

## **STRENGTHENING PROGRAM FOR COOPERATIVE BANKS PLUS IMPLEMENTING GUIDELINES**

Pursuant to Philippine Deposit Insurance Corporation (PDIC) Board Resolutions No. 2013-08-147 dated 2 August 2013 and 2013-08-151 dated 28 August 2013, Bangko Sentral ng Pilipinas (BSP) Monetary Board (MB) Resolution No. 1454 dated 5 September 2013, and Land Bank of the Philippines (LBP) Board Resolution No. 13-600 dated 16 September 2013, approving the revival and amendments to the Strengthening Program for Cooperative Banks to be termed as "Strengthening Program for Cooperative Banks (SPCB) Plus" or "SPCB Plus" for brevity, this implementing guidelines (the "Guidelines") for availment of the SPCB Plus Financial Assistance (FA) and regulatory reliefs is hereby issued.

### **Section 1.0 Objectives**

The SPCB Plus is intended to encourage mergers, consolidations and acquisition of cooperative banks (CBs) to strengthen the cooperative banking sector of the rural banking system, via grant of regulatory reliefs by BSP and FA by PDIC and LBP to the extent allowed under their respective charters and enabling laws.

The SPCB Plus is in recognition that cooperative banks, as integral part of the rural banking system, provide essential financial services in the economy, particularly in providing adequate banking services in the local communities and specialized or niche markets and in supporting the growth of rural economies and communities.

### **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 STPI of control of an Eligible CB through the acquisition or purchase of at least 67% of the outstanding capital shares of the Eligible CB.
- 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 CB 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 SPCB FA;
- 2.5 Effective Interest Rate of Government Securities (GS) shall mean the annual coupon amount of GS purchased, net of tax, divided by the amount of DL;
- 2.6 "Eligible Cooperative Bank" (Eligible CB) shall mean any cooperative bank, having all the eligibilities provided under Section 4.1;
- 2.7 "Eligible Strategic Third Party Investor" (Eligible STPI) shall mean any bank or non-bank entity, having all the eligibilities as may be applicable under Section 4.2;

- 2.8 "FA" shall mean "Financial Assistance" to be extended by PDIC and LBP under the SPCB Plus;
- 2.9 "FXTN", a type of government securities, shall mean "Fixed Rate Treasury Note";
- 2.10 "Government Securities" (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 CB, Eligible STPI and PDIC, including the 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 CB 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 Cooperative Banks" and the "SPCB Supplemental Agreement" among PDIC, BSP and LBP dated 16 November 2011 and \_\_\_ October 2013, respectively;
- 2.13 "Net Interest Spread (NIS) Rate" refers to such rate that will either provide the surviving bank with: (i) such accumulated amount over the tenor of the DL equal to the capital deficiency of the surviving bank to bring RBCAR from negative to 0% for FA availed under Section 6.1 (a) hereof, or (ii) an accumulated amount over the tenor of the DL to such amount equal to the PS for FA availed under Section 6.1 (b) hereof;
- 2.14 "Net Interest Spread (NIS) Amount" is equivalent to the NIS Rate multiplied by the amount 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 SPCB Plus FA under Section 6.1 (b) hereof;
- 2.18 "Purchase of Assets and Assumption of Liabilities" (P&A) shall refer to the acquisition of an Eligible CB by an Eligible STPI through purchase of all recorded assets and assumption of all recorded liabilities of the Eligible CB resulting in the surrender of the Eligible CB of its banking license and 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 "SPCB Plus Lane" shall mean the designated receiving/processing center located at the offices of PDIC, BSP and LBP, where SPCB Plus applications shall be filed;
- 2.21 "Surviving Bank" shall refer to the resulting entity after the merger or consolidation, or the eligible CB in case of acquisition of control or the eligible STPI in case of P&A;

- 2.22 "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 SPCB Plus shall be available until 17 September 2014. Provided, that letters of intent/application letters supported by certification of board and general assembly approvals of the parties involved shall have been duly submitted and received on or before 31 July 2014. All other documentary requirements as listed in Annex "B" should be completed and submitted to the SPCB Plus Lane on or before 17 September 2014.

