Bangko Sentral ng Pilipinas

OFFICE OF THE DEPUTY GOVERNOR
SUPERVISION AND EXAMINATION SECTOR

MEMORANDUM TO ALL BANKS AND NON-BANK FINANCIAL INSTITUTIONS WITH QUASI-BANKING FUNCTIONS (NBQBs)

SUBJECT: Submission of Audited Financial Statements and Annual Report of Management to Stockholders

Subsections X164.1 and X426.2 of the Manual of Regulations for Banks (MORB) and Section 4172Q of the Manual of Regulations for Non-Bank Financial (MORNBFI) require that an annual financial audit of the bank/non-bank with quasi-banking functions [Bank/NBQB Proper (Regular and FCDU) and the Trust Department] be conducted by an external independent auditor not later than thirty (30) calendar days after the close of the calendar year or the fiscal year adopted by the bank. Reports of such audits shall be made and submitted to the board of directors and the appropriate supervising and examining department of the BSP not later than ninety (90) calendar days after the start of such audit.

In consonance with the aforementioned regulations, banks and NBQBs are to be guided with the checklist of Bangko Sentral requirements in the submission of AFS and Annual Report as shown in Annex A.

Delayed submission of certification of the external auditor, schedules/attachments and amendments in the required reports shall be considered late reporting, subject to the penalties under Subsection X162.2b, MORB and Subsection 4162Q3.b, MORNBFI, as follows:

Type of Bank	Penalty/Business Day
Universal/Commercial Bank	P 240.00
Thrift Bank	P 120.00
Rural Bank	P 60.00
NBQB	P 120.00

This Memorandum shall take effect after fifteen (15) days following its publication either in the Official Gazette or in a newspaper of general circulation and shall apply to audited financial statements and annual report for the calendar year ended 31 December 2004 or the fiscal year ended after the effectivity of this Memorandum.

ALBERTO V. REYES
Deputy Governor

14 July 2004

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ANNEX A

Checklist of BSP Requirements in the Submission of Audited Financial Statements and Annual Report

(Pursuant to the provisions of Section X164 and Subsections X164.1 to X164.6 and X426.2 of the Manual of Regulations for Banks, Section 4172Q of the Manual of Regulations for Non-Bank Financial Institutions and Circular No. 410, dated 29 October 2003)

The external independent auditor (Included in the List of BSP Selected External Auditors) shall start the audit not later than thirty (30) calendar days after the close of the calendar/fiscal year adopted by the bank and NBQB. Audited financial statements (AFS) of banks/NBQBs with subsidiaries shall be presented side by side on a solo basis and on a consolidated basis (banks/NBQBs and subsidiaries). The AFS shall be submitted to the appropriate supervising and examining department of the BSP **not later than ninety (90) calendar days after start of audit**, together with the following:

Information/Data required	**Deadline for submission**
1. Certification on the following: a. The dates of commencement and termination of audit. b. The date when the audit report was submitted to the bank's/institution's board of directors/executive officer or country head. c. That the external auditor, partners, associates, auditor-in-charge of the engagement and the members of their immediate family do not have any direct or indirect financial interest with a bank, quasi-bank, trust entity, NSSLA, its subsidiaries and affiliates where they or any member of their immediate family member have any direct or indirect financial interest and their independence is not considered impaired under the circumstances specified in the Code of Professional Ethics for Certified Public Accountants.	For submission together with the audited financial statements (AFS). (Not later than ninety (90) calendar days after start of audit)
2. Reconciliation for the differences in amounts between the audited financial statements and the submitted Consolidated Statement of Condition (CSOC) and Consolidated Statement of Income and Expenses (CSIE) for bank proper (regular and FCDU) and trust department, including copies of	For submission together with the audited financial statements (AFS). (Not later than ninety (90) calendar days after start of audit)

Information/Data required	Deadline for submission
adjusting entries effected by the external auditor. **Note:** Please see pro-forma comparative analysis (Annex A-1).	
3. Letter of Comments (LOC) by the external auditor and Certification of the external auditor on the Date when the Letter of Comments was submitted to the bank/institution's board of directors. **Note:** The Letter of Comments embodies the external auditor's findings and comments on the bank's material weakness on the internal control systems and other aspects of operations. In case no material weakness is noted to warrant the issuance of an LOC, a formal statement issued by the external auditor confirming said fact shall be submitted by the bank/NBQB.	Within thirty (30) banking days after the receipt of the LOC by the Board of Directors/Chief Executive Officer or Country Head.
4. Copies of the board resolutions showing the:	
1) Action taken on the financial audit report and among other things, the names of the directors present and absent.	Within thirty (30) banking days after the receipt of the audit report (AFS) by the Board of Directors/Chief Executive Officer or Country Head. (AFS to be submitted within Ninety (90) days after start of audit)
2) Action taken on the findings and recommendations in the Letter of Comments (LOC) and among other things, the names of the directors present and absent. **Note:** Foreign banks with branch in the Philippines having no board of directors in the country may submit a certification from the authorized officers that the management had acted on the AFS and LOC in lieu of the board resolution.	Within thirty (30) banking days after the receipt of the LOC by the Board of Directors/Chief Executive Officer or Country Head.
5. All the required disclosures in the audited financial statements provided under Subsections X164.4 to X164.6 of the MORB, as follows:	(Information is an integral part of the AFS)

