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CLASSIFICATION, POWERS AND SCOPE OF AUTHORITIES OF BANKS

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- The Monetary Board, in its Resolution No. 2154 dated December 15, 2000, approved the following regulations implementing Section 3 and other related sections of R.A. No. 8791 or the General Banking Law of 2000:

SECTION 1. Definition, Classification, Powers and Scope of Authorities of Banks -The following are the definitions, classifications, powers and scope of authority of banks, as well as the prerequisites for the grant of banking authorities.

1.1 Definition and Classification of Banks - Subject to the power of the Monetary Board to create other classes or kind of banks, they shall be classified into:

- Universal banks (UBs);

- Commercial banks (KBs);

- Thrift banks (TBs) , as defined in Republic Act (R.A.) No. 7906, which shall be composed of: (i.) Savings and mortgage banks (ii) Stock savings and loan associations, and (iii) Private development banks;

- Rural banks (RBs), as defined in R.A. No. 7353;

- Cooperative banks (Coop Banks), as defined in R.A. No. 6938; and

- Islamic banks (IBs), as defined in R.A. No. 6848.

1.2 Powers and Scope of Authority. The following are the powers and scope of authority of banks.

a. UBs. A UB shall have the authority to exercise, in addition to the powers and services authorized for a KB as enumerated in item b of this subsection and those provided by other laws, the following:

- the powers of an investment house as provided under existing laws;

- the power to invest in non-allied enterprises;

- the power to own up to one hundred percent (100%) of the equity on a TB, a RB, a financial allied enterprise, or a non-financial allied enterprise; and

- in case of publicly-listed UBs, the power to own up to one hundred percent (100%) of the voting stock of only one other UB or KB.

A UB may perform the functions of an investment house either directly or indirectly through a subsidiary investment house; in either case, the underwriting of equity securities and securities dealing shall be subject to pertinent laws and regulations of the Securities and Exchange Commission (SEC): Provided, that if the investment house functions are per-formed directly by the UB, such functions shall be undertaken by a separate and distinct department or other similar unit in the UB but it cannot perform such functions both directly and indirectly through a subsidiary.

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b. KBs. In addition to the general powers incident to corporations and those provided in other laws, a KB shall have the authority to exercise all such powers as may be necessary to carry on the business of commercial banking, such as accepting drafts and issuing letters of credit; discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; accepting or creating demand deposits; receiving other types of deposits and deposit substitutes; buying and selling foreign exchange and gold or silver bullion; acquiring marketable bonds and other debt securities; and extending credit, subject to such rules as the Monetary Board may promulgate. These rules may include the determination of bonds and other debt securities eligible for investment, the maturities and aggregate amount of such investment.

It may also exercise or perform any or all of the following:

- invest in the equities of allied enterprises as may be determined by the Monetary Board;

- purchase, hold and convey real estate as specified under Sections 51 and 52 of R.A. No. 8791;

- receive in custody funds, documents and valuable objects;

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

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

- upon prior approval of the Monetary Board, act as managing agent, adviser, consultant or administrator of investment management/advisory/consultancy accounts;

- rent out safety deposit boxes; and

- engage in quasi-banking functions.

c. TBs. In addition to the powers provided in other laws, a TB may perform any or all of the following services:

- grant loans, whether secured or unsecured;

- invest in readily marketable bonds and other debt securities, commercial papers and accounts receivable, drafts, bills of exchange, acceptances or notes arising out of commercial transactions;

- issue domestic letters of credit;

- extend credit facilities to private and government employees;

- extend credit against the security of jewelry, precious stones and articles of simitar nature, subject to such rules and regulations as the Monetary Board may prescribe;

- accept savings and time deposits;

- rediscount paper with the Land Bank of the Philippines, (LBP), Development Bank of the Philippines (DBP), and other government-owned or controlled corporations;

- accept foreign currency deposits as provided under R.A. No. 6426, as amended;

- act as correspondent for other financial institutions;

- purchase, hold and convey real estate as specified under Sections 51 and 52 of R.A. No. 8791; and

- offer other banking services as provided in Section 53 of R.A. no. 8791.