### **Section 4.0 Eligibility**

#### **4.1 Eligible Banks for SPCB Plus FA:**

- a) cooperative banks (CBs) with risk based capital adequacy ratio (RBCAR) of less than 10%; and
- b) merging, consolidating with, or to be acquired via P&A, or through the acquisition of controlling shares by an eligible STPI.

#### **4.2 Basic criteria for Eligible STPIs:**

##### **For a CB to be an STPI**

- a) BSP CAMELS rating of at least "3";
- b) Not under BSP's Prompt Corrective Action (PCA) Program for the past 3 years; and
- c) No findings of unsafe and unsound banking practices by the PDIC or BSP during the past 3 year/s.

##### **For Commercial Bank (KB), Thrift Bank (TB) or Rural Bank (RB) to be an STPI**

- a) BSP CAMELS rating of at least "3";
- b) Not under BSP's Prompt Corrective Action (PCA) Program for the past 3 years;
- c) No findings of unsafe and unsound banking practices by the PDIC or BSP during the past 3 years.

##### **For non-bank entity i.e. Primary Cooperatives/Cooperative Federation to be an STPI**

- a) Certification or endorsement of good standing from the Cooperative Development Authority (CDA);
- b) With proven track record based on audited financial statements.

Provided, that in all of the above modalities, the surviving bank must have a net worth of at least P100M and RBCAR of at least 15%.

## **Section 5.0 Procedures for Application**

- 5.1 The Eligible STPI and the Eligible CB shall submit to the SPCB Plus Lane a joint letter, separately addressed to PDIC, BSP and LBP, indicating their intention to merge or consolidate, or enter into a P&A or acquisition of control under the SPCB Plus.
- 5.2 The letter shall indicate and shall be accompanied by the following:
- a) duly accomplished application form (SPCB Plus Form No. 1);
  - b) separate request for FA from PDIC and/or LBP in accordance with this Guidelines;
  - c) request for regulatory relief from BSP in accordance with the Guidelines on the Grant of Regulatory Relief by BSP under the SPCB 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 SPCB Plus Lane shall be in triplicate 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 SPCB Plus must be filed on or before 31 July 2014, as provided under Section 3.0.
- 5.5 PDIC and LBP shall have the right to conduct due diligence, including but not limited to validation of the RBCAR of Eligible CBs and/or Eligible STPI.

## **Section 6.0 The Financial Assistance (FA)**

- 6.1 The FA maybe extended in the following forms:
- a) Assistance exclusively in the form of a Direct Loan (DL) extended by PDIC to the surviving bank; or
  - b) Assistance consisting of two (2) components: (i) Direct Loan (DL), to be provided by PDIC, and (ii) assistance by way of equity via subscription by PDIC and LBP to Preferred Shares (PS) of the surviving bank, as provided under Section 6.3(a).

In addition to the foregoing, LBP may, at its discretion, provide Credit Facility to the surviving bank.

- 6.2 PDIC's total cost of providing the above FA (PS and DL or DL only) shall be subject to the limitations provided under Section. 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) Apportionment of Amount of Preferred Shares to be subscribed by PDIC and LBP shall be as follows:
  - a.1) PDIC – up to 100% of the required additional capital to bring the eligible bank's RBCAR from negative to 0%;
  - a.2) LBP – up to 100% of the additional capital required to bring the eligible bank's RBCAR from 0% to 10%.
- b) Dividend rate – equal to the rate per annum of the prevailing 10-year FXTN available at the time of the release of FA;
- c) Non-voting, non-cumulative, convertible to common shares at the end of 10 years; and
- d) Perpetual

#### 6.4 Terms of the DL under 6.1a

- a) Purpose – the proceeds of the DL shall be used solely to purchase Government Securities (GS);
- b) Principal - equivalent to such amount that will provide a net interest spread (NIS) equal to the capital deficiency to bring RBCAR to 0%;
- c) Interest Rate per annum – equivalent to such rate that will provide the bank with an annual NIS that will accumulate over the tenor of the DL to such amount equal to the capital deficiency to bring RBCAR to 0%;
- d) Tenor – 10 years;
- e) Collateral/Security – Pledge of GS to be purchased using proceeds of DL and such other collateral/security or arrangements as PDIC may require.

