hand;

"(b) Amount due from the Central Bank;

"(c) Evidences of indebtedness of the Republic of the Philippines and of the Central Bank, and any other evidences of indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines;

"(d) Loans to the extent covered by hold-out on, or assignment of, deposits maintained in the lending bank and held in the Philippines;

"(e) Loans or acceptances under letters of credit to the extent covered by margin deposits; and

"(f) Other non-risk items which the Monetary Board may, from time to time, authorize to be deducted from total assets.

"The Monetary Board shall prescribe the manner of determining the total assets of banking institutions for the purposes of this section, but contingent accounts shall not be defined as being included among total assets.

"Whenever the capital accounts of a bank are deficient with respect to the requirements of this Act, the Monetary Board, after considering a report of the appropriate supervising department on the state of solvency of the institution concerned, shall limit or prohibit the distribution of net profits and shall require that part or all of net profits be used to increase the capital accounts of the institution until the minimum requirement has been met. The Monetary Board may, furthermore, after considering the aforesaid report of the appropriate supervising department and if the amount of the deficiency justifies it, restrict or prohibit the making of new investments of any sort by the bank, with the exception of purchases of readily marketable evidences of indebtedness included under subsection (c) of this section, until the minimum required capital ratio has been restored.

"Where in the process of a bank merger or consolidation, the merged or constitutions bank may not be able to comply fully with the net worth to risk assets ratio herein prescribed, the Monetary Board may, at its discretion, temporarily relieve the bank from full compliance with this requirement under such conditions as it may prescribe."

SEC. 16. Section twenty-three of the same Act is hereby amended to read as follows:

"SEC. 23. Except as the Monetary Board may otherwise prescribe, the total liabilities of any person, company, corporation or firm, to a commercial banking corporation For money borrowed, excluding (a) loans secured by obligations of the Central Bank or of the Philippine Government, (b) loans fully guaranteed by the Government as to the payment of principal and interest, (c) loans to the extent covered by hold-out on, or assignment of, deposits maintained in the lending bank and held in the Philippines, (d) loans and acceptances under letter of credit to the extent covered by margin deposits, and (e) other loans or credits which the Monetary Board may, from time to time, specify as non-risk assets, shall at no time exceed fifteen per cent (15%) of the unimpaired capital and surplus of such bank.

"The total liabilities of any borrower may amount to a further fifteen per cent (15%) of the unimpaired capital and surplus of such banking corporation provided the additional liabilities are adequately secured by shipping documents, warehouse receipts or other similar documents transferring or securing title covering readily marketable, nonperishable staples which staples must be fully covered by insurance, and must have a market value equal to at least one hundred and twenty-five per cent (125%) of such additional liabilities.

"The term 'liabilities' as used herein, shall mean the direct liability of the maker or acceptor of paper discounted with or sold to such bank and the liability of the indorser, drawer, or guarantor who obtains a loan from or discounts paper with or sells papers under his guaranty to such bank and shall include in the case of liabilities of a co-partnership or association the liabilities of the several members thereof and shall include in the case of liabilities of a corporation all liabilities of all subsidiaries thereof in which such corporation owns or controls a majority interest. But the discount of bills of exchange drawn in good faith against actually existing values, and the discount of commercial or business paper actually owned by the person negotiating the same, shall not be considered as money borrowed, for the purposes of this section.

"Loan accommodations granted by commercial banks to any other bank, as well as deposits maintained by them in any bank licensed to do business in the Philippines, shall be subject to the loan limit to any single borrower as herein prescribed."

