CONSOLIDATION PROGRAM FOR RURAL BANKS
IMPLEMENTING GUIDELINES

Following approval by the PDIC, BSP, LBP and CFIEP of their respective participations in the Consolidation Program for Rural Banks, these implementing program guidelines (**"Guidelines"**) are hereby issued.[1]

Section 1.0 Rationale of the Program

The CPRB was established in recognition of the need to further strengthen and enhance the viability of rural banks given their importance in providing essential financial services to the community, particularly in their specialized or niche markets, and in promoting financial inclusion and financial stability in the economy.

The Program seeks to encourage consolidations and mergers among rural banks to bring about a less fragmented banking system by enabling rural banks to: (i) improve their financial strength; (ii) enhance their viability; (iii) strengthen management and governance; (iv) generate synergies and economies of scale through common infrastructure, systems and resources; and (v) expand their market reach.

Section 2.0 Definition of Terms

For purposes of these Guidelines, the following acronyms, words and phrases shall mean as follows:

2.1 "Agencies" collectively refer to the PDIC, the BSP and the LBP as authors and advocates of the Program.

2.2 "CFIEP" refers to the Countryside Financial Institution Enhancement Program which shall provide funding support to the Program, consistent with its objectives of improving the long term viability of countryside financial institutions.

2.3 "Consolidation", involves the combination of at least five (5) rural banks (RBs), resulting in their dissolution and the creation of a new entity, subject to the provisions of existing applicable and relevant laws.

2.4 "Day" (or days) refers to business day or day other than a Saturday, Sunday or day on which commercial banks in Metro Manila are generally closed for business.

[1] Philippine Deposit Insurance Corporation (PDIC) Board Resolution No. 2015-05-063 dated 20 May 2015; Bangko Sentral ng Pilipinas (BSP) Monetary Board (MB) Resolution No. 995 dated 18 June 2015; Land Bank of the Philippines (LBP) Codified Approving Signing Authorities, as amended, per Secretary's Certificate dated 29 June 2015; and approval dated 28 July 2015 of the Countryside Financial Institutions Enhancement Program (CFIEP) Task Force of funding support for the Program.

2.5 "Financial Adviser" refers to the adviser engaged by the Proponent Banks from among the top five financial advisers based on the CFIEP Guidelines on the Funding Support for the Program, which shall provide financial, legal and property appraisal services to the Proponent Banks as set forth under Section 8.7 and the Terms of Reference for the Financial Adviser approved by the CFIEP.

2.6 "Financial Adviser's Final Report" includes but not limited to the report on: (i) the methodology (ii) the valuation and appraisal reports of assets, (iii) legal audit report on pending cases; (iv) the due diligence findings including report on the over-all financial condition of the Proponent Banks; (v) the proposed ownership and capital structure and proposed consolidation or merger plan of the Surviving Bank; (vi) the organizational structure and integration plan, business plan including financial projections for the Surviving Bank; and (vii) all reports and documents required to be delivered by the Financial Adviser under the Guidelines, Terms of Reference in the Engagement of the Financial Adviser and the Engagement Contract.

2.7 "Merger" involves the combination of at least five (5) rural banks, one of which shall be the surviving entity, subject to the provisions of existing applicable and relevant laws.

2.8 "MOA" refers to the "Memorandum of Agreement on the Consolidation Program for Rural Banks among the Proponent Banks" which shall contain the Proponent Banks' agreements as indicated in Section 7(f).

2.9 "MOU" refers to the Memorandum of Undertaking in favor of the Agencies duly executed jointly by the Proponent Banks which shall contain the commitments, representations, warranties and other obligations of the proponent Banks as indicated in Section 7(g).

2.10 "Program" refers to the Consolidation Program for Rural Banks or CPRB.

2.11 "Proponent Banks" refers to the participating rural banks which qualify under the Program pursuant to Section 5.

2.12 "RBCAR" means the "Risk Based Capital Adequacy Ratio".