#### 6.5 Terms of the DL under 6.1b

- a) Purpose – the proceeds of the DL shall be used solely to purchase Government Securities (GS);
- b) Principal – equivalent to such amount that will provide a net interest spread (NIS) over the tenor of the DL to such amount equal to the PS;
- c) Interest rate per annum – equivalent to such rate that will provide the bank with an annual NIS that will accumulate over the tenor of the DL to such amount equal to the PS;
- d) Tenor – 10 years, but shall become due and demandable upon redemption of PS;
- 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.  
Added to 6.4 (e)

## **Section 7.0 Terms and Conditions of the FA**

### **7.1 For PDIC**

- a) The relationship between the parties under the SPCB Plus shall be principally governed by an FA Agreement to be executed by the subject bank and PDIC, in line with this Guidelines.
- b) The terms and conditions of the SPCB Plus FA shall include, but shall not be limited to, the following:
  - b.1) Quasi-reorganization and/or Capital restructuring
  - b.2) 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 in the operation and governance of the surviving bank
      - 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, CDA and other banking rules and regulations;
- d) Conduct of special review of operations of eligible CB and eligible STPI by PDIC;
- e) Conduct of due diligence review by PDIC or an external auditor;
- f) If the eligible STPI is KB, TB or RB, the surviving entity should continue to operate in the same service area/location where the eligible CB originally operates;

### **7.2 For LBP FA**

- a) The relationship between the parties with regard to the SPCB Plus implementation shall be principally governed by a Memorandum of Agreement (MOA) to be executed by the surviving bank and LBP, in line with this Guidelines;
- b) The release of proceeds of equity investment to surviving bank shall be subject to:
  - b.1) Compliance with LBP's documentary and other requirements applicable to its equity investment programs;

- b.2) Infusion of counterpart capital by the stockholders of the surviving bank equivalent to the amount required to:
  - i. Bring the RBCAR of the surviving bank to at least 15% after considering the FA from PDIC and LBP; and
  - ii. Bring the net worth of the surviving bank to at least P100 M.
- c) The surviving bank shall be required to automatically declare dividends of at least fifty per cent (50%) of its annual net income, if any, to be placed with LBP's Trust Banking Group (TBG) as a sinking fund (SF) for the retirement of said investments after ten (10) years from the date of subscription. In case the amount set aside is not sufficient to buy out LBP's investments at the end of the said redemption period, the stockholders shall be made to top up the amount necessary to fully convert the same into common shares, including the corresponding dividends thereon. These limitations or obligations shall be reflected as liens on the common stock of the surviving entity.

The foregoing conditions shall be embodied in the corresponding articles of incorporation or cooperation, as the case may be.

- d) In case of credit facility, availment of LBP's financial assistance shall be subject to its credit policies and guidelines.
- e) LBP reserves the right to conduct due diligence review on the Eligible CBs and Eligible STPIs.
- f) LBP shall have the right to appoint a representative in the surviving bank's board until the retirement of LBP's preferred shares.

## **Section 8.0 Monitoring Activities**

8.1 PDIC and LBP shall monitor the performance of the surviving bank and its compliance with all the conditions of the FA Agreement and other agreements related to SPCB Plus. This section applies to both PDIC and LBP.

8.2 The surviving bank shall comply with the following regular reporting requirements:

### **PDIC**

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

### **LBP**

- a) monthly BSP-submitted financial statements;
- b) quarterly report on RBCAR computation.

8.3 PDIC, pursuant to this 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 pre-terminate its loan, and exercise all rights and impose such sanctions, remedies provided under the FA Agreement, as well as applicable laws, rules and issuances.

## **Section 10.0 Amendments**

At any time and from time to time, BSP, PDIC and/or LBP 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.