SEC. 17. Section twenty-five of the same Act is hereby amended to read as follows:

"SEC. 25. Any commercial bank may purchase, hold, and convey real estate for the following purposes:

"(a) Such as shall be necessary for its immediate accommodation in the transaction of its business: Provided, however, That the total investment in such real estate and improvements thereof, including bank equipment, shall not exceed fifty per cent (50%) of net worth: Provided, further, That real estate used for the bank's purposes, owned by another corporation in which the bank owns equity, shall be considered as part of the bank's total investment in real estate;

"(b) Such as shall be mortgaged to it in good faith by way of security for debts;

"(c) Such as shall be conveyed to it in satisfaction of debts previously contracted in the course of its dealings;

"(d) 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 to it.

"But no such bank shall hold the possession of any real estate under mortgage or trust deed, or the title and possession of any real estate purchased to secure any debt due to it, for a longer period than five years."

SEC. 18. Section twenty-seven of the same Act is hereby amended to read as follows:

"SEC. 27. Any commercial bank organized under the laws of the Philippines may, with the prior approval of the Monetary Board, establish branches in the Philippines or branches and agencies outside the Philippines, and the bank 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 purposes of this Act, a bank and its branches shall be treated as a unit."

SEC. 19. Section twenty-nine of the same Act is hereby amended to read as follows:

"SEC. 29. A savings and mortgage bank shall be any corporation organized for the purpose of accumulating the savings of depositors and investing them, together with its capital, in bonds or in loans secured by bonds, real estate mortgages, and other forms of security, as hereinafter provided, or in loans for personal finance and long-term financing for home building and home development."

SEC. 20. Section thirty of the same Act is hereby amended to read as follows:

"SEC. 30. The combined capital accounts of each savings and mortgage bank shall not be less than an amount equal to ten per cent (10%) of its risk assets which is defined as its total assets minus the following assets: "(a) Cash on hand;

"(b) Amounts due from the Central Bank;

"(c) Evidences of indebtedness of the Republic of the Philippines and of the Central Bank, and any other evidences or indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines;

"(d) Loans to the extent covered by hold-out on, or assignment of, deposits maintained in the lending bank and held in the Philippines; and "(e) Other non-risk items as the Monetary Board, may, from time to time, authorize to be deducted from total assets.

"The Monetary Board shall prescribe the manner of determining the total assets of banking institutions for the purposes of this section, but contingent accounts shall not be defined as being included among total assets.

"Whenever the capital accounts of a bank are deficient with respect to the requirements of the preceding paragraph, the Monetary Board, after considering a report of the appropriate supervising department on the state of solvency of the institution concerned, shall limit or prohibit the distribution of net profits and shall require that part or all of net profits be used to increase the capital accounts of the institution until the minimum requirement has been met. The Monetary Board may, furthermore after considering the aforesaid report of the appropriate supervising department and if the amount of the deficiency justifies it, restrict or prohibit the making of new investments of any sort by the bank, with the exception of purchases of evidences of indebtedness included under subsection (c) of this section, until the minimum required capital ratio has been restored.

"Where, in the process of a bank merger or consolidation, the merged or constituent bank may not be able to comply fully with the net worth to risk assets ratio herein prescribed, the Monetary Board may, at its discretion, temporarily relieve the bank from full compliance with this requirement under such conditions as it may prescribe."

SEC. 21. Subsections (a) and (b) of Section thirty-one of the same Act is hereby amended to read as follows:

"(a) Loans with the security of their own savings deposit obligations or of mortgage and cattle mortgage bonds which they have issued, or with the security of savings deposit obligations of other banks doing business in the Philippines: Provided, That clean loans for personal and household finance may be granted, but which shall not exceed the borrower's deposit in the bank plus his four month's salary or regular income in the case of a permanent employee or wage earner subject to such regulations as the Monetary Board may prescribe;

"(b) Medium-term loans of the following types:

"(1) Loans for the encouragement of cattle, carabao, and other livestock breeding, with maturities up to three years. Such loans shall be repaid in regular installments and shall have as principal security a lien on the animals, the bank being empowered, however, to require, in addition, real estate and other securities to its satisfaction; Provided, however, That the livestock need not secure the loan if the borrower constitutes a lien or mortgage on real estate property seventy per cent (70%) of the appraised value of which equals or exceeds the amount of the loan granted. The amount of any such loan shall not exceed fifty per cent (50%) of the commercial value of the animals at the time the loan is made, but similar additional loans up to fifty per cent (50%) may be made as the value of the stock increases.