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With prior approval of the Monetary Board, and subject to such guidelines as may be established by it, TBs may also perform the following services:

- open current or checking accounts;

- engage in trust, quasi-banking functions and money market operations;

- act as collection agent for government entities, including but not limited to, the Bureau of Internal Revenue (BIR), Social Security System (SSS) and the Bureau of Customs (BOC);

- act as official depository of national agencies and of municipal, city, or provincial funds in the municipality, city or province where the TB is located;

- issue mortgage and chattel mortgage certificates, buy and sell them for its own account or for the account of others, or accept and receive them in payment or as amortization of its loan and

- to invest in the equity of allied undertakings.

d. RBs. In addition to the powers provided in other laws, an RB may perform any or all of the following services;

- extend loans and advances primarily for the purpose of meeting the normal credit needs of farmers, fishermen or farm families as well as cooperatives, merchants, private and public employees;

- accept savings and time deposits;

- act as correspondent of other financial institutions;

- rediscount paper with the LBP, DBP or any other bank, including its branches and agencies. Said banks shall specify the nature of paper deemed acceptable for rediscount, as well as the rediscount rate to be charged by any of these banks;

- Act as collection agent; and

- Offer other banking services as provided in Section 53 of R.A. No. 8791.

With prior approval of the Monetary Board, an RB may perform any or all of the following services:

- accept current or checking accounts: Provided, That such RB has net assets of at least P5 million;

- accept NOW accounts;

- act as trustee over estates or properties of farmers and merchants;

- act as official depository of municipal, city or provincial funds in the municipality, city or province where it is located;

- sell domestic drafts; and

- invest in allied undertakings.

e. Coop Banks -A Coop Bank shall be organized primarily to provide financial and credit services to cooperatives and may perform any or all of the services offered by RBs.

f IBs - in addition to the general powers incident to corporations and those provided in other laws, as well as in Circular No. 105, insofar as they are not inconsistent or incompatible with the provisions of R.A. No. 6848, an IB may perform any or all of the following services:

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- open savings accounts for safekeeping or custody with no participation in profit and losses except unless otherwise authorized by the account holders to be invested;

- accept investment account placements and invest the same for a term with the IBs funds in Islamicaiiy permissible transactions on participation basis;

- accept foreign currency deposits from banks, companies, organizations and individuals, including foreign governments;

- buy and sell foreign exchange;

- act as correspondent of banks and institutions to handle remittances or any fund transfers;

- accept drafts and issue letters of credit or letters of guarantee, negotiate notes and bills of exchange and other evidence of indebtedness under the universally accepted Islamic financial instruments;

- act as collection agent insofar as the payment orders, bills of exchange or other commercial documents are exclusive of riba or interest prohibitions;

- provide financing with or without collateral by way of leasing, sale and leaseback, or cost plus profit sales arrangement;

- handle storage operations for goods or commodity financing secured by warehouse receipts presented to the Bank;

- issue shares for the account of institutions and companies assisted by the Bank in meeting subscription calls or augmenting their capita! and or fund requirements as may be allowed by law;

- Undertake various investments in all transactions allowed by the Isiamic Shari'a in such a way that shall not permit the haram (forbidden), nor forbid the hala (permissible);

- Act as an official government depository, or its branches, subdivisions and instrumentalities and of government-owned or controlled corporations, particularly those doing business in the autonomous region;

- Issue investment participation certificates, muquaradah (non-interest-bearing bonds), debentures, collaterals and/or the renewal and refinancing of the same,with the approval of the Monetary Board to be used by the IB in its financing operations for projects that will promote the economic development primarily of the Autonomous Region.

