



Bangko Sentral ng Pilipinas

MAYNILA, PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 295 Series of 2001

The Monetary Board, in its Resolution No. 1150 dated July 26, 2001, approved the following guidelines for reviewing major acquisitions or investments by a bank including corporate affiliations or structures are hereby issued to implement Section 50 of Republic Act (R.A.) No. 8791, The General Banking Law of 2000.

Section 1. Definition of Major Investments

Major investments are those investments in allied or non-allied undertakings including corporate affiliations or structures that give the bank significant interest and/or control, such as stockholdings sufficient to elect one member to the acquired entity's board of directors.

Section 2. Criteria for Major Investments

Any major investment by a bank should be approved by the Bank's Board of Directors. In acting on such investments the Board shall consider the following:

- a. Such investment must be in accordance with the bank's business plan and management objectives, taking into consideration economic developments and future prospects. The interests of the different stakeholders of the bank – shareholders, depositors and creditors – should always be considered before any investment is made.
- b. Such investments will complement/support the main business of the banks. Extra caution should be taken when investing in activities where the bank has no managerial or technical expertise, or businesses/industries, which are high-risk.
- c. Bank management shall provide for an efficient and effective "exit mechanism" or contingency plan in case the investee's operations fail or do not prosper.

Section 3. Approval. Subject to prior approval of the Bangko Sentral ng Pilipinas (BSP), banks may invest in allied or non-allied undertakings, including corporate affiliations or structures. A bank intending to make such investment shall submit the following information/documents to the appropriate supervising and examining department of the BSP for evaluation:

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MAG-IMPOK SA BANGKO

- a. Name of the company
- b. Type of business activities
- c. Board of Directors' approval on such investments
- d. Certification from the Bank's Board of Directors that the criteria enumerated in Section 2 are complied with
- e. Management Contract
- f. Financial information and other information about financial strengths, e.g., projected balance sheet and income statements for the first three (3) years.
- g. Members of the board and senior management
- h. Interest to be held by the bank and the manner in which such interest will be held
- i. Conformity of the investee company for BSP to examine its books.

The BSP may impose conditions on any approval, including conditions to address financial, managerial, safety and soundness, compliance, or other concerns. Further, the BSP may disapprove a proposed investment if it finds that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulations, Monetary Board directive, or any condition imposed by, or written agreement with, the BSP.

The BSP may prescribe other guidelines/regulations as it may consider necessary to ensure that banks' major investments do not expose the banks to undue risks or hinder effective supervision.

Section 4. Examination and Inspection. Whenever deemed necessary, BSP shall have the authority to examine investee companies or to verify information provided by other supervisory authorities such as the Securities and Exchange Commission (SEC).

The BSP shall have the authority to seek corrective action, to issue orders to terminate activities with or divest an interest in an investee company, if it believes that such action is necessary to prevent or redress unsafe or unsound practice by such company that poses a material risk to the financial safety, soundness or stability of a bank.

Section 5. Review of Existing Investments. Within six (6) months from the effectivity of this Circular, the Bank shall provide the BSP reliable information on companies in which they have significant interest or control, such as but not limited to:

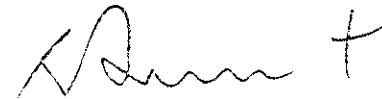
- a. Name of the companies
- b. Type of business activities
- c. Interest held by the bank and the manner in which such interest is held

Section 6. Penalties. Violation of this Circular shall be subject to Sections 34, 35, 36 and 37 of R.A. No. 7653, The New Central Bank Act.

Section 7. Repeal. All Circulars previously issued which are inconsistent with the abovecited provisions are hereby superseded.

Section 8. Effectivity. This Circular shall take effect immediately.

FOR THE MONETARY BOARD:


RAFAEL B. BUENAVENTURA
Governor

September 7, 2001