

[REPUBLIC ACT NO. 337, July 24, 1948]

AN ACT REGULATING BANKS AND BANKING INSTITUTIONS AND FOR OTHER PURPOSES

Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

CHAPTER I.—Title and Definitions

SECTION 1. The short title of this Act shall be "The General Banking Act."

SEC. 2. Only duly authorized person and entities may engage in the lending of funds obtained from the public through the receipt of deposits or the sale of bonds, securities, or obligations 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 banks, banking institutions, commercial banks, savings banks, mortgage banks, trust companies, building and loan associations, branches and agencies in the Philippines of foreign banks, hereinafter called Philippine branches, and all other corporations, companies, partnerships, and associations performing banking functions in the Philippines.

Persons and entities which receive deposits only occasionally shall not be considered as banks, but such persons and entities shall be subject to regulation by the Monetary Board of the Central Bank, nevertheless in no case may the Central Bank authorize the drawing of checks against deposits not maintained in banks, or branches or agencies thereof.

The Monetary Board may similarly regulate the activities of persons and entities which act as agents of banks.

SEC. 3. Insurance companies are exempted from the provisions of this Act, but such companies shall present to the Central Bank such information, data or reports as the Monetary Board may require in order to ascertain the effects of the operations of insurance companies on the monetary credit and exchange situation in the Philippines.

SEC. 4. Cases of doubt as to the banking character of the activities of any person or entity, and to the consequent applicability of this Act, shall be decided by the Monetary Board subject to judicial review. The Board may, through the Superintendent of Banks, examine, inspect or investigate the books and records of such person or entity for the purpose of resolving the question.

SEC. 5. The following terms shall be held to be synonymous and interchangeable:

- (a) "Commercial bank" and "Commercial banking corporation";
- (b) "Savings Banks," "mortgage bank," and "savings and mortgage bank";
- (c) "Building and loan association" and "mutual building and loan association";
- (d) "Trust company" and "trust corporation"; and
- (e) "Foreign bank" and "foreign banking corporation."

SEC. 6. No person, association or corporation not conducting the business of a commercial banking corporation, trust corporation, savings and mortgage bank, or building and loan association, as defined in this Act, 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," "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 in so far as it relates to commercial banking corporations, trust corporations, savings and mortgage banks, or building and loan associations, as the case may be. 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.

CHAPTER II.—*Establishment of Domestic Banks*

SEC. 7. Domestic banking institutions, except building and loan associations, shall be organized in the form of stock corporations.

SEC. 8. No banking institution shall issue no par value stock.

SEC. 9. The Securities and Exchange Commissioner shall not register the articles of incorporation of any bank, or any amendment thereto, unless accompanied by a certificate of authority issued by the Monetary Board, under its official seal. Such certificate shall not be issued unless the Monetary Board is satisfied from the evidence submitted to it: (a) that all the requirements of existing laws and regulations to engage in the business for which the applicant is proposed to be incorporated have been complied with; (b) that the public interest and economic conditions, both general and local, justify the authorization; and (c) that the amount of capital, the financing, organization, direction and administration, as well as the integrity and responsibility of the organizers and administrators reasonably assure the safety of the interests which the public may entrust to them.

SEC. 10. The Securities and Exchange Commissioner shall not register the by-laws of any bank or banking institution, or any amendment thereto, unless accompanied by a certificate of the Monetary Board to the effect that such by-laws or amendment thereto are in accordance with law.

SEC. 11. After the approval of this Act, no bank which may be established and licensed to do business in the Philippines shall receive deposits, unless incorporated under the laws of the Republic of the Philippines: *Provided, however,* That this

prohibition shall not apply to branches and agencies of foreign banks which, at the time of the approval of this Act, are actually receiving deposits: *And provided, further,* That, after the passage of this Act, all deposits so received by such branches and agencies of foreign bank, shall not be invested in any manner outside the territorial limits of the Republic of the Philippines.

SEC. 12. At least sixty per cent (60%) of the capital stock of any banking institution which may be established after the approval of this Act shall be owned by citizens of the Philippines.

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.

CHAPTER III.—*Licensing of Foreign Banks*

SEC. 14. No foreign bank or banking corporation formed, organized or existing under any laws other than those of the Republic of the Philippines shall be permitted to transact business in the Philippines, or maintain by itself or assignee any suit for the recovery of any debt, claims, or demand whatsoever, until after it shall have obtained, upon order of the Monetary Board, a license for that purpose from the Securities and Exchange Commissioner. Any officer, director or agent of any such corporation who transacts business in the Philippines without the said license shall be punished by imprisonment for not less than one year nor more than ten years and by a fine of not less than one thousand pesos nor more than ten thousand pesos. For the issuance of such license to any foreign bank, the Securities and Exchange Commissioner shall collect a fee in proportion to the corporate capital of such bank in accordance with the schedule established in section eight of Act Numbered Fourteen hundred and fifty-nine, as amended.