"(2) Equipment loans with maturities up to five years, for the acquisition of fertilizers and any instruments, machinery and other movable equipment used in the production, processing, transformation, handling or transportation of agricultural and industrial products. Such loans shall constitute a first lien on the assets acquired with the proceeds of the loan, the bank being empowered, however, to require as additional security a lien or mortgage on other properties of the debtor: Provided, That the lien on the equipment or the assets acquired out of the proceeds of the loan need not be constituted if the borrower executes a mortgage on real estate property seventy per cent (70%) of the appraised value of which equals or exceeds the amount of the loan granted."

SEC. 22. Section thirty-one of the same Act is further amended by adding the following subsections after subsection (i) thereof, which reads as follows:

"(j) Equities of allied undertakings as may be approved by the Monetary Board for savings and mortgage banks: Provided, That (1) the total investment in equities shall not exceed twenty-five per cent (25%) of the net worth of the bank, (2) the equity investment in any single enterprise shall not exceed fifteen per cent (15%) of the net worth of the bank, (3) the total equity investment of the bank in any single enterprise shall remain a minority holding in that enterprise, except where the enterprise is not a financial intermediary, and (4) the equity investment in other banks, if allowed by the Monetary Board, shall be subject to the same limitations imposed on similar investment of commercial banks and shall be deducted from the investing bank's net worth for the purposes of computing the prescribed ratio of net worth to risk assets. Equity investments shall not be permitted in non-related activities.

"Where the allied undertaking is a wholly or majority-owned subsidiary of the bank, it may be subject to examination by the Central Bank."

SEC. 23. Section thirty-two of the same Act is hereby amended to read as follows:

"SEC. 32. Except as the Monetary Board may otherwise prescribe, the direct indebtedness to a savings and mortgage bank of any person, company, corporation or firm, including in the indebtedness of the company or firm, the indebtedness of the several members thereof, for money borrowed, excluding (a) loans secured by obligations of the Central Bank or of the Philippine Government, (b) loans fully guaranteed by the Government as to the payment of principal and interest, (c) loans to the extent covered by hold-out on, or assignment of, deposits maintained in the lending bank and held in the Philippines, and (d) other loans or credits as the Monetary Board may, from time to time, specify as non-risk assets, shall at no time exceed fifteen per cent (15%) of the unimpaired capital and surplus of the bank: Provided, however, That this limitation shall not apply to loans made under subsection (f) of Section thirty-one.

"Loan accommodations granted by savings and mortgage banks to any other bank, as well as deposits maintained by them in any bank licensed to do business in the Philippines, shall be subject to the loan limit to any single borrower as herein prescribed."

SEC. 24. Section fifty-six of the same Act is hereby amended to read as follows:

"SEC. 56. Any corporation formed or organized for the purpose of acting as trustee or administering any trust or holding property in trust or on deposit for the use, benefit, or behalf of others, shall be known as a trust corporation or company.

"A trust company or any bank, authorized to engage in the business of a trust company pursuant to Section fifty-seven hereof, shall administer the funds or property under its custody with the skill, care, prudence and diligence necessary under the circumstances then prevailing that a prudent man, acting in like capacity and familiar with such matters, would exercise in the conduct of an enterprise of a like character and with similar aims.

"No trust company or bank engaged in the business of a trust company shall purchase or acquire property, for the account of the trustor or the beneficiary of the trust, from any of the departments, directors, officers, or employees of the trust company or bank, unless the transaction is specifically authorized by the trustor and the relationship of the trustee and the party from whom the property is acquired is fully disclosed to the trustor 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 trust companies."

