

TERMS OF REFERENCE

For the Financial Adviser for Participating Banks under the Consolidation Program for Rural Banks (CPRB)

I. OBJECTIVE

The Financial Adviser (FA) shall be engaged primarily as an independent third party consultant to provide financial, legal and technical advisory services, including business process improvement, necessary to consummate and ensure the success of the consolidation or merger of the participating banks (the "Proponent Banks") under the CPRB Program in a systematic manner.

II. ROLE OF FINANCIAL ADVISER

The FA shall act as consultant to the Proponent Banks and shall be chosen from among the top auditing firms. The FA shall ensure the availability of experts to perform all the activities covered by the engagement and shall ensure that all its agents and representatives shall employ with confidentiality the rules under Section V hereof.

III. SCOPE OF WORK, DELIVERABLES AND ENGAGEMENT PERIOD

The scope of work, deliverables and engagement period of the FA are laid down in Phase I and Phase II hereof.

PHASE I: MERGER OR CONSOLIDATION

A. Due Diligence, Valuation Study and Capital Structuring

❖ The FA shall perform the following activities:

1. Conduct of due diligence review to determine the financial condition of each of the Proponent Banks using standard parameters.

The due diligence review shall take off from the Proponent Bank's latest audited financial statements (Balance Sheet, Income Statement and Cash Flow) and supporting schedules and related documents, and the latest interim end of month financial statements.

The FA shall ensure that the financial statements were prepared in accordance with Philippine Financial Reporting Standards (PFRS) and Bangko Sentral ng Pilipinas (BSP) Rules and Regulations for Banks, and reflect the latest financial condition of the Proponent Banks which shall be as of end of month immediately preceding the date of application under the CPRB. In the event where the books of the Proponent Banks need to be adjusted to comply with PFRS and BSP rules and regulations, the FA shall restate the financial statements accordingly.

2. Appraisal of properties

The FA's in-house and/or contracted appraiser(s) shall conduct an appraisal of all real properties and fixed assets declared to be owned by the Proponent Banks in their latest financial statements.

In case the FA chooses to engage an external appraiser(s), such entity should be registered with SEC and of known probity and independence and shall be considered as an agent of the FA.

3. Legal audit of pending cases and determination of contingent assets and obligations, if any.
4. Valuation study based on net asset value (NAV) approach

The results of the valuation study shall be used as basis to establish the ownership structure and share distribution of the Surviving Entity.

5. Presentation of the results of the due diligence review findings and valuation study to the Board of Directors and Shareholders of the Proponent Banks for approval, and concurrence to the recommended ownership and capital structure. In this regard, the FA shall prepare the Shareholders' Agreement among the Proponent Banks for approval.

❖ Deliverables

Within fifteen (15) days from the conclusion of the due diligence, the FA shall submit the following reports (collectively the "FA Final Report") for approval of the Proponent Banks' respective Board of Directors and Shareholders, copy furnished PDIC and BSP:

1. Due diligence findings and recommendation Report
2. Valuation Study including a description of methodology, basis of valuation of assets and liabilities and recommendation
3. Legal audit findings Report
4. Appraisal Reports
5. Proposed ownership and capital structure including recommendation on the optimum approach to effect the merger or consolidation and Shareholders' Agreement.
6. Other relevant reports and/or documents as may be required by the PDIC/BSP/LBP and CFIEP.

❖ Engagement Period

The due diligence, valuation study and capital structuring shall not exceed six (6) months from the effective date of the Contract of Engagement of Financial Advisory Services.

B. Regulatory Approvals of the Merger or Consolidation

The FA shall assist the Proponent Banks in securing the regulatory consents and/or approval of the PDIC, BSP and SEC as provided under existing laws for all banks on mergers or consolidations such as but not limited to assistance in the preparation of the requisite documents related to (a) approval of PDIC and BSP, (b) registration of the Surviving Bank with the SEC (such as Plan of Merger or Consolidation including business plan and organizational structure, Articles of Merger or Consolidation and By-Laws, audited financial statements, long-form audit report, etc.), and (c) securing Certificate of Authority to operate the Surviving Bank from the BSP.

❖ Engagement Period

The submission of complete documentary requirements to the BSP and PDIC for the purpose of securing approval of the Merger or Consolidation of the Proponent Banks shall not exceed 60 calendar days from the date the FA Final Report was duly approved by the Proponent Banks' respective board of directors and shareholders.