No order for a license shall be issued by the Monetary Board unless and until it is convinced that the public interest and economic conditions, both general and local, justify the issuance of such order; that the foreign bank or banking corporation is solvent and in sound financial condition; and that a duly appointed agent in the Philippines has been authorized to accept summons and legal processes.

SEC. 15. No foreign building and loan association or building and loan association not formed, organized or existing under the laws of the Philippines shall be permitted to transact business in the Philippines.

SEC. 16. The Monetary Board, by the affirmative vote of at least five of its members and with the approval of the President of the Philippines, may revoke the license to transact business in the Philippines of any foreign bank or banking corporation not formed, organized, or existing under the laws of the Philippines, if the said Board finds after due investigation at which such bank or banking corporation is given a chance to be heard by itself or counsel, that the foreign bank or banking corporation is in imminent danger of insolvency or that its continuance in business will involve probable loss to those transacting business with it. After the revocation of its license, it shall be unlawful for any such foreign bank or banking corporation to transact business in the Philippines unless its license is renewed or reissued. After the revocation of such license the Solicitor General shall take such proceedings as may be proper to protect creditors of such foreign bank or banking institution and the public.

SEC. 17. Summons and legal process served upon the Philippine agent of any foreign banking corporation designated to accept service thereof shall give jurisdiction to the courts over such banking corporation, and service of notices on such agent shall be as binding upon the corporation which he represents as if made upon the corporation itself.

Should the authority of such agent to accept service of summons and legal processes for the corporation or notice to it be revoked, or should such agent become mentally incompetent or otherwise unable to accept service while exercising such authority, it shall be the duty of the corporation to name and designate promptly another agent upon whom service of summons and process in legal proceedings against the corporation and of notices affecting the corporation may be made, and to file with the Securities and Exchange Commissioner a duly authenticated nomination of such agent.

Should there be no person authorized by the corporation upon whom service of summons, processes, and all legal notices may be made, service of summons, processes and legal notices may be made upon the Superintendent of Banks and such service shall be as effective as if made upon the corporation or upon its duly authorized agent. In case of service for the corporation upon the Superintendent of Banks, the said Superintendent shall register and transmit by mail to the president or the secretary of the corporation at its head or principal office a copy, duly certified by him, of the summons, process, or notice. The sending of such copy of the summons, process, or notice shall be a necessary part of the service and shall complete the service. The registry receipt of mailing shall be *prima facie* evidence of the transmission of the summons, process or notice. All costs necessarily incurred by the said Superintendent for the making and mailing and sending of a copy of the summons, process, or notice to the president or the secretary of the corporation at its head or principal office shall be paid in advance by the party at whose instance the service is made.

SEC. 18. In all matters not specifically covered by special provisions applicable only to foreign banks, or their branches and agencies in the Philippines, any foreign banking corporation or foreign bank not formed, organized, or existing under the laws of the Philippines but lawfully doing business in the Philippines shall be bound by all laws, rules, and regulations applicable to domestic banking corporations of the same class, except such laws, rules and regulations as provided for the creation, formation, organization, or dissolution of corporations or as fix the relation, liabilities, responsibilities, or duties of members, stockholders, or officers of corporations, to each other or to the corporation.

SEC. 19. Residents and citizens of the Philippines who are creditors of a branch or agency in the Philippines of a foreign bank or banking corporation shall have preferential rights to the assets of such branch or agency.

Chapter IV.—Commercial Banking Corporations

SEC. 20. A commercial banking corporation shall be any corporation which accepts or creates demand deposits subject to withdrawal by check.

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 debt; 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 but the aggregate of such loans on real estate security shall not exceed seventy per cent (70%) of the total savings 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. 22. The combined capital accounts of each commercial bank shall not be less than an amount equal to fifteen per cent (15%) of its total assets, excluding the following assets:

- (a) Cash on hand;
- (b) Amounts due from banks, both at home and abroad, including all deposits with the Central Bank; and
- (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.

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 Superintendent of Banks 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 Superintendent of Banks 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.

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, with the exception of money borrowed against obligations of the Central Bank or of the Philippine Government, or borrowed with the full guarantee by the Government of payment of principal and interest, shall at no time exceed fifteen per cent (15%) of the unimpaired capital and surplus of such bank.