SEC. 24-A. Section fifty-seven of the same Act is hereby amended to read as follows:

"SEC. 57. A trust company may, with the approval of the Monetary Board, do a commercial banking business but such business must be kept separate and distinct from its trust business. All relevant provisions of Chapter IV of this Act governing the business of commercial banking corporations shall be held to apply to the commercial banking activities of a trust company.

"Any banking corporation may, with the approval of the Monetary Board, be authorized to engage in the business of a trust company, but shall be subject to the provisions of this Chapter as regards its trust business."

SEC. 25. Section sixty-eight of the same Act is hereby amended to read as follows:

"SEC. 68. In the case of a foreign bank which has more than one branch or agency in the Philippines, all such branches and agencies shall be treated as a unit for the purpose of this Act, and all references to Philippine branches and agencies of foreign banks shall be held to refer to such units.

"Any foreign bank presently having branches and agencies in the Philippines shall, within one year from the effectivity of this Act, comply with any of the following options: (a) incorporate its branch or branches into a new bank in accordance with Philippine laws, in which case at least sixty per cent (60%) of the voting stock of the new bank shall be owned by citizens of the Philippines, or (b) assign capital permanently to the local branch with the concurrent maintenance of a 'net due to' head office account which shall include all net amounts due to other branches outside the Philippines, in an amount which when added to the assigned capital shall at all time be not less than the minimum amount of capital accounts required for domestic commercial banks under Section twenty-two of this Act, or (c) maintain a 'net due to' head office account which shall include all net amounts due to other branches outside the Philippines, in an amount which shall not be less than the minimum amount of capital accounts required for domestic commercial banks under Section twenty-two of this Act.

"The 'net due to' account under options (b) and (c) may be reduced correspondingly if the total risk assets of the branch are reduced: Provided, That the total of the account under option (c), and together with the assigned capital under option (b) meets the minimum capital accounts required under Section twenty-two of this Act: Provided, further, That in no case shall these amounts be less than the minimum capital requirement for new domestic commercial banks, The assigned capital and 'net due to' account may be maintained in such types of assets and under such conditions as the Monetary Board may prescribe.

"In case of non-compliance with any of the above options within a period of one year from the effectivity of this Act, the local branch involved shall be subject to the same penalties as may be imposed on a domestic commercial bank pursuant to the provisions of Section twenty-two of this Act."

SEC. 26. Section sixty-nine of the same Act is hereby amended to read as follows:

"SEC. 69. After one year from the effectivity of this Act, Philippine branches of foreign banks shall be subject to the provisions of Sections twenty-two and thirty of this Act.

"In order to provide effective protection of the interests of the depositors and other creditors of Philippine branches of foreign banks, the head office of such branches shall fully guarantee the prompt payment of all liabilities of its Philippine branch."

SEC. 27. Section seventy of the same Act is hereby amended to read as follows:

"SEC. 70. After one year from the effectivity of this Act, Philippine branches of foreign banks shall be subject to Sections twenty-three and thirty-two of this Act.

"Nothing in this Act shall be construed as restricting in any manner loans made by the Philippine branch of a foreign bank for the account of, and with funds supplied by, its head office or branches outside the Philippines, but the Monetary Board may require that all such loans be reported to it in accordance with such rules and

regulations as it may issue on the subject."

SEC. 28. Section seventy-one of the same Act is hereby repealed.

SEC. 29. Section seventy-four of the same Act is hereby amended to read as follows:

"SEC. 74. No bank or banking institution shall enter, directly or indirectly, into any contract of guaranty or suretyship, or shall guarantee the interest or principal of any obligation of any person, copartnership, association, corporation or other entity. The provisions of this section shall, however, not apply to the following: (a) borrowing of money by banking institution through the rediscounting of receivables; (b) acceptance of drafts or bills of exchange; (c) certification of checks; (d) transactions involving the release of documents attached to items received for collection; (e) letters of credit transaction, including stand-by arrangements; (f) repurchase agreements; (g) shipside bonds; (h) ordinary guarantees or indorsements in favor of foreign creditors where the principal obligation involves loans and credits extended directly by foreign firms or persons to domestic borrowers for capital investment purposes; and (i) other transactions which the Monetary Board may, by regulation, define or specify as not covered by the prohibition."