C. Other Advisory Services

The FA shall also undertake to:

1. Provide advice and allow consultations on other matters and/or possible issues related to the merger or consolidation and other documentary requirements to be submitted by the Proponent Banks under the Program;
2. Attend meetings/negotiations and make presentations in connection to its duties and responsibilities under the engagement;
3. Liaise with the BSP, PDIC, SEC, Bureau of Internal Revenue (BIR) and other regulatory agencies/entities; and
4. Provide other financial and legal services as may be necessary to ensure the success of the merger or consolidation under the Program.

PHASE II: INTEGRATION AND BUSINESS PROCESS IMPROVEMENT

The FA shall assist the Proponent Banks (or the Surviving Bank) in the business integration process and improvement, specifically:

1. Review of existing operations, and propose an integration process (data and records integration, consolidation of backroom activities, asset management, loan management, financial reporting) that will ensure efficiency of Surviving Bank's operation;
2. Recommend appropriate organizational structure, human resource strategy, and governance structure for the Surviving Bank;
3. Development and/or updating of manuals; and
4. Guidance on automation or new system requirement as a result of the integration.

❖ Deliverables

The FA shall submit a proposal to the Surviving Bank on the following:

1. Integration process (data and records integration, consolidation of backroom activities, financial reporting);
2. Proposed organizational structure, human resource strategy, and governance structure for the Surviving Bank
3. Updated manuals; and
4. Automation/new system requirement as a result of the integration.

❖ Engagement Period

Integration and Business Process Improvement covering business integration, automation and updating of manual of operations shall not exceed one (1) year from the date of the issuance by the CFIEP Technical Committee of the certificate of completion of the FA Final Report. The engagement period may be extended for another year should the Surviving Bank require the assistance of the FA in the implementation of the business improvement process.

IV. REMUNERATION

The fees for the services of the FA shall be inclusive of applicable taxes and shall be shared by the Proponent Banks and the CFIEP as follows:

PHASE I: MERGER OR CONSOLIDATION

Initial payment	20%	to be funded and paid by the Proponent Banks within five (5) days from the execution of the Contract of Engagement of Financial Advisory Services
Balance	80%	to be funded and paid by CFIEP for the account of Proponent Banks based on agreed milestones or progress billing subject to the guidelines of the CFIEP subsidy on CPRB

PHASE II: INTEGRATION AND BUSINESS PROCESS IMPROVEMENT SERVICES

On the first year:

Initial payment	20%	to be funded and paid by the Proponent Banks within five (5) days from the date of issuance by the CFIEP Technical Committee (TC) of the certificate of completion of the FA's Final Report.
Balance	80%	to be funded and paid by CFIEP for the account of Proponent Banks based on agreed milestones or progress billing subject to the guidelines of the CFIEP subsidy on CPRB.

On the second year:

The Proponent Banks or Surviving Bank and CFIEP will share the total cost equally at 50%-50%, based on agreed milestones or progress billing.

The CFIEP's corresponding share in the fees hereof shall be remitted to the FA for the account of the Proponent Banks only after the Proponent Banks shall have fully paid their corresponding share thereto.

PDIC, BSP and LBP shall not be liable for any amount due to the FA in excess of CFIEP's share. Any additional payment for the financial advisory and business process improvement service providers shall be for the account of the Proponent Banks.

V. CONFIDENTIALITY

The FA shall ensure that their officers, employees, and agents shall at all times keep confidential all Confidential Information, including all aspects of the Engagement Agreement and this Terms of Reference, the transactions and reports used verified and required to be disclosed by the FA.

"Confidential information" shall mean confidential and/or proprietary information and materials relating to the Proponent Banks, provided that Confidential Information shall not include: (a) information that is or becomes publicly available other than by a breach of these terms on Confidentiality by the Financial Adviser; and (b) information that is known to the Financial Adviser prior to the date of engagement.

The FA shall execute and sign Confidentiality Agreement upon engagement, which shall remain effective even in the event of termination thereof.

VI. TERMINATION

The Engagement Contract and/or the transactions contemplated therein may be terminated:

- (i) Upon the mutual consent of Parties;
- (ii) By the Proponent Banks if the FA fail to perform its duties and responsibilities or committed any material breach of the Contract and the Confidentiality Agreement or;
- (iii) By the FA, if the Proponent Banks fail to remit the initial payment required under item IV, hereof.

The termination may be exercised only by a notice given in writing and signed by the FA or the authorized representatives of the Proponent Banks.