- Carry out financing and joint investment operations by way of mudarabh purchasing for others on a cost-plus financing arrangement, and invest funds directly in various projects or through the use of funds whose owners desire to invest jointly with other resources available to the IB on a joint mudarabh basis; and

- Invest in equities of the following allied undertakings.

- Warehousing companies;

- Leasing companies;

- Storage companies;

- Companies engaged in the management of mutual funds but not in the mutual funds themselves; and

- Such other similar activities as the Monetary Board has declared or may declare as appropriate from time to time, subject to existing limitations imposed by law.

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SECTION 2. Prerequisites for the Grant of UB Authority -

2.1

Compliance with guidelines - A domestic bank seeking authority to operate as a UB shall submit an application to the appropriate supervising and examining department of the BSP. The applicant shall comply with the guidelines for the issuance of a UB authority and shall submit ail the documentary requirements enumerated in Annex "A".

2.2

Public offering of bank shares - A domestic bank applying for a UB authority shall, as a condition to the approval of its application, make a public offering of at least ten percent (10%) of the required minimum capita! and this condition must be complied with before it can be granted the license for authority to operate as a UB.

The term public offering shall mean the offer to sell equity shares to the public stockholders.

Public stockholders shall refer to all stockholders, excluding the bank's directors, shareholders owning twenty percent (20%) or more of the bank's subscribed capital stock together with those of their relatives within the fourth degree of consanguinity or affinity, and corporations controlled or affiliated with them.

A bank whose shares of stock are already listed in the Philippine Stock Exchange (PSE) at the time of filing of its application for UB authority shall be deemed to have complied with the public offering requirement. Likewise, an applicant bank may opt to have its shares listed in the PSE directly instead of passing through the process of public offering. In either case, at least ten percent (10%) of the applicant bank's capital stock should be held by public stockholders before it can be granted the license for authority to operate as a UB.

2.3

Listing of bank shares in the stock exchange - Domestic banks granted a UB license, existing or new, must list their shares in the PSE within three (3) years: Provided, That in the case of new UBs, the three (3) year period shall be reckoned from the date the license to operate as a UB was granted. In the case of existing UBs which have not yet listed their shares in the exchange, the three (3) year period lapsed on December 27, 1998.

The guidelines on public offering and listing of bank shares are enumerated in Annex "B".

SECTION 3. Repealing Clause - This Circular supersedes Section X 101 and Subsections X 101.1 and X 101.2 of the Manual of Regulations for Banks.

SECTION 4. Effectivity- This Circular shall take effect immediately.

Adopted: 8 Jan. 2001

(SGD.) RAFAEL B. BUENAVENTURA
Governor

ANNEX A

GUIDELINES FOR THE ISSUANCE OF A UNIVERSAL BANKING AUTHORITY

I.
QUALIFICATION REQUIREMENTS

A. Minimum Capital Required

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B. A KB applying for a universal banking (UB) authority shall have capital equivalent to at least the amount prescribed by the Monetary Board for UBs. The term capital shall have the same meaning as defined under existing BSP regulations prescribing the minimum capitalization requirement for each bank category.

The merger or consolidation of banks, or that of a bank and an investment house as a means of meeting the minimum capitalization requirement for a UB is encouraged. The revaluation of the premises, improvements and equipment of the institutions involved in the merger or consolidation may be allowed.

B. Financial Resources, Past Performance and General Compliance with Banking Laws and Regulations

- Applicant bank shall not have incurred any deficiency in the minimum capital risk assets ratio under Sec. 34 of R.A. No. 8791 for the year preceding the filing of application. It shall have sufficient valuation reserves to cover estimated losses.

- Applicant bank shall not have incurred net deficiencies in its reserves against deposit and deposit substitute liabilities for the three (3) month period immediately preceding the filing of application. In addition, the applicant bank's liquidity ratios such as primary reserves to deposit liabilities and primary and secondary reserves to deposit and demand liabilities shall at least be equal to the averages of the UB sector as of the end of the quarter immediately preceding the date of application.