SEC. 30. Section eighty-three of the same Act is hereby amended to read as follows:

"SEC 83. No director or officer of any banking institution shall, either directly or indirectly, for himself or as the representative or agent of other, borrow any of the deposits of funds of such banks, nor shall he become a guarantor, indorser, or surety for loans from such bank to others, or in any manner be an obligor for money borrowed from the bank or loaned by it, except with the written approval of the majority of the directors of the bank, excluding the director concerned. Any such approval shall be entered upon the records of the corporation and a copy of such entry shall be transmitted forthwith to the appropriate supervising department. The office of any director or officer of a bank who violates the provisions of this section shall immediately become vacant and the director or officer shall be punished by imprisonment of not less than one year nor more than ten years and by a fine of not less than one thousand nor more than ten thousand pesos.

"The Monetary Board may regulate the amount of credit accommodations that may be extended, directly or indirectly, by banking institutions to their directors, officers, or stockholders. However, the outstanding credit accommodations which a bank may extend to each of its stockholders owning two per cent (2%) or more of the subscribed capital stock, its directors, or its officers, shall be limited to an amount equivalent to the respective outstanding deposits and book value of the paid-in capital contribution in the bank.

"In addition to the conditions established in the preceding paragraph, no director of a building and loan association shall engage in any of the operations mentioned in said paragraphs, except upon the pledge of shares of the association having a total withdrawal value greater than the amount borrowed."

SEC. 31. Section eighty-four of the same Act is hereby amended to read as follows:

"SEC. 84. If losses have at any time been sustained by any banking institution equal to or exceeding the undivided profits on hand, no dividend shall be declared; and no dividend shall ever be declared by any such bank while it continues in banking operations to an amount greater than its net profits then on hand, deducting therefrom its losses and bad debts. All debts due to any such bank on which interest is past due and unpaid for a period of six months, unless the same are well secured and in 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 specific cases, the amount of reserves for bad debts or doubtful accounts or other contingencies.

"Writing-off of loans and advances with an outstanding amount of one hundred thousand pesos or more shall require prior approval of the Monetary Board."

SEC. 32. The same Act is further amended by adding the following section immediately after Section eighty-seven thereof, which reads as follows:

"SEC. 87-A. A fine of not more than two thousand pesos or imprisonment for not more than one year, or both, in the discretion of the court, shall be imposed upon:

"1. Any officer, employee, or agent of any banking institution who shall —

"(a) Make false entries in any bank report or statement thereby affecting the financial interest of, or causing damage to, the bank or any person; or

"(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 Republic Act numbered 1405 shall prevail; or

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

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

"2. Any borrower or a banking institution who shall —

"(a) Fraudulently overvalue property offered as security for a loan from the bank; or

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

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

"(d) Offer any officer, employee or agent of a bank any gift, fee, commission, or any other form of compensation in order- to influence such bank personnel into approving a loan application; or

"3. Any examiner, officer, or employee of the Central Bank of the Philippines or of any department, bureau; office, branch or agency of the Government who is assigned to examine, supervise, assist or render technical assistance to any banking institution and who shall commit any of the acts enumerated in paragraph one of this section or aid in the commission of the same."

SEC. 33. This Decree shall take effect immediately.

Done in the City of Manila, this 29th day of November, in the year of Our Lord, nineteen hundred and seventy-two.

(Sgd.) FERDINAND E. MARCOS
President
Republic of the Philippines

By the President:

(Sgd.) ALEJANDRO MELCHOR

Secretary Executive

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