

THE IMPLEMENTING GUIDELINES FOR THE STRENGTHENING PROGRAM FOR RURAL BANKS PLUS, AS AMENDED

Pursuant to Philippine Deposit Insurance Corporation (PDIC) Board Resolution No. 2014-11-236 dated 5 November 2014 and Bangko Sentral ng Pilipinas (BSP) Monetary Board (MB) Resolution No. 2053 dated 18 December 2014, approving the amendments to the Strengthening Program for Rural Banks Plus (SPRB Plus), these implementing guidelines (the "Guidelines") for availment of the Financial Assistance (FA) and regulatory reliefs/incentives under the SPRB Plus, as amended, is hereby jointly re-issued by PDIC and BSP.

Section 1.0 Objectives

The SPRB Plus, as amended, is intended to encourage mergers, consolidations and acquisition of rural banks (RBs), and of thrift banks (TBs) which generally serve the same niche markets as the RBs, that are serving the countryside and low income sector; via grant of FA by PDIC and regulatory reliefs/incentives by BSP to the extent allowed under their respective charters and enabling laws.

The SPRB Plus, as amended, is in recognition of the importance of RBs and TBs in providing financial services to the community, particularly in their specialized niche markets, and in maintaining financial stability in the economy, in accordance with Sec. 17 (d) of RA 3591, as amended (the PDIC Charter).

Section 2.0 Definition of Terms

For purposes of these Guidelines, the following acronyms, words and/or phrases as used herein or in the documents relating hereto shall mean as follows:

- 2.1 **"Acquisition of Control"** shall refer to the acquisition by an Eligible Strategic Third Party Investor (STPI) of control of an Eligible Bank through the acquisition or purchase of at least 60% of the outstanding capital shares of the Eligible Bank;
- 2.2 **"Amortization Fund"** shall mean the amount set aside for the amortization of the premium on the Government Securities purchased from the proceeds of the Direct Loan component of the financial assistance granted by PDIC to the Surviving Bank;
- 2.3 **"CAMELS"** shall mean "Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk" rating given by the BSP;
- 2.4 **"Consolidation"** (subject to the provisions of existing applicable and relevant laws) shall involve the combination of at least one Eligible Bank with an Eligible STPI, resulting in the dissolution of the proponent banks and the creation of a new entity;
- 2.5 **"Discount on GS"** is the excess of the face value over the purchase price of the GS;
- 2.6 **"DL"** shall mean "Direct Loan" component of the FA under the SPRB Plus, as amended;

- 2.7 **“Effective Interest Rate of Government Securities”** shall mean the annual coupon amount of government securities purchased, net of tax, divided by the amount of DL;
- 2.8 **“Eligible Bank”** shall mean any rural bank (RB) or thrift bank (TB), having all the eligibility/ies provided under Section 4.1;
- 2.9 **“Eligible Strategic Third Party Investor”** or **“Eligible STPI”** shall mean a bank or non-bank corporation, either singly or in group, single entity or group of entities, having all the eligibilities as may be applicable under Sections 4.2 and 4.3;
- 2.10 **“FA”** shall mean the **“Financial Assistance”** to be extended by PDIC under the SPRB Plus, as amended, limited to STPI's under Section 6 hereof;
- 2.11 **“FXTN”** (a type of government securities), shall mean “Fixed Rate Treasury Note”;
- 2.12 **“Government Securities”** or **“GS”** shall mean the National Government securities registered in the Registry of Scripless Securities (RoSS) of the Bureau of Treasury and which are acceptable to PDIC, in the form of direct obligations of, or obligations the principal and interest of which are guaranteed by the Philippine Government, to be pledged to PDIC under the Financial Assistance Agreement to be executed by the Eligible Bank, Eligible STPI and PDIC, including the proceeds, additions, substitutions and replacements of said National Government securities;
- 2.13 **“Merger”** (subject to the provisions of existing applicable and relevant laws) shall involve the combination of at least one Eligible Bank with an Eligible STPI, one of which shall be the surviving entity;
- 2.14 **“MOA”** shall mean the “Memorandum of Agreement on the Strengthening Program for Rural Banks” and the Supplemental Agreement between PDIC and BSP dated 3 August 2010 and 2 August 2012, respectively;
- 2.15 **“Net Interest Spread or NIS”** shall mean either the interest earnings of the GS purchased from the proceeds of the DL less withholding tax, interest due to PDIC and amortization due to the Amortization Fund, if any, or the amount equivalent to the NIS rate multiplied by the amount of DL;
- 2.16 **“Net Interest Spread (NIS) Rate”** shall be equivalent to such rate that will either provide the surviving bank with: (i) annual NIS that will accumulate over the tenor of the DL to such amount equal to the Preferred Shares (PS) under Section 6.3a hereof, or (ii) annual NIS that will accumulate over the tenor of the DL to such amount equal to 100% and 50% of the capital deficiency to bring the Eligible Bank's Risk Based Capital Adequacy Ratio (RBCAR) to 10% for Eligible Banks affected by typhoon “Yolanda” and other Eligible Banks, respectively, for FA referred to under Section 6.1a;
- 2.17 **“PN”** shall mean “Promissory Note”;
- 2.18 **“Premium on GS”** is the excess of the purchase price over the face value of the GS;