- Applicant bank shall show profitable operation for the past calendar year immediately preceding the filing of application. Its ratio of net earnings to average capital accounts should indicate satisfactory returns on stockholders' investments.

- Applicant bank has substantially complied with banking laws or orders, instructions, or regulations issued by the Monetary Board or orders, instructions, or rulings by the Governor. Major/important exceptions and findings by BSP examiners have been corrected or satisfactorily explained.

C Banking Facilities, Managerial Capability, Competence, Experience and Integrity of Directors, Principal Officers and Key Personnel

- The applicant bank shall manifest adequate banking facilities and managerial capability in commercial banking operations as shown by, among other things, its branch network, subsidiaries and allied undertakings, FCDU/EFCDU and foreign trade transactions, participation in syndicated lending, trust services, etc.

- The applicant bank shall indicate in the application those officers and key personnel having appropriate training and/or experience in investment banking and related functions are available/obtainable by the bank.

The application shall be supported by the updated bio-data of the bank's directors and principal officers, including the officers and key personnel who will handle the investment banking and related functions.

II
FEASIBILITY STUDY

A. Capitalization and Ownership

- A schedule showing the computation of the applicant bank's capital account taking into consideration the capital as defined above and, if applicable, the merger or consolidation scheme to meet the capitalization requirement as allowed under existing regulations.

- A list of direct and indirect loans to DOSRl which are unsecured, indicating the original amount, date granted, outstanding balance and classification (i.e., whether current or past due) of each DOSRl loan.

- A summary of holdings of stockholders classified as to citizenship and family/business group indicating the number of shares subscribed in the applicant bank and the corresponding percentage of holdings to total of each shareholder.

- A list of individual stockholders grouped according to family/business group, indicating the TIN, citizenship type of shares held (whether voting or non-voting, common or preferred), number of shares subscribed and percentage of holdings to total of each shareholder,

- A list of individual stockholders in the applicant bank with equity investment in other financial institutions, indicating the type and number of shares held in the other institution and corresponding percentage of holdings to total of each shareholder.

B. Organization and Management

- The names of the members of the board of directors and principal officers of the applicant bank.

- The proposed organization chart of the department within the applicant bank that will be responsible for the investment banking functions, indicating the designation of officers and other key positions and the names of persons proposed for appointments to those position.

C. Financial Capability and Previous Year's Operation

A brief discussion of the applicant bank's general financial condition, operating performance, solvency and liquidity position, supported by appropriate financial ratios as seen from the latest condensed balance sheet and income statement. The discussion shall include major banking activities, exposure concentrations (in terms of top borrowers and major industries) equity and credit exposures in subsidiaries and affiliates, and other significant information.

D. Corporate Strategy

- The statement of corporate strategy of the proposed UB, its immediate and long-term goals and objectives.

- The lending program and special policies lined up for the first five (5) years including details on guidelines and standards to be established on exposure limits, portfolio and diversification, collateral requirements, geographical expansion, assistance to pioneer and priority areas of economic activities and relationship with clients.

- The investment policies and programs to be implemented within the first five (5) years of operation including the broad categories of undertakings in which the proposed UB will invest, the portfolio mix to be observed, the extent of control over subscribed capital stock and voting stock to be exercised in the financial allied undertaking, quasi-banks and non-financial allied undertakings.

- The fund generation program for the first five (5) years of operation to support the expansion in loans and investment.

- The quarterly underwriting program for one (1) year stating industry of issuer, the volume of underwriting business classified into equity and debt, public offering and private placement and other information.

E. Financial Projections

- The detailed statement of underlying assumptions made in projecting the financial statements and ratios.

- The detailed projected statement of income and expenses for the first five (5) years of operation.

- The projected operating ratios for the first five (5) years of operation.

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- The actual statement of condition of the applicant bank at month-end before the filing of application and the projected statement of condition as of the first (5) years-end of operation

- The projected balance sheet ratios as of the first five (5) years-end of operation.

