

STRENGTHENING PROGRAM FOR RURAL BANKS PLUS IMPLEMENTING GUIDELINES

Pursuant to Philippine Deposit Insurance Corporation (PDIC) Board Resolution No. 2012-04-103 dated 25 April 2012 and Bangko Sentral ng Pilipinas (BSP) Monetary Board (MB) Resolution No. 759 dated 10 May 2012, approving the Strengthening Program for Rural Banks Plus (SPRB Plus), this implementing guidelines (the "Guidelines") for availment of the SPRB Plus Financial Assistance (FA) and regulatory reliefs/incentives is hereby issued.

Section 1.0 Objectives

The SPRB Plus 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 is 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 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 this Guidelines, the following acronyms, words and/or phrases 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 67% of the outstanding capital shares of the Eligible Bank.
- 2.2 **"CAMELS"** shall mean "Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk" rating given by the BSP;
- 2.3 **"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;
- 2.4 **"DL"** shall mean "Direct Loan" component of the SPRB Plus FA;
- 2.5 **"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;
- 2.6 **"Eligible Bank"** shall mean any rural bank (RB) or thrift bank (TB), having all the eligibility/ies provided under Section 4.1;

- 2.7 **“Eligible Strategic Third Party Investor”** or **“Eligible STPI”** shall mean any bank or non-bank corporation, having all the eligibilities as may be applicable under Section 4.2;
- 2.8 **“FA”** shall mean the **“Financial Assistance”** to be extended by PDIC under the SPRB Plus limited to STPI’s under Section 6 hereof;
- 2.9 **“FXTN”** (a type of government securities), shall mean “Fixed Rate Treasury Note”;
- 2.10 **“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;
- 2.11 **“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;
- 2.12 **“MOA”** shall mean the “Memorandum of Agreement on the Strengthening Program for Rural Banks” between PDIC and BSP dated 3 August 2010;
- 2.13 **“Net Interest Spread (NIS) Rate”** shall be equivalent to 3%;
- 2.14 **“Net Interest Spread (NIS) Amount”** shall be equivalent 3% of DL;
- 2.15 **“Premium Rate of GS”** shall mean the total premium, if any, divided by the term of the DL, divided by the amount of the DL;
- 2.16 **“PN”** shall mean “Promissory Note”;
- 2.17 **“PS”** shall mean the “Preferred Shares” component of the SPRB Plus FA;
- 2.18 **“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.
- 2.19 **“RBCAR”** shall mean “Risk Based Capital Adequacy Ratio”;
- 2.20 **“SPRB Lane”** shall mean the designated receiving/processing center located at the offices of PDIC and BSP, where SPRB Plus applications shall be filed;
- 2.21 **“Supplemental Agreement”** shall refer to the agreement between PDIC and BSP dated 2 August 2012 enhancing and/or expanding the coverage of the MOA establishing the SPRB, to include TBs as Eligible Banks and, TBs,

universal banks, commercial banks and non-bank corporations as eligible STPIs;

2.22 **“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 case of P&A;

2.23 **“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 shall be available until 31 December 2013, unless mutually extended anew by PDIC and BSP. For the purpose of qualifying for grant of incentives under the SPRB Plus, within the defined duration, agreements pertinent to the merger, consolidation, P&A or acquisition of control of Eligible Bank by an Eligible STPI should have been executed and timely submitted for evaluation by PDIC and BSP no later than 31 December 2013.

Section 4.0 Eligibility

Eligible STPIs which seek to merge, consolidate, acquire through P&A mode, or acquire not less than 67% of the total outstanding capital of an Eligible Bank shall qualify under the SPRB Plus.

4.1 Eligible Banks shall refer to RBs or TBs with RBCAR of less than 10%.

4.2 Basic criteria for Eligible STPIs:

Universal and Commercial Banks (UKBs), TBs and RBs

- a) BSP CAMELS rating of at least “3”;
- b) Not under BSP’s Prompt Corrective Action (PCA); and
- c) No findings of unsafe and unsound banking practices by the BSP or PDIC.

