



## BANGKO SENTRAL NG PILIPINAS

### OFFICE OF THE DEPUTY GOVERNOR SUPERVISION AND EXAMINATION SECTOR

MEMORANDUM NO. M-2012-040

**To : ALL BANKS AND NON-BANK FINANCIAL INSTITUTIONS UNDER BSP SUPERVISION**

**Subject : Strengthening Program for Rural Banks (SPRB) Plus**

The Bangko Sentral ng Pilipinas (BSP) and the Philippine Deposit Insurance Corporation (PDIC) recently signed the Supplemental Agreement to implement the Strengthening Program for Rural Banks (SPRB) Plus aimed at strengthening the thrift and rural banking industry to effectively serve the countryside and improve the delivery of financial services to rural communities.

The SPRB Plus, which replaced the SPRB Module 1, became effective on 2 August 2012 and shall be available up to 31 December 2013. Under the SPRB Module 1 which was exclusively available to rural banks (RBs), eligible strategic third party investor (STPI) RBs that merged or consolidated with eligible RBs were granted financial assistance (FA) by the PDIC and regulatory relief by the BSP. The SPRB Plus contains the following enhanced features (*Annex A*):

- a. inclusion of thrift banks (TBs), which serve the same niche market as the rural banks (RBs), as among the eligible banks in addition to RBs;
- b. inclusion of TBs, universal and commercial banks (UKBs), non-bank corporations and banking groups as among the eligible STPIs;
- c. additional branching and other incentives (*Annex B*) to be provided on top of the regulatory relief already available under SPRB Module I; and
- d. acquisition via purchase of assets and assumption of liabilities (P&A) and acquisition of control in an eligible bank as additional modes of entry of an eligible STPI.

Based on the arrangement agreed upon by the BSP and the PDIC, eligible STPIs and eligible banks shall submit to the SPRB Lane (*with address indicated below*) a joint letter, separately addressed to BSP and the PDIC indicating their intention to merge or consolidate, or enter into P&A or acquisition of control under the SPRB

Plus and other required documents (Annex C). The PDIC shall, in turn, transmit to BSP the latter's copy of the joint letter and other documents.

Strengthening Program for Rural Banks (SPRB) Lane  
7<sup>th</sup> Floor, SSS Building, 6782 Ayala Avenue cor. Rufino St.  
1226 Makati City  
SPRB Lane Hotline: 813-3673

For guidance and implementation.