- The projected funds flow for the first five (5) years of operation.

Annex B

Public Offering and Listing of Banks Shares
A domestic bank applying for a universal banking (UB) authority shall cause the public offering and listing of its shares under the following terms and conditions

- The shares to be publicly offered may be voting or non-voting shares and may come from the bank's existing authorized and unsubscribed stock or from an increase in its authorized capital stock: Provided, That in the case of an applicant bank whose authorized capital has been fully subscribed and paid-up and that bank does not intend to increase its authorized capital stock, the shares to be publicly offered may come from existing stockholders who may be willing to divest themselves of such holdings.

- The offering bank shall accept offers to buy or invest in its publicly offered shares of stock from new investors or from existing stockholders whose stockholdings, together with those of their relatives within the third degree of consanguinity or affinity or of firms, partnerships, corporations or associations, at least a majority of the voting stock of which are owned by such stockholders, constitute less than twenty percent (20%) of the bank's subscribed capital stock. The bank's articles of incorporation shall have an explicit provision stating that existing stockholders who are disqualified under these rules shall waive their pre-emptive rights to the additional shares to be publicly offered unless the articles of incorporation already provide that such stockholders do not have pre-emptive rights. The waiver may be limited to three (3) months after which period the disqualified stockholders may purchase from the unsubscribed/unsold publicly offered shares.

The publicly offered shares of stocks shall be sold to at least twenty-one (21) qualified buyers or group of buyers but the total shares of stock which may be purchased by any qualified buyer or group of buyers shall not exceed ten percent (10%) of the publicly offered shares of stock.

Buyers of publicly offered shares shall in no case exceed the ownership ceilings under existing laws and" regulations.

- The bank shall fix the price of the shares of stock. In the case of subscribed and fully paid-up shares which shareholders are willing to divest, the price shall be set by agree-ment of the parties.

- The offering bank shall submit to the appropriate supervising and examining department for evaluation, a prospectus containing the following minimum information:

- Name and address of issuing bank;

- A brief history of the bank's operations and a description of its premises and facilities;

- The current authorized capital stock and the stock offered for subscription/sale to the public indicating the classes of stock and the amount for each class presented in tabular form;

- Features of the offer:

- The number and amount of each class of stock offered;

- The per share and aggregate offering price of each class of stock and the per share and aggregate proceeds to be

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received by the bank;

- The proposed means of distribution;

- Specific terms of the offer (minimum subscription, payment terms, etc.); and

- The expiry date of the offer.

- Audited statements of condition (format similar to published statement of condition) and earnings and expenses for the last three (3) calendar years; Provided, that banks in operation for less than three (3) years shall disclose their audited financial statements from the start of operations to the year last ended;

- Names and addresses of all directors and principal officers and their respective designations; and stock options and other similar plans for directors and officers; and

- A list of stockholders owning ten percent (10%) or more of the subscribed capital stock, the number of shares held by each, whether voting or non-voting, and the par value of such shares. The list shall likewise show the ratio of subscribed capital stock held by directors and principal officers to the authorized capital stock; the ratio of the publicly offered shares of stock to the authorized capital stock, the citizenship and family groupings of stockholders with their corresponding percentage of ownership.

- The bank shall cause the publication of the public offering in a newspaper of general circulation at least twice within a period of one month prior to the offering..

- The provisions of the guidelines on public offering shall be deemed substantially complied with if the bank causes its shares of stock to be publicly offered in the manner and under the conditions herein prescribed for a period of three (3) months. In cases where there are no buyers willing and/or qualified to purchase or invest in the shares of stock being publicly offered within said period, the bank, after written notice to the appropriate supervising and examining department of the BSP, may sell said shares to its existing stockholders, subject to the limitations on equity holdings prescribed by law and regulations.

The requirements of public offering and listing shall be complied with by all applicant banks including those that are able to meet the prescribed minimum capital requirement on their own or through merger/consolidation with other banks or non-bank financial intermediaries.

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