[BSP CIRCULAR NO. 241, April 27, 2000]

REDEEMABLE SHARES

Pursuant to Monetary Board Resolution No. 576 dated April 7, 2000, Subsection X126.5 of the New Manual of Regulations for Banks is hereby amended to read as follows:

"**Subsection X126.5. Issuance of Redeemable shares: conditions; certification and report; sanctions**

a. Conditions. Banks may issue redeemable shares subject to the following conditions:

(1) The applicant bank prior to the approval of the amendment of articles of incorporation to issue redeemable preferred shares, has complied with the requirements under Items B1 to B6, Appendix 5.

The articles of incorporation of an applicant bank shall incorporate the conditions in items a (3)(a), (b), (c) and (d) of this Subsection.

(2) The applicant bank prior to the issuance of redeemable shares shall comply with, in addition to the conditions in Item (1) above, the requirements under Items B7, 8, and 12 to 16, Appendix 5.

(3) The applicant bank after the issuance of redeemable shares shall comply with the following:

(a) Redemption of shares shall be allowed at the specific dates or periods fixed for redemption only upon prior approval of the BSP and only if the shares redeemed are replaced with at least an equivalent amount of newly paid-in shares so that the total paid-in capital stock is maintained at the same level immediately prior to redemption: Provided, That the redemption shall not be earlier than five (5) years after the date of issuance: Provided further, That such redemption may not be made where the bank is insolvent or if such redemption will cause insolvency, impairment of capital or inability of the bank to meet its debts as they mature;

(b) A sinking fund for the redemption of preferred shares is to be created upon their issuance. This is to be effected by the transfer of free surplus to a restricted surplus account. The fund shall not be available for dividends.

(c) The issuing bank shall not treat in any way redeemable preferred shares as time deposit, deposit substitute or other form of borrowings.