  
NESTOR A. ESPENILLA, JR.  
Deputy Governor

08 August 2012

Att.: A/S

**SPRB PLUS FRAMEWORK**

| Program Title        | Eligible banks also include thrift banks (TBs), in addition to rural banks (RBs), both generally serving the same niche markets. Hence, the Program is renamed as <b>"Strengthening Program for Rural Banks Plus (SPRB Plus)"</b> .  |                               |                |  |    |    |    |                              |                              |    |                              |                              |     |                        |                               |          |                        |                        |
|----------------------|--|-------------------------------|----------------|--|----|----|----|------------------------------|------------------------------|----|------------------------------|------------------------------|-----|------------------------|-------------------------------|----------|------------------------|------------------------|
| Program Period       | The SPRB Plus shall be available from 2 August 2012 <b>until 31 December 2013</b> , subject to extension if necessary.   |                               |                |  |    |    |    |                              |                              |    |                              |                              |     |                        |                               |          |                        |                        |
| Eligibility          | <p><b>1. Basic criteria for Eligible Banks:</b></p> <p>a. RBs with risk based capital adequacy ratio (RBCAR) of less than 10%; TBs with RBCAR of less than 10% and must be serving-the countryside and/or low income sectors</p> <p><b>2. Basic criteria for Eligible STPIs*:</b></p> <p><u>Universal and Commercial Banks (UKBs), TBs and RBs</u></p> <p>a. BSP CAMELS rating of at least "3";<br/> b. Not under BSP's Prompt Corrective Action (PCA); and<br/> c. No findings of unsafe and unsound banking practice by the BSP or PDIC.</p> <p><u>Non-Bank Corporations</u></p> <p>a. With strong financial condition and good reputation</p> <p><u>*STPIs may also be a Group</u></p>  |                               |                |  |    |    |    |                              |                              |    |                              |                              |     |                        |                               |          |                        |                        |
| Mode of Entry        | <p>Mode of entry shall either be via merger, consolidation, acquisition via purchase of assets and assumption of liabilities (P&amp;A) or purchase of controlling shares, as follows:</p> <table border="1" data-bbox="359 1151 1284 1435"> <thead> <tr> <th rowspan="2">Eligible STPIs</th> <th colspan="2">Eligible Banks</th> </tr> <tr> <th>RB</th> <th>TB</th> </tr> </thead> <tbody> <tr> <td>RB</td> <td>Merger, Consolidation or P&amp;A</td> <td>Merger, Consolidation or P&amp;A</td> </tr> <tr> <td>TB</td> <td>Merger, Consolidation or P&amp;A</td> <td>Merger, Consolidation or P&amp;A</td> </tr> <tr> <td>UKB</td> <td>Acquisition of control</td> <td>Acquisition of control or P&amp;A</td> </tr> <tr> <td>Non-Bank</td> <td>Acquisition of control</td> <td>Acquisition of control</td> </tr> </tbody> </table> | Eligible STPIs                | Eligible Banks |  | RB | TB | RB | Merger, Consolidation or P&A | Merger, Consolidation or P&A | TB | Merger, Consolidation or P&A | Merger, Consolidation or P&A | UKB | Acquisition of control | Acquisition of control or P&A | Non-Bank | Acquisition of control | Acquisition of control |
| Eligible STPIs       | Eligible Banks   |                               |                |  |    |    |    |                              |                              |    |                              |                              |     |                        |                               |          |                        |                        |
|                      | RB   | TB                            |                |  |    |    |    |                              |                              |    |                              |                              |     |                        |                               |          |                        |                        |
| RB                   | Merger, Consolidation or P&A   | Merger, Consolidation or P&A  |                |  |    |    |    |                              |                              |    |                              |                              |     |                        |                               |          |                        |                        |
| TB                   | Merger, Consolidation or P&A   | Merger, Consolidation or P&A  |                |  |    |    |    |                              |                              |    |                              |                              |     |                        |                               |          |                        |                        |
| UKB                  | Acquisition of control   | Acquisition of control or P&A |                |  |    |    |    |                              |                              |    |                              |                              |     |                        |                               |          |                        |                        |
| Non-Bank             | Acquisition of control   | Acquisition of control        |                |  |    |    |    |                              |                              |    |                              |                              |     |                        |                               |          |                        |                        |
| Financial Assistance | <p>The FA shall be extended only to STPIs who are TBs and RBs. Non-bank corporations which are not subsidiaries of UKBs or not part of banking groups may also be extended FA when circumstances strongly warrant as allowed under Section 17.d of R.A. 3591, as amended.</p> <p><b>FA will be a combination of:</b></p> <p>a) Preferred Shares (PS) – intended to provide additional capital to bring eligible bank's RBCAR to 10%; and</p> <p>b) Direct Loan (DL) – to build up sinking fund (SF) to provide an automatic payment mechanism for PS</p> <p>Provided however, that pursuant to Sec. 17d of RA 3591, as amended, (the PDIC Charter), the total cost (in present value terms) of providing the above combination of FA (PS and DL) should not exceed the cost of closure of the eligible bank.</p>                   |                               |                |  |    |    |    |                              |                              |    |                              |                              |     |                        |                               |          |                        |                        |