**AMANDO M. TETANGCO, JR.**  
Governor – BSP

**VALENTIN A. ARANETA**  
President – PDIC

**GILDA E. PICO**  
President & CEO - LBP



**BSP GUIDELINES ON THE GRANT OF REGULATORY RELIEF UNDER THE  
STRENGTHENING PROGRAM FOR COOPERATIVE BANKS (SPCB) PLUS**

Consistent with the objective to promote mergers and consolidations with and acquisitions of cooperative banks by stronger partners as a means to strengthen the cooperative banking system, constituent banks may, subject to prior BSP approval, avail themselves of the following regulatory reliefs:

1. Conversion of the existing head offices, branches and/or extension offices of the merging or consolidating CBs into head office, branches or extension offices of the surviving or new bank;
2. Relocation/opening of existing/approved but unopened branches, extension offices and/or other banking offices of the surviving or new bank within two (2) years from date of merger/consolidation/acquisition subject to applicable requirements on relocation of branches, extension offices and/or other banking offices;
3. Condonation of liquidated damages on past due rediscounting/emergency loans and/or monetary penalties for violation of BSP issuances on rediscounting/emergency loans of the eligible CBs as of the end of the month immediately preceding the date of request for loan restructuring;
4. Restructuring of past due rediscounting/emergency loans of the eligible CBs with the BSP, subject to compliance with the following guidelines:
  - a. Amount to be Restructured

The amount to be restructured shall consist of the following:

- Principal – outstanding balance of the principal obligation as of the end of the month immediately preceding the date of request for loan restructuring
- Accrued Interest – accrued interest on the outstanding principal obligation as of the end of the month immediately preceding the date of request for loan restructuring.

b. Interest Rate

Only the restructured principal obligation shall be charged interest at the rate equal to the prevailing 364-day Treasury Bill rate of the last auction immediately preceding the date of request for loan restructuring. No interest shall be charged on the restructured accrued interest.

c. Terms of Repayment

The amount to be restructured shall be paid by the surviving or new bank in monthly amortizations over a period not exceeding ten (10) years.

d. Collateralization

A surety agreement shall be executed by the stockholders owning at least sixty seven percent (67%) of the shares of stock of the surviving or new bank.

e. Default Clause

- i. Event of Default – failure to pay two (2) amortizations shall constitute an event of default and shall render the entire obligation due and demandable.
- ii. Consequence of default – the amount of liquidated damages on past due rediscounting/emergency loans waived shall be restored and the payments already made shall be re-applied, first to liquidated damages, and the balance, if any, to interest, then to the principal loan. Monetary penalties for violation of BSP issuances on rediscounting, if any, shall also be restored and payment thereof in full shall be demanded against the defaulting surviving or new bank.
- iii. Legal Action – the BSP may institute appropriate legal action without further need for demand or notice to the defaulting surviving or new bank.

f. Documentary Requirement

The surviving or new bank shall execute a Letter of Understanding with the BSP covering the terms and conditions of the approved restructured loan/s together with the authority for the BSP to debit the surviving or new bank's demand deposit account with the BSP for the amortizations due.

5. Preferred Shares for Staggered Redemption

The shares for staggered redemption shall be the LBP preferred shares of stock of the eligible CBs, representing the rediscounting arrearages with BSP converted into LBP equity. Repayment arrangement should be made by the surviving or new bank directly with the LBP.

a. Dividend Rate

The dividend rate shall be four percent (4%)

b. Redemption Term

The staggered redemption shall be effected by the surviving or new bank in monthly installments over a period not exceeding ten (10) years.

c. Waiver of Dividends

Dividends due on the LBP preferred shares of stock of the eligible CBs as of date of merger or consolidation shall be waived.

d. Documentary Requirement

Upon approval, the surviving or new bank shall execute a written agreement with the LBP for the staggered redemption of LBP preferred shares of stock of the Eligible CBs, copy furnished the BSP.