- 2.19 **"PS"** shall mean the "Preferred Shares" component of the FA under the SPRB Plus, as amended;
- 2.20 **"Purchase of Assets and Assumption of Liabilities" or "P&A"** shall refer to the acquisition of an Eligible Bank by an Eligible STPI through the purchase of all recorded assets and assumption of all recorded liabilities of the Eligible Bank resulting in the surrender of the Eligible Bank of its banking license and thereafter existing only as a shell company for the purpose of winding up its remaining assets and operations.
- 2.21 **"RBCAR"** shall mean "Risk Based Capital Adequacy Ratio";
- 2.22 **"SPRB Lane"** shall mean the designated receiving/processing center located at the offices of PDIC and BSP, where applications for SPRB Plus, as amended, shall be filed;
- 2.23 **"Surviving Bank"** shall refer to the resulting entity after the merger or consolidation, or the Eligible Bank in case of acquisition of control or the Eligible STPI in the case of P&A;
- 2.24 **"Taxes"** shall include all applicable taxes such as, but not limited to, value added tax (VAT), expanded withholding tax (EWT) and documentary stamp tax (DST);

Section 3.0 Program Availability Period

The SPRB Plus, as amended, shall be available until 31 December 2015. Agreements pertinent to the merger, consolidation, P&A or acquisition of control of Eligible Bank by an Eligible STPI should have been executed and all the requirements submitted for evaluation by PDIC and BSP no later than 31 December 2015.

Section 4.0 Eligibility

The requirements to qualify under the SPRB Plus, as amended are as follows:

- 4.1 The Eligible Bank, which is either a rural bank (RB) or a thrift bank (TB), must have an RBCAR of less than 10%.
- 4.2 The Eligible STPI can be a Universal, Commercial, thrift or rural bank subject to the following qualifications-
- a) It has BSP CAMELS rating of at least "3";
 - b) It is not under BSP's Prompt Corrective Action (PCA); and
 - c) It has no BSP or PDIC findings of unsafe and unsound banking practices.

Universal and commercial banks qualified as Eligible STPIs are not entitled to financial assistance under Section 6 hereof but may avail of the regulatory reliefs and incentives under the program.

- 4.3 A non-bank corporation may also be an Eligible STPI, subject to the following qualifications-
- a) The corporation and/or its stockholders and management are financially strong; and
 - b) The corporation and/or its stockholders and management have a good business reputation.

Section 5.0 Procedures for Application

- 5.1 The Eligible STPI and the Eligible Bank shall submit to the SPRB Lane a joint letter, separately addressed to PDIC and BSP indicating their intention to merge or consolidate, or enter into a P&A or acquisition of control under the SPRB Plus, as amended.
- 5.2 The letter shall indicate and shall be accompanied by the following:
- a) amount of FA requested from PDIC in accordance with these Guidelines;
 - b) regulatory relief/incentives requested from BSP in accordance with the Guidelines on the Grant of Regulatory Relief/Incentives by BSP under the SPRB Plus, as amended, attached herewith as Annex "A"; and
 - c) duly accomplished application form (SPRB Plus Form No. 1);
 - d) Documentary requirements as listed in Annex "B."
- The letter and all requirements to be submitted to the SPRB Lane shall be in duplicate copies.
- 5.3 All applications shall only be deemed submitted if accompanied by the complete set of requirements as provided for under Sections 5.1 and 5.2.
- 5.4 Applications for the SPRB Plus, as amended, must be filed and all requirements submitted to on or before 31 December 2015, as provided under Section 3.0.
- 5.5 PDIC shall have the right to conduct due diligence on the Eligible Bank and/or Eligible STPI.

Section 6.0 The Financial Assistance (FA)

The FA shall be extended only to Eligible STPIs which are TBs and RBs that are: (i) not subsidiaries of UKBs or, (ii) part of existing banking groups.

When circumstances strongly warrant such assistance, as may be allowed under Section 17 (d) of R.A. No. 3591, as amended, FA may also be extended to non-bank corporations which qualified as Eligible STPI provided they are not subsidiaries of UKBs or part of any existing banking group.

- 6.1 The FA may be extended in the following forms:
- a) Assistance exclusively in the form of a Direct Loan (DL) to be used solely to purchase GS; or
 - b) Assistance consisting of two (2) components:
 - (i) equity subscription by PDIC to PS of the Surviving Bank; and
 - (ii) Direct Loan (DL) to be used solely to purchase GS;

6.2 The total cost of providing the above FA (either a combination of PS and DL or DL only) shall be subject to the limitations provided under Sec. 17 (d) of the PDIC Charter.