2.13 "SEC" refers to the Securities and Exchange Commission which approves the registration of the Surviving Bank as a consolidated or merged bank.

2.14 "Surviving Bank" refers to the resulting entity after consolidation or merger of the Proponent Banks.

Section 3.0 Interpretation

The headings in these Guidelines are inserted for convenience of reference only and shall not limit or affect the interpretation of its provisions. References to sections and annexes are to be construed as references to the Sections and Annexes to these Guidelines.

<u>Section 4.0 Program Availability Period</u>

The Program shall be available from **25 August 2015** to **25 August 2017**. To avail of the Program, letters of intent/application duly supported by certification of board and shareholders' approvals of the Proponent Banks and all other required documents enumerated in Section 7 must have been duly submitted to and received by the PDIC **on or before 25 August 2017.**

<u>Section 5.0 Eligibility of Proponent Banks to the Program</u>

Any group of at least five Proponent Banks, the head offices or majority of the branches of which, shall preferably be located in the same region or area, and whose consolidation or merger would result to a Surviving Bank with-

a. RBCAR of at least 12%; and

b. A combined unimpaired capital of at least P100Mn.

Rural banks whose head office is located in a nearby region may be included, provided that the Program objectives shall be met.

<u>Section 6.0 Program Support</u>

The Proponent Banks may avail of the following program support:

6.1 Funding assistance for:

a. Financial advisory services in accordance with Sections 8.6 and 13.2;

b. Business process improvement services in accordance with Section 13.3; and

c. Capacity building support services in accordance with Section 12.3.

6.2 Regulatory Incentives under BSP Circular No. 237, as amended by Circular Nos. 771 dated October 11, 2012 and 494 dated September 20, 2005 and other existing laws and rules subject to the Proponent Banks' compliance of the requirements therein and approval of the concerned agencies.

<u>Section 7.0 Procedures for Application</u>

To avail of the Program's incentives, the Proponent Banks shall submit three (3) sets of the following documents to the PDIC through the Office of the Vice President-Resolution Group:

a) Letter addressed to the PDIC and the BSP indicating their intention to consolidate or merge under the Program;

b) Duly accomplished CPRB application form;

c) Resolution of the Board of Directors of the respective Proponent Banks approving the consolidation or merger with other Proponent Banks under the Program. The resolution shall be certified under oath by the respective corporate secretaries of the Proponent Banks;

d) Resolution of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock/contribution of each Proponent Bank approving the consolidation or merger with other Proponent Banks under the Program. The resolution shall be certified under oath by the respective corporate secretaries of the Proponent Banks;

e) Secretary's Certificate of Adoption of Board Resolutions of each of the Proponent Banks containing the following:

    i. Approval by the Board of the request for availment of funding assistance under Section 6.1;

    ii. Approval by the Board of the MOA among Proponent Banks containing the terms under Section 7(f), the MOU in favor of the Agencies containing the terms under Section 7(g), Confidentiality Agreement, and other documents as may be required under the Program; and

    iii. Designation of the Proponent Bank's authorized signatories to execute and deliver the foregoing documents in relation to the Program and attesting to their specimen signatures.

f) Duly executed joint MOA among Proponent Banks containing, among others, the following:

    i. The agreement to consolidate or merge under the Program, and to comply with the Program's requirements.

    ii. The commitment to: (a) allow the duly designated Financial Adviser to conduct due diligence on the Proponent Banks; and (b) voluntarily disclose and allow access to all records, documents and information pertinent to their respective banks' financial condition and other information as may be required by the Financial Adviser.

    iii. The agreement to accept the results of the Financial Adviser's due diligence review including the consolidation/merger structure.

    iv. The infusion of additional fresh capital, as may be needed, to bring the resulting RBCAR and combined adjusted capital of the Proponent Banks to the required capital level pursuant to Sections 5 and 9.