6. Rediscount ceiling of a least one hundred fifty percent (150%) of the adjusted capital accounts of the surviving or new bank for a period of one (1) year reckoned from the date of merger or consolidation, subject to compliance with the existing eligibility requirements of the BSP as provided under Subsection X268.3 of the Manual of Regulations for Banks (MORB), as amended by Circular No. 684 dated 15 March 2010.
7. Waiver of monetary penalties imposed on the Eligible CBs for violations of existing laws and BSP rules and regulations, except penalties accruing to the other parties, e.g., Micro, Small and Medium Enterprises Development (MSMED) Council Fund as provided under Section 19 of R.A. No. 6977 (Magna Carta for Micro, Small and Medium Enterprises), as amended, and Agricultural Guarantee Fund Pool (AGFP) and Philippine Crop Insurance Corporation (PCIC) as provided under Section 10 of R.A. No. 10000 (The Agri-Agra Reform Credit Act of 2009), as of date of merger/consolidation.
8. Exclusion of the loan to be provided by LBP to qualified surviving banks from ceilings on loans, other credit accommodations and guarantees granted to subsidiaries and/or affiliates as provided under Subsection X328.5 of the MORB even if the government ownership in the borrower-surviving bank exceeds 20 percent of the bank's subscribed capital stock. The loan being referred herein pertains to the loan granted under the credit facility that LBP will make available under the SPCB Plus.
9. The perpetual, non-voting and non-cumulative preferred shares, convertible to common shares after ten (10) years which will be issued to PDIC and LBP for their respective equity investments under the SPCB Plus shall be considered Tier 1 Capital.
10. Additional branching<sup>1</sup> and other incentives as follows:

**For eligible Strategic Third Party Investor (STPI) UKBs and TBs**

- a. The special branch licensing fees<sup>2</sup> to be waived by the BSP shall be equivalent to the amount of capital contribution of the STPIs to bring the eligible bank's RBCAR to 10 percent. Under Circular No. 728 dated 23 June 2011, a bank applying for a branch license in restricted areas shall be charged a licensing fee of ₱20 million for UKBs and ₱15 million for TBs. Hence, if an STPI's capital contribution in a TB is ₱50 million, said STPI bank is qualified to establish 3 branches (₱50 million/₱15 million= 3.33 branches) in restricted areas for free.

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<sup>1</sup> Branching incentives for non-bank STPIs will depend on the type of banks they will acquire.

<sup>2</sup> This is different from the branch processing fees under Section 6 of Circular No. 728. Branch processing fees will still be charged from the STPI UKBs and TBs.

In case the capital contribution of the STPI in the acquired bank is less than the amount of branch licensing fees under Circular 728, that is, ₱20 million for UKBs and ₱15 million for TBs, the STPI can avail of one branch license in restricted area for free.

- b. The STPI banks may be allowed, subject to BSP approval, to convert the status of the acquired bank from RB to TB, consistent with the STPI's over-all business plan and strategy.

#### **For Eligible STPI RBs**

- a. In the case of RBs which are not eligible to establish branches in Metro Manila, they can establish branches outside Metro Manila equivalent to the number of branches of the acquired bank/s. Branch processing fee applicable to RBs of ₱25,000 shall be waived and the following theoretical capital requirement under Circular No. 738 shall not be imposed:

<b>Location of Branch</b>	<b>Date of Implementation</b>	<b>Theoretical Capital (In ₱ Mil)</b>
Metro Manila	Up to 30 June 2012	5.0
Cebu and Davao	From 18 January 2006	5.0
1 <sup>st</sup> to 3 <sup>rd</sup> Class Cities	Up to 30 June 2012	2.5
4 <sup>th</sup> to 6 <sup>th</sup> Class Cities	Up to 30 June 2012	1.5
1 <sup>st</sup> to 3 <sup>rd</sup> Class Municipalities	From 18 January 2006	1.0
4 <sup>th</sup> Class Municipalities	Up to 30 June 2012	0.5
5 <sup>th</sup> to 6 <sup>th</sup> Class Municipalities	From 18 January 2006	0.5

*Note: Please refer to Circular No. 728 for applicable theoretical capital requirement after 30 June 2012.*

- b. For STPI RBs which will acquire single/one unit RBs, they are still entitled to establish one branch outside Metro Manila.
- c. For STPI RBs which have availed under Module 1 of the SPRB, the above proposed branching incentives for RBs under SPRB Plus may be granted subject to the same conditions.

