



Bangko Sentral ng Pilipinas

MAYNILA, PILIPINAS

OFFICE OF THE GOVERNOR

Circular No. 560
Series of 2007

Subject: Ceilings on loans, other credit accommodations and guarantees granted to subsidiaries and affiliates

Pursuant to Monetary Board Resolution No. 43 dated 11 January 2007, the following rules and regulations that shall govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks are hereby issued as follows:

Section 1. Statement of Policy. Dealings of a bank/quasi-bank with its subsidiaries and/or affiliates shall be in the regular course of business and upon terms not less favorable to the bank/quasi-bank than those offered to others.

Section 2. Ceilings on loans, other credit accommodations and guarantees granted to subsidiaries and affiliates. The total outstanding loans, other credit accommodations and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed ten percent (10%) of the net worth of the lending bank/quasi-bank: *Provided*, That the unsecured loans, other credit accommodations and guarantees to each of said subsidiaries and affiliates shall not exceed five percent (5%) of such net worth: *Provided, further*, That the total outstanding loans, other credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed twenty percent (20%) of the net worth of the lending bank/quasi-bank: *Provided, finally*, That these subsidiaries and affiliates are not related interest of any of the director, officer, and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the board of directors or is appointed officer of such corporation as representative of the bank/quasi-bank.

Section 3. Exclusions from the ceilings. Loans, other credit accommodations and guarantees secured by assets considered as non-risk under existing BSP regulations as well as interbank call loans shall be excluded in determining compliance with the ceilings prescribed under Section 2 above.

Section 4. Procedural Requirements. The following provisions shall apply if a bank/quasi-bank grants a loan, other credit accommodation or guarantee to any of its subsidiaries and affiliates.

- a. *Approval of the board, when to obtain.* Except with prior written approval of the majority of all the members of the board of directors, no loan, other credit accommodation and guarantee shall be granted to a subsidiary or affiliate.
- b. *Approval by the board, how manifested.* The approval shall be manifested in a resolution passed by the board of directors during a meeting and made of record.
- c. *Determination of majority of all the members of the board of directors.* The determination of the majority of all the members of the board of directors shall be based on the total number of directors of the bank as provided in its articles of incorporation and by-laws.
- d. *Contents of the resolution.* The resolution of the board of directors shall contain the following information:
 - (1) Name of the subsidiary or affiliate;
 - (2) Nature of the loan or other credit accommodation or guarantee, purpose, amount, credit basis for such loan or other credit accommodation or guarantee, security and appraisal thereof, maturity, interest rate, schedule of repayment and other terms;
 - (3) Date of resolution;
 - (4) Names of the directors who participated in the deliberation of the meeting; and
 - (5) Names in print and signatures of the directors approving the resolution: *Provided*, That in instances where a director who participated in the board meeting and who approved such resolution failed to sign, the Corporate Secretary may issue a certification to this effect indicating the reason for the failure of the said director to sign the resolution.
- e. *Transmittal of copy of board approval; contents thereof.* A copy of the written approval of the board of directors, as herein required, shall be submitted to the appropriate

supervising and examining department of the BSP within twenty (20) banking days from the date of approval. The copy may be a duplicate of the original, or a reproduction copy showing clearly the signatures of the approving directors: *Provided*, That if a reproduction copy is to be submitted, it shall be duly certified by the Corporate Secretary that it is a reproduction of the original written approval.

Section 5. Unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates shall be deducted from capital accounts for purposes of determining the capital adequacy ratio (CAR) and net worth of the bank/quasi bank concerned.

Section 6. Reportorial Requirements. Each bank/quasi-bank shall maintain a record of loans, other credit accommodations and guarantees covered by these regulations in a manner and form that will facilitate verification of such transactions by BSP examiners.

The appropriate supervising and examining department may require banks/quasi-banks to furnish such data or information as may be necessary for purposes of implementing the provisions of the foregoing rules.

Section 7. Sanctions. Without prejudice to the criminal sanctions under Sec. 36 of R.A. No. 7653 (The New Central Bank Act), any violation of the provisions of the foregoing rules shall be subject to any or all of the following sanctions:

- a. Restriction or prohibition on the bank/quasi-bank from declaring dividends for non-compliance with the herein prescribed ceilings until the outstanding loans, other credit accommodations and guarantees have been reduced to within the herein prescribed ceilings;
- b. For the duration of each violation, imposition of a fine of one tenth (1/10) of one percent (1%) of the excess over the ceilings per day but not to exceed P 30,000 a day on the following:
 - (1) The lending bank/quasi-bank;
 - (2) Each of the directors voting for the approval of the loan, other credit accommodation or guarantee in excess of any of the ceilings prescribed above.

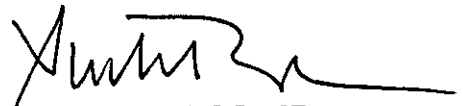
Section 8. Transitory Provisions. Outstanding loans, other credit accommodation and guarantees to subsidiaries/affiliates that will exceed the ceilings mentioned above shall not be subject to penalty until 9 April 2007 or until said accommodations become past due, or are extended, renewed or restructured, whichever comes later.

Section 9. Amendatory Provision. Item e (8) of Subsections X326.1 of the Manual of Regulations for Banks is hereby amended to read as follows:

"Corporation, association or firm which has an existing management contract or any similar arrangement with the parent of the lending bank."

Section 10. Effectivity. This Circular shall take effect fifteen (15) days following its publication in the Official Gazette or newspaper of general circulation.

FOR THE MONETARY BOARD:


AMANDO M. TETANGCO, JR.
Governor

31 January 2007