    v. The agreement to adopt the human resource and systems integration plan for the Surviving Bank as proposed by the Financial Adviser.

    vi. The nomination of directors in the Surviving Bank who possess the qualifications and none of the disqualifications under BSP regulations, who adhere to sound governance principles and who will work to ensure the viability of the Surviving Bank to attain the objectives of the Program.

vii. The installation in the Surviving Bank of a professional management team that complies with BSP regulations.

viii. The institution and adoption of capacity building measures.

ix. The submission of valuation and appraisal reports, due diligence findings (including report on the over-all financial condition of the Proponent Banks) of the Financial Adviser and such other information as may be required by PDIC and BSP.

x. The submission of the business plan, including strategies, financial projections and proposed organizational structure for the Surviving Bank.

xi. The agreement on cost sharing of expenses under the Program including dealing with withdrawal (voluntary or involuntary) by any of the Proponent Banks.

xii. The agreement to fully reimburse CFIEP's share in the expenses covering the engagement of a Financial Adviser and/or business process improvement services in case the consolidation or merger of the Proponent Banks does not materialize.

xiii. Designation of a duly authorized representative and his alternate for purposes of communication and coordination with the Agencies.

g) Duly executed joint MOU of the Proponent Banks' commitment to the Agencies to abide by the following:

i. The terms and conditions of the Program as outlined in the Guidelines, and their obligations under the MOA among the Proponent Banks referred to in Section 7(f).

ii. Their warranties and representations to the Agencies.

iii. Grant authority to PDIC to request for quotations from the pool of financial advisers accredited under the Program.

iv. In case the consolidation or merger of the Proponent Banks does not materialize, fully reimburse CFIEP's share as specified under Sections 13.2 and 13.3 in accordance with their agreement on cost sharing and, to shoulder equally any deficiency in the reimbursement of CFIEP's share, in the event of failure of any of the Proponent Banks to pay its corresponding share.

v. Grant authority to BSP to deduct from their respective accounts with BSP, any amount due to the CFIEP, in case they fail to remit their corresponding share to reimburse CFIEP share under Sections 13.2 and 13.3 in accordance with Sections 14.1 and 14.2.

vi. Engage a business process consultant for the Surviving Bank in accordance with Section 12.2, with the approval of the Proponent Banks' respective board of directors.

h) Duly executed Confidentiality Agreement of each of the Proponent Banks; and

i) Copy of the Proponent Banks' respective latest audited and interim Financial Statements.

PDIC shall only receive complete sets of the foregoing documents from the Proponent Banks. PDIC shall immediately furnish BSP and LBP copies of the complete documents which PDIC received from the Proponent Banks.

Section 8.0 Engagement of the Financial Adviser (FA)

8.1 Upon receipt of the complete set of requirements as provided under Section 7, PDIC shall request the top five financial advisers to submit proposals for engagement of their services, based on the Terms of Reference attached hereto as **Annex "A"**. The quotations shall be addressed directly to the Proponent Banks' duly designated authorized representative, copy furnished PDIC.

8.2 Within ten (10) days from receipt of all the quotations from the top five financial advisers, the Proponent Banks shall:

a. Collectively decide and select the Financial Adviser with the most reasonable quote and which is most responsive to the Terms of Reference; and

b. Notify PDIC of their choice for Financial Adviser.

8.3 Within two (2) days from receipt of notice of choice, PDIC shall communicate to CFIEP the Proponent Banks' choice of Financial Adviser.

8.4 Within five (5) days from receipt of the choice of the Financial Adviser, CFIEP, through its Technical Committee (TC), shall issue to the Proponent Banks' authorized representative the notice to proceed with the engagement of the Financial Adviser.

8.5 Within five (5) days from the receipt of the notice to proceed, the Proponent Banks shall enter into a Contract of Engagement of Financial Advisory Services containing the terms and conditions under the Terms of Reference, copy furnished PDIC.