#### **For All Eligible STPIs**

- a. As additional premium, STPI UKBs and TBs shall be granted one additional branching license in restricted areas while STPI RBs shall be granted one additional branching license in areas outside Metro Manila for every 3 eligible banks resolved under the Program.

**STRENGTHENING PROGRAM FOR COOPERATIVE BANKS**  
**Documentary Requirements**

**FOR PDIC FA**

**A. For merger or consolidation:**

1. Plan of Merger or Consolidation duly approved by at least three-fourth (3/4) votes of all the members with voting rights, present and constituting a quorum of each of the constituent institutions;
2. Notarized Secretary's Certificate on the Resolution of the Board of Directors of the respective constituent cooperatives approving the Plan of Merger or Consolidation;
3. Notarized Secretary's Certificate attesting approval of at least three-fourths (3/4) of all members of the constituent cooperatives with voting rights on the Merger or Consolidation or the General/Representative Assembly resolutions of both constituent cooperatives approving the Plan of Merger or Consolidation duly certified by the Secretaries and attested by the respective Chairpersons;
4. Proof of Posting/Publication of the Announcement of Merger or Consolidation in a newspaper of general circulation;
5. Notarized Secretary's Certificate attesting to the following facts: a) That creditors and investors have been duly informed by mail of the merger or consolidation; and b) That no objection/opposition has been filed, or if any, the same has been fully resolved;
6. Additional requirements
  - a. For merger
    - i. Articles of Merger duly attested to by the Incumbent Directors of the Surviving Cooperative
    - ii. Certificate of Merger/Registration of the Surviving Cooperative
  - b. For consolidation
    - i. Articles of Consolidation duly attested to by the Cooperating Directors
    - ii. New Certificate of Consolidated Cooperative

**B. For Purchase of Assets and Assumption of Liabilities**

1. Sale and Purchase Agreement
2. The General/Representative Assembly resolution approving the sale of all assets and assumption of all liabilities (P&A) of the Eligible CB by an Eligible STPI duly certified by the Secretaries and attested by the President/Chairperson of the Eligible CB. The P&A must be approved by at least 3/4 of all members with voting right, present and constituting a quorum of the Eligible CB at general/representative assembly
3. Notarized Secretary's Certificate attesting to the following facts: a) That creditors and investors have been duly informed by mail of the P&A; and b) That no objection/opposition has been filed, or if any, the same has been fully resolved

4. Joint Certification from Eligible CB and Eligible STPI signed by their respective authorized signatories that all requirements under the Bulk Sales Law and all laws relevant have been complied with;
- C. For Acquisition of Control through Purchase of Shares of the Eligible CB subject to the applicable laws and rules
1. Stock Purchase Agreement duly signed by the authorized signatory of the Eligible STPI and Eligible CB and certified to by their respective board secretary
  2. Notarized Secretary's Certificate on the Board Resolution of the Eligible STPI approving the acquisition of control/purchase of majority shares of the Eligible CB
- D. Financial Statements:
- ❖ Latest financial statements as of month immediately preceding the date of application and latest 3-year audited financial statements of the constituent institutions; and
  - ❖ 5-year financial projections with valid assumptions of the surviving institution's balance sheet and income statement.
- E. List of regulatory relief the constituent institutions will avail from BSP;
- F. Letter to BSP requesting restructuring of past due rediscounting/emergency loan;
- G. List of members/shareholders with their share capital/shareholdings of each of the constituent cooperatives/institutions duly certified by the respective Board Secretaries and attested to by the respective Board Chairpersons before and after the transaction;
- H. List of directors and officers of each of the constituent institutions;
- I. List of proposed officers and directors of the surviving bank and the summary of their qualifications;
- J. Organizational chart of the surviving bank including the number of offices and locations thereof;
- K. Inter-company transactions relative to the submitted Financial Statements;
- L. Computation of Risk Based Capital Adequacy Ratio on the submitted financial statements;
- M. Schedule of unbooked valuation reserves based on latest BSP-ROE;
- N. Viable Operational Plan with the following components:
- Marketing Strategies
  - Proposed Target Market