|                                   |   |
|-----------------------------------|---|
|                                   | <p><b>A. Features/Terms of PS will be as follows:</b></p> <ul style="list-style-type: none"> <li>c) Non-voting, cumulative, convertible to common</li> <li>a) Redeemable starting at the end of 5<sup>th</sup> year but not later than the 10th year</li> <li>b) Put option to be exercised by PDIC as follows: <ul style="list-style-type: none"> <li>• in the event of any default on the part of the bank to comply with its covenants under the rehabilitation plan</li> <li>• SF is equal to the amount of PS</li> </ul> </li> <li>b) Amount – up to 50% of the required additional capital to bring the eligible bank's RBCAR to 10%</li> <li>c) Dividend rate – equal to prevailing 5-year FXTN</li> </ul> <p><b>B. Terms of DL</b></p> <ul style="list-style-type: none"> <li>a) Purpose – to purchase Government Securities (GS)</li> <li>b) Principal – equivalent to such amount that will allow the annual Net Interest Spread (NIS) from GS to accumulate over the tenor of DL to such amount equal to the PS using the following formula: <math display="block">\text{Principal} = (PS/\text{Tenor of DL})/\text{NIS rate}</math> </li> <li>c) Interest rate per annum – prevailing 10-year FXTN (net of final tax) less NIS rate of 3%</li> <li>d) Tenor – 10 years, due and demandable upon redemption of PS or exercise of put option</li> <li>e) Collateral/Security – Pledge of GS to be purchased using proceeds of DL</li> </ul> |
| <p>Major Terms and Conditions</p> | <p>Major terms of the conditions of the SPRB FA will be as follows:</p> <ul style="list-style-type: none"> <li>a) Quasi-reorganization and/Capital restructuring</li> <li>b) Compliance with the FA agreement terms and conditions as follows: <ul style="list-style-type: none"> <li>• Financial Covenants <ul style="list-style-type: none"> <li>- payment terms and conditions</li> <li>- achievement of rehabilitation plan performance targets</li> </ul> </li> <li>• Non-financial covenants <ul style="list-style-type: none"> <li>- submission of required reports</li> <li>- improvement of bank operations and governance</li> <li>- conduct by PDIC of periodic on-site inspection and review</li> <li>- appointment of consultant's and/or nomination of representative in the bank's board of directors</li> </ul> </li> </ul> </li> <li>c) Compliance with PDIC regulatory issuances and banking rules and regulations.</li> </ul>  |

In addition to the incentives/regulatory reliefs granted by BSP under the SPRB Module 1, eligible STPIs can avail of additional branching<sup>1</sup> and other incentives as follows:

**For Eligible STPI UKBs and TBs**

1. 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 banks' 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 P20 million for UKBs and P15 million for TBs. Hence, if an STPI's capital contribution in a TB is P50 million, said STPI bank is qualified to establish 3 branches (P50 million/P15 million=3.33 branches) in restricted areas for free.

In case the capital contribution of an STPI in the acquired bank is less than the amount of branch licensing fees under Circular No. 728, that is, P20 million for UKBs and P15 million for TBs, the STPI can still avail of one branch license in restricted area for free.

2. 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**

1. 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 P25,000 shall be waived and the following theoretical capital requirement under Circular No. 738 shall not be imposed:

| Location of Branch                                      | Date of Implementation | Theoretical Capital (In P Mil) |
|---|------------------------|--------------------------------|
| Metro Manila  | Up to 30 June 2012     | 5.0                            |
| Cebu and Davao  | From 18 Jan. 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 Jan. 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 Jan. 2006      | 0.5                            |

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

2. For STPI RBs which will acquire single/one unit RBs, they are still entitled to establish one branch outside Metro Manila.
3. For STPI-RBs which have availed under Module I 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**

1. 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.

<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.

## GUIDELINES ON THE GRANT OF ADDITIONAL INCENTIVES BY THE BSP UNDER THE STRENGTHENING PROGRAM FOR RURAL BANKS (SPRB) PLUS

In addition to the incentives/regulatory relief granted by the BSP under the SPRB Module 1 (Annex A-1), eligible strategic third party investors (STPIs) can avail of additional branching<sup>1</sup> and other incentives as follows:

### For Eligible STPI Universal and Commercial Banks (UKBs) and Thrift Banks (TBs)

1. Special branch licensing fees<sup>2</sup> shall be waived by the BSP equivalent to the amount of the capital contribution of the STPIs to bring the eligible banks' risk-based capital adequacy ratio (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 P20 million for UKBs and P15 million for TBs. Hence, if an STPI's capital contribution in a TB is P50 million, said STPI bank is qualified to establish 3 branches (P50 million/P15 million=3.33 branches) in restricted areas for free.