Non-Bank Corporations

- a) Financially strong corporations of good reputation.

4.3 The eligible STPI may be a single entity or group of entities.

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.

5.2 The letter shall indicate and shall be accompanied by the following:

- a) duly accomplished application form (SPRB Plus Form No. 1);
- b) request for FA from PDIC in accordance with this Guidelines;
- c) request for regulatory relief/incentives from BSP in accordance with the Guidelines on the Grant of Regulatory Relief/Incentives by BSP under the SPRB Plus, attached herewith as Annex "A"; and
- 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 be evaluated only upon receipt of the complete set of requirements as provided for under Sections 5.1 and 5.2.
- 5.4 Applications for the SPRB Plus must be filed on or before 31 December 2013, as provided under Section 3.0.
- 5.5 PDIC shall have the right to conduct due diligence, including but not limited to validation of the RBCAR of Eligible Bank and/or Eligible STPI.

Section 6.0 The Financial Assistance (FA)

The FA shall be extended only to STPIs which are TBs and RBs. Non-bank corporations which are not subsidiaries of UKBs nor part of any banking group may also be extended FA when circumstances strongly warrant as allowed under Section 17.d of R.A. No. 3591, as amended.

- 6.1 FA will have two (2) components:
 - a) Equity Component in the form of Preferred Shares (PS); and
 - b) Direct Loan (DL).
- 6.2 The total cost of providing the above combination of FA (PS and DL) 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 – 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 – equivalent to prevailing 5-year FXTN rate, on gross basis, on the date of PDIC's subscription to the PS, payable annually to PDIC. Such rate shall be based on PDST-R2 set 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

- a) Purpose – the proceeds of the DL shall be used solely to purchase Government Securities (GS);
- b) Principal – equivalent to such amount that will allow the annual NIS, over the tenor of the DL to accumulate to a sum equivalent to the PS, using the following formula:

$$\text{Principal} = (\text{PS}/\text{Tenor of DL})/\text{NIS rate}$$

- c) Interest rate per annum – Effective Interest Rate of the GS purchased less NIS rate of 3%, less premium rate of GS, if any;
- d) Tenor – 10 years, but shall become due and demandable upon redemption of PS or exercise of put option
- e) Collateral/Security – Pledge to PDIC of the GS to be purchased using proceeds of DL, and such other collateral/security or arrangements as PDIC may require.

Section 7.0 Terms and Conditions of the FA

- 7.1 The relationship between the parties to the SPRB Plus shall be principally governed by an FA Agreement to be executed by the Eligible Bank, the Eligible STPI and PDIC, in accordance with this Guidelines.
- 7.2 The terms and conditions of the SPRB Plus FA 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:
 - Financial Covenants
 - compliance with payment terms and conditions
 - achievement of business plan/performance targets
 - Non-financial covenants
 - submission of required reports
 - improvement of surviving bank's operations and governance
 - conduct by PDIC of periodic on-site inspection and review
 - 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.

Section 8.0 Monitoring Activities

- 8.1 PDIC shall monitor the performance of the surviving or consolidated bank and its compliance with all the conditions of the FA Agreement.
- 8.2 The surviving or consolidated bank shall comply with the following regular reporting requirements:
 - a) quarterly statement of conditions, and income and expenses;
 - b) annual audit report by an independent external auditor.
- 8.3 PDIC, pursuant to this Guidelines and the FA Agreement, shall be authorized to conduct a special review of operations of the Eligible Bank, Eligible STPI, or surviving or consolidated 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 to pre-terminate the loan.

Section 10.0 Amendments

At any time and from time to time, PDIC may execute a supplement or amendment hereto for the purpose of adding provisions, changing or modifying provisions of this Guidelines as may be necessary to achieve the program's objectives.

Section 11.0 Effectivity

This Guidelines shall take effect immediately.