



BANGKO SENTRAL NG PILIPINAS

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

MEMORANDUM NO. M – 2013 - 061

To : ALL BANKS AND NON-BANK FINANCIAL INSTITUTIONS

Subject : Strengthening Program for Cooperative Banks (SPCB) Plus

The Bangko Sentral ng Pilipinas (BSP), Philippine Deposit Insurance Corporation (PDIC), and Land Bank of the Philippines (LBP) recently signed the Supplemental Agreement to implement the Strengthening Program for Cooperative Banks (SPCB) Plus aimed at strengthening the cooperative banking system