Information/Data required	Deadline for submission
i. Basic quantitative indicators of financial performance such as return on average equity, return on average assets and net interest margin;	
ii. Risk Based Capital Adequacy Ratio under Sec. 34 of R.A. No. 8791/Sec116 of the MORB;	
iii. Concentration of credit as to industry/economic sector where concentration is said to exist when total loan exposures to a particular industry/economic sector exceeds thirty percent (30%) of the total loan portfolio;	
iv. Breakdown of total loans as to secured and unsecured and breakdown of secured loans as to type of security;	
v. Total outstanding loans to DOSRI, percent of DOSRI loans to total loans, percent of unsecured DOSRI loans to total DOSRI loans, percent of past due DOSRI loans to total DOSRI loans and percent of non-performing DOSRI loans to total DOSRI loans;	
vi. Nature and amount of contingencies and commitments arising from off-balance sheet items;	
vii. Provisions and allowances for losses and how determined;	
viii. Aggregate amount of secured liabilities and assets pledged as security;	
ix. Accounting policies which shall include, but shall not be limited to, general accounting principles, changes in accounting policies/practices, principles of consolidation, policies and methods for determining when assets are impaired, recognizing income (losses) on impaired assets and	

Information/Data required	Deadline for submission
losses on non-performing credits (loans or asset), income recognition, valuation policies and accounting policies on securitization, foreign currency translations, loan fees, premiums and discounts, repurchase agreements, premises/fixed assets, income taxes and derivatives.	
6. Annual report of management to stockholders: i. For EKBs, KBs and TBs with at least P1 billion resources. ii. For NBQBs	Within one hundred eighty (180) calendar days after the close of the calendar year or fiscal year adopted by the bank.
7. All the required disclosures in the annual report provided under Subsection X164.5 of MORB (Circular No. 212 dated 20 October 1999), namely: iii. financial performance; iv. financial position and changes therein; v. overall risk management philosophy, risk management system and structure; vi. qualitative and quantitative information on risk exposures; and vii. basic business management and corporate governance information.	(Information is an integral part of the Annual Report)
8. Reports required to be submitted by the external auditor under Section 7 of Circular No.410. a. To enable the BSP to take timely and appropriate remedial action, the external auditor must report to the BSP, the following cases: 1. Any material finding involving fraud or dishonesty (including cases that were resolved during the period of audit); and 2. Any potential losses the aggregate of which amounts to at least one percent (1 %) of the capital.	Within thirty (30) calendar days after discovery.

Information/Data required	Deadline for submission
b. The external auditor shall report directly to the BSP the following: 1. Termination or resignation as external auditor and stating the reason therefor; 2. Discovery of a material breach of laws or BSP rules and regulations such as, but not limited to: a. Capital adequacy ratio; and b. Loans and other risk assets review and classification. 3. Findings on matters of corporate governance that may require urgent action by the BSP.	Within fifteen (15) calendar days *after* the occurrence*/discovery.*
Note: In case there are no matters to report (e.g. fraud, dishonesty, breach of laws, etc.), the external auditor shall submit a notarized certification that there is none to report with regard to the items enumerated under Section 7 of Circular NO. 410.	For submission together with the audited financial statements (AFS).

Annex "A-1"

Name of Bank/NBQB
Comparison of Audited Financial Statements and
Submitted Consolidated Statement of Condition and Income and Expenses
As of (end of calendar or fiscal year)
(In Thousand Pesos)

	Audited F/S	Submitted Report	Discrepancy	Reasons for Discrepancy
Cash and Other Cash Items				
Due from BSP				
Due From Other Banks				
IBODI				
Loans and Discounts, *net*				
Interbank Loans Receivable				
Equity Investments				
Property and Equipment, *net*				
ROPOA, *net*				
Other Assets				
Total Assets				
Deposit Liabilities				
Bills Payable				
Accrued Interest, Taxes and Other Expenses				
Other Liabilities				
Total Liabilities				
Total Capital Accounts				
Total Liabilities and Capital				
Contingent accounts				
Total Income				
Total Expenses				
Net Income before income tax				