In case the capital contribution of an STPI in the acquired bank is less than the amount of branch licensing fees under Circular No. 728, that is, P20 million for UKBs and P15 million for TBs, the STPI can still avail of one branch license in restricted area for free.

2. 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 overall business plan and strategy.

### For Eligible STPI Rural Banks

1. 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 P25,000 shall be waived and the following theoretical capital requirement under Circular No. 738 shall not be imposed:

| Location of Branch                                      | Date of Implementation | Theoretical Capital (In P Mil) |
|---|------------------------|--------------------------------|
| Metro Manila  | Up to 30 June 2012     | 5.0                            |
| Cebu and Davao  | From 18 Jan. 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 Jan. 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 Jan. 2006      | 0.5                            |

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

2. For STPI RBs which will acquire single/one unit RBs, they are still entitled to establish 1 branch outside Metro Manila.

<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.

3. For STPI-RBs which have availed under Module I 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**

1. 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 RURAL BANKS PLUS**  
**Documentary Requirements**

Additional Requirements for Potential Eligible Strategic Third Party Investor (STPI)

1. Full name and detailed description of the potential STPI, including details on licenses obtained from the Bangko Sentral ng Pilipinas (BSP) or any regulatory agency, products and services offered and current distribution network
2. Corporate History/Overview (including principal shareholders and their respective shareholdings)
3. Brief background and experience of directors and senior management
4. Audited Financial Statements (FS) for the last 3 fiscal years
5. Notarized Certification from the potential STPI, that:
  - a. For universal, commercial, thrift and rural banks as Eligible STPI
    - (i) It is not under BSP's prompt corrective action (PCA);
    - (ii) There is no finding of unsafe and unsound banking practices by the PDIC or BSP.
  - b. For non-bank corporation:
    - (i) It has strong financial condition and has good reputation.

A. For merger or consolidation:

1. Plan of Merger or Consolidation duly approved by at least two-thirds (2/3) of the outstanding capital stock of each of the Eligible STPI and Eligible Bank (constituent institution) present and constituting a quorum;
2. Notarized Secretary's Certificate on the Resolution of the Board of Directors of the respective constituent institutions approving the Plan of Merger or Consolidation;
3. Notarized Secretary's Certificate attesting approval of at least two thirds (2/3) two-thirds (2/3) of the outstanding capital stock of each constituent institution 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 are informed by mail of the merger or consolidation; and b) That no objection/opposition has been filed, or if any, the same has been resolved;



6. Additional requirements
  - a. For merger
    - i. Articles of Merger duly attested to by the Incumbent Directors of the Surviving Entity
    - ii. Certificate of Merger/Registration of the Surviving Entity
  - b. For consolidation
    - i. Articles of Consolidation duly attested to by the Incumbent Directors of the Consolidated Entity
    - ii. New Certificate of Consolidated Entity
- B. For Purchase of Assets and Assumption of Liabilities
  1. Sale and Purchase Agreement;
  2. Stockholder's Resolution approving the sale of all assets and assumption of all liabilities (P&A) of the Eligible Bank by an Eligible STPI duly certified by the Secretaries and attested by the President/Chairperson of the Eligible Bank. The P&A must be approved by at least two thirds (2/3) of the outstanding capital stock of each constituent institution present and constituting a quorum;
  3. Proof of Notice to Creditors of the Eligible Bank;
  4. Joint Certification from Eligible Bank 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 Bank subject to the applicable laws and rules
  1. Stock Purchase Agreement duly signed by the authorized signatory of the Eligible STPI and Eligible Bank 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 Bank
- 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/incentives the constituent institutions will avail from BSP;
- F. Letter to BSP requesting restructuring of past due rediscounting/emergency loan;
- G. List of shareholders with their share capital/shareholdings of each of the constituent 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/consolidated bank and the summary of their qualifications;
- J. Organizational chart of the surviving/consolidated 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, if any;
- 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/consolidated bank;
- Q. Proposed Amendments in the Articles of Incorporation of surviving/consolidated bank;
- R. Director's Certificate (surviving/consolidated 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 or BSP.