6.3 Features and Terms of Preferred Shares

Subject to the restrictions and/or limitations under existing applicable and relevant laws, rules, regulations, issuances and circulars, the following shall be the features/terms of PS:

a) Amount of PS Subscription

- (i) For Eligible Banks located in areas affected by typhoon "Yolanda".
– up to 100% of the required additional capital to bring the Eligible Bank's RBCAR to 10% as determined by the BSP.

For purposes of this Program, "**banks affected by typhoon "Yolanda"**" shall refer to the banks located in areas devastated by typhoon "Yolanda" based on the official list of the National Disaster Risk Reduction Management Council and/or the official list of Provinces, Cities and Municipalities with declaration of State of Calamity; or

- (ii) For Other Eligible Banks – Up to 50% of the required additional capital to bring the Eligible Bank's RBCAR to 10% as determined by the BSP;

b) Dividend Rate

The PS shall be entitled to dividends annually, at a rate equivalent to the prevailing 5-year FXTN, on gross basis, from the date of PDIC's subscription to the Preferred Shares based on the PDST-R2 rate set on the previous Business Day;

c) Non-voting, cumulative, convertible to common shares;

d) Redeemable starting at the end of the 5th year but not later than the 10th year from issuance of PS;

e) Put option on the shares exercisable by PDIC.

6.4 Terms of the DL under 6.1 (a)

- a) Principal – equivalent to such amount that will provide an accumulated NIS over the tenor of the DL to such amount equal to 100% and 50% of the capital deficiency to bring the Eligible Bank's RBCAR to 10% for Eligible Banks affected by typhoon "Yolanda" and other Eligible Banks, respectively;

- b) Interest rate per annum – equivalent to such rate that will provide the Surviving Bank with an annual NIS that will accumulate over the tenor of the DL to such amount equal to 100% and 50% of the capital deficiency to bring the Eligible Bank's RBCAR to 10% for Eligible Banks affected by typhoon "Yolanda" and other Eligible Banks, respectively, less amount of discounts earned if any, on the GS purchased using the proceeds of the DL and pledged to PDIC;

- c) Tenor – maximum of 10 years;
- d) Collateral/Security – The collateral shall exclusively be composed of the following items:
 - i. The GS to be purchased using the proceeds of the DL; and
 - ii. Amortization Fund, if any.

6.5 Terms of the DL under 6.1 (b)

- a) Principal – equivalent to such amount that will provide an accumulated net interest spread (NIS) over the tenor of the DL equal to the PS;
- b) Interest rate per annum – equivalent to such rate that will provide the Surviving Bank with an annual NIS that will accumulate over the tenor of the DL to such amount equal to the PS, less amount of discounts earned if any, on the GS purchased from the proceeds of the DL and pledged to PDIC;
- c) Tenor – maximum of 10 years;
- d) Collateral/Security – The collateral shall exclusively be composed of the following items:
 - (i) The GS to be purchased using the proceeds of the DL; and
 - (ii) Amortization Fund, if any.

Section 7.0 Terms and Conditions of the FA

7.1 The relationship between the parties to the SPRB Plus, as amended, shall be principally governed by an FA Agreement to be executed by the Surviving Bank and PDIC or, Eligible Bank, Eligible STPI and PDIC in the case of P & A, which relationship between/among the parties and the FA Agreement must be in accordance with these Guidelines.

7.2 The terms and conditions of the FA under the SPRB Plus, as amended, shall include, but shall not be limited to, the following:

- a) Quasi-reorganization and/or Capital restructuring;
- b) Compliance with the FA agreement terms and conditions as follows:
 - (i) Financial Covenants
 - (1) compliance with payment terms and conditions
 - (2) achievement of business plan/performance targets
 - (ii) Non-financial covenants
 - (1) submission of required reports
 - (2) improvement of Surviving Bank's operations and governance
 - (3) conduct by PDIC of periodic on-site inspection and review
 - (4) PDIC's appointment of consultants and/or nomination of representative in the Surviving Bank's board of directors, as may be necessary.

c) Compliance with PDIC and BSP regulatory issuances, and other banking rules and regulations.

7.3 Retroactive application of SPRB Plus, as amended

Eligible Banks with applications approved but not yet implemented or in process under the existing SPRB Plus are automatically qualified under the SPRB Plus, as amended.

Section 8.0 Monitoring Activities

8.1 PDIC shall monitor the performance of the Surviving Bank and its compliance with all the conditions of the FA Agreement.

8.2 The surviving or consolidated bank shall regularly submit the following:

- a) quarterly statement of conditions, and income and expenses;
- b) annual audit report by an independent external auditor.

8.3 PDIC, pursuant to these Guidelines and the FA Agreement, shall be authorized to conduct a special review of operations of the Surviving Bank anytime, as it may deem necessary, to check compliance with financial targets, business plan and relevant terms of the FA.

Section 9.0 Non-Compliance with the Terms and Conditions

9.1 Non-compliance with any of the terms and conditions of the FA Agreement shall give PDIC the option to exercise its rights and remedies provided thereunder which shall include the right to pre-terminate the FA.

Section 10.0 Amendments

At any time and from time to time, PDIC and BSP 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 11.0 Effectivity

These Guidelines shall take effect immediately.


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