- Proposed Loan Portfolio Diversification
  - Deposit Generation
  - Proposed Improvements in Accounting System
  - Operations Control
  - Computerization Plan
  - Communication System
- O. The appraiser's report of reappraisal of bank premises, if any, done by an independent and licensed appraiser;
- P. Proposed increase of Capital Stock of surviving bank;
- Q. Proposed Amendments in the Articles of Cooperation/Incorporation of surviving bank;
- R. Director's Certificate (surviving bank) on the proposed amendment of the Articles of Incorporation increasing the authorized capital stock;
- S. Any other reasonable requirement deemed material in the proper evaluation of the transaction as may subsequently be requested by the PDIC, BSP or LBP.

#### **FOR LBP FA**

1. Pre-approval Requirements
  - a. Board Resolution authorizing the surviving bank (SB) to apply for LANDBANK equity investment, submit documents and designating officers authorized to sign all pertinent documents with specimen signatures;
  - b. List of major stockholders of SB and their major stockholdings with bio-data;
  - c. List of Director and Key Officers of the SB with bio-data;
  - d. Participating weak CBs and STPI's latest interim financial statements (per entity and as consolidated);
  - e. Three (3)-year business plan and capital build-up program;
  - f. Other documents as may be required by LANDBANK.
2. Pre-release Requirements
  - a. Latest consolidated financial statements
  - b. Memo-request from the servicing lending center (LC) addressed to the Treasury Operations Department (TOD) for the release of LBP equity investment to SB and certifying that the designated signatories to the documents submitted by the SB to LBP have been verified and authenticated.

- c. Letter-request from the SB for the release of the proceeds of equity investment indicating also the account number with LBP Branch where the proceeds shall be credited;
- d. Copy of the approved Investment Proposal/Credit Facilities Proposal (CFP) for the Equity Investment.
- e. Duly notarized Board Resolution or Secretary's Certificate for the following :
  - ❖ Designation of SB's authorized signatories in all documents relative the SB's approved equity investment with LBP and authorizing them to open a Trust Account for the SB with the LBP Trust Banking Group for the setting-up of sinking fund.
  - ❖ Authorization for LBP for the automatic application of the sinking fund maintained with LBP-Trust Banking Group upon maturity or retirement of the LBP's equity investment (subject to BSP approval)
- f. Secretary's Certificate stating the SB's incumbent officers
- g. Certified true copy of the SB's Amended Articles of Incorporation to include, among others the features of LBP equity investments (i.e., *non-cumulative. Dividend rates; full redemption upon maturity, etc.*)
- h. Certified true copy of the SB's Amended By-Laws
- i. Duly notarized Memorandum of Agreement (MOA) on the equity investment between LBP and the SB, incorporating therein, among others, that:
  - ❖ The SB shall automatically declare dividends of at least fifty percent (50%) of its annual net income to be placed at the LBP Trust Department as sinking fund (SF) intended for the retirement of LBP preferred shares after 10 years;
  - ❖ The stockholders of the SB shall infuse fresh capital equivalent to the amount required to bring the CAR of the SB to bring CAR to at least 15% after the capital infusion of BSP, PDIC and LANDBANK and maintain the same for a period of at least ten (10) years; and bring the networth of the SB to at least P100 M.
- j. Duly notarized Escrow Agreement between the SB and the LBP-Trust Banking Group, incorporating therein that in case the SF set aside is not sufficient to buy-out LANDBANK shares at the end of 10 years, the stockholders shall top up the required fund in order to fully redeem the said LBP preferred shares, and the corresponding dividends thereon.