8.6 Within five (5) days from the execution of the Contract of Engagement of Financial Advisory Services, the Proponent Banks' authorized representative shall release to the Financial Adviser the initial payment for its services equivalent to 20% of the Financial Advisers' fee as indicated in the said Contract of Engagement. The balance equivalent to 80% of the Financial Adviser's fee shall be for the account of CFIEP.

The Contract of Engagement of Financial Advisory Services shall become effective upon the Financial Adviser's receipt of the 20% initial payment from the Proponent Banks pursuant to the terms of the Financial Adviser's engagement, and such other terms and conditions as may be agreed between the Proponent Banks and the Financial Adviser.

8.7 Upon receipt of the 20% initial payment, the Financial Adviser shall immediately commence and render financial advisory services, including financial, legal and appraisal services and/or activities, which shall include but not limited to the following:

a. Engage legal counsel who shall perform a legal audit of pending cases of each of the Proponent Banks, provide legal advisory services and prepare and handle all documentation requirements for consolidation or merger as the case may be, such as the Shareholders' Agreement, Plan of Consolidation or Merger, Articles of Consolidation or Merger, Articles of Incorporation and By-Laws of the Surviving Bank and other documents as may be required by the regulatory agencies.

b. Engage appraisers to do a valuation of the real estate and other properties of the Proponent Banks.

c. Conduct due diligence on the Proponent Banks.

d. Determine the financial condition of the Proponent Bank using standard parameters.

e. Prepare valuation study on each Proponent Bank.

f. Recommend ownership and capital structure of the Surviving Bank based on the results of the valuation study.

g. Assist the Proponent Banks in the preparation of the business plan/strategy, organizational structure and human resource strategy for the Surviving Bank.

h. Assist in coordinating with the SEC, the Agencies and the Bureau of Internal Revenue, if necessary.

i. Undertake other functions/activities required to complete and implement the transaction contemplated under the Program.

8.8 Within fifteen (15) days from the conclusion of their due diligence review, the Financial Adviser shall submit the report containing the result of valuation and the Surviving Bank's ownership structure for approval of the Proponent Banks' respective board of directors and shareholders, copy furnished PDIC and BSP.

Section 9. 0 Infusion of Additional Capital

9.1 In case the resulting RBCAR and the unimpaired capital of the Surviving Bank based on the Financial Adviser's report are below 12% and P100Mn, respectively, the Proponent Banks shall infuse additional fresh capital to meet the Program's minimum capital requirements in accordance with their commitment under the MOA and MOU.

9.2 The Proponent Banks shall cause the infusion of the fresh capital required under the Program through any or a combination of the following: (i) the existing shareholders of the Proponent Banks; and/or (ii) a third party investor.

Section 10.0 Optional Equity Investment Facility from LBP

10.1 In the event that the resulting RBCAR of the Surviving Bank falls short of the 12% requirement but is at least 10%, the Surviving Bank may avail of LBP's Equity Investment Facility to bring the RBCAR to 12%.

10.2 The Surviving Bank's eligibility under this facility shall be subject to LBP's specific terms and guidelines attached hereto as **Annex "B"** and made an integral part of the Guidelines.

Section 11.0 Approval of the Consolidation or Merger

11.1 The Proponent Banks shall secure the approval of their respective board of directors and shareholders on the final plan of consolidation or merger.

11.2 Within sixty (60) days from receipt of the Financial Adviser's Final Report, the Proponent Banks shall secure the regulatory consents and/or approval of the PDIC, the BSP and the SEC as provided under existing laws for all banks on consolidations or mergers.

11.3 Upon BSP issuance of the Certificate of Authority to operate as the Surviving Bank, the Proponent Banks shall secure from the SEC the Certificate of Registration of the Surviving Bank.

Section 12.0 Integration and Other Activities of the Surviving Bank

12.1 Within thirty (30) days from the issuance by the CFIEP TC of the certificate of completion of the Financial Adviser's Final Report, the Proponent Banks, with the assistance of the Financial Adviser, consultant and the Agencies, shall conduct:

a. Integration and business process improvement;
b. Capacity building activities; and
c. Such other activities necessary to ensure the success and viability of the Surviving Bank.

12.2 The funding support for the business process improvement services may be availed by the Proponent Banks, subject to the same terms and conditions for the availment of the financial advisory services and the procedure in the engagement of the Financial Adviser as provided in the Guidelines. Provided, however, that the sharing of expenses shall be subject to Section 13.3.

The business process improvement shall include:

a. Integration process (data and records integration, consolidation of backroom activities, financial reporting);

b. Development and updating of manuals; and

c. Guidance on automation/new system requirement as a result of the integration.

12.3 The Agencies and CFIEP shall provide capacity building support services such as training on credit evaluation and administration, audit and internal control, personnel management, accounting/record keeping, treasury, information technology, and governance at no cost to the Surviving Bank.

Section 13.0 Program's Funding and Expenses

13.1 CFIEP shall participate in the Program by providing the funding requirements in accordance with these Guidelines.

13.2 The total cost of the financial advisory services inclusive of applicable taxes shall be shared by the CFIEP and the Proponent Banks in accordance with the following proportion:

CFIEP	80%
Proponent Banks	20%

13.3 The total cost for the business process improvement services on the Surviving Bank inclusive of applicable taxes shall be shared by CFIEP and the Proponent Banks (or Surviving Bank) in accordance with the following proportion:

CFIEP	80% on the 1st year; 50% on the 2nd year
Proponent Banks/ Surviving Bank	20% on the 1st year; 50% on the 2nd year

For this purpose, the 1st year shall commence on the date of issuance by the CFIEP TC of the certificate of completion of the Financial Adviser's Final Report.

13.4 The Agencies shall not be liable for any amount due to the Financial Adviser in excess of CFIEP's share under Sections 13.2 and 13.3. Any additional payment for the financial advisory and business process improvement service providers shall be for the account of the Proponent Banks.

13. 5 All other fees and expenses related to the consolidation or merger of the Proponent Banks under the Program shall be shouldered by the Proponent Banks.

13.6 For CFIEP's corresponding share in the fees under Sections 13.2 and 13.3, the same shall be remitted to the Financial Adviser and the business process improvement service providers only after the Proponent Banks shall have fully paid their corresponding share thereto.

Section 14. 0 Reimbursement to CFIEP

14.1 The Proponent Banks shall be under obligation to reimburse CFIEP's share under Sections 13.2 and 13.3 in accordance with their agreement on cost sharing within three (3) days from receipt of the demand for reimbursement in case the consolidation or merger does not materialize.

14.2 In case a Proponent Bank refuses or fails to remit any payment due to CFIEP under Section 14.1, the BSP, after due notice from the CFIEP to the Proponent Bank concerned, shall proceed to debit the Proponent Bank's demand deposit therewith, corresponding to the amount due for payment as contained in the CFIEP's demand for reimbursement/payment from the Proponent Bank concerned pursuant to the authority granted to BSP under the MOU executed by the Proponent Banks. The full amount debited shall be credited to the demand deposit account of the CFIEP with the BSP.

14.3 Any deficiency due to the failure by any of the Proponent Banks to pay CFIEP in full of its corresponding share shall be divided equally among the remaining Proponent Banks. The payments/collection of such deficiency shall observe the same procedures set forth under the preceding section. The Proponent Banks shall exercise their rights under their agreement if any, or under the law, to exact reimbursement from any non-paying Proponent Bank accordingly.

Section 15.0 Amendments

The Agencies may execute a supplement or amendment hereto for the purpose of adding provisions, changing or modifying provisions of these Guidelines as may be necessary to achieve the Program's objectives.

Section 16.0 Effectivity

These Guidelines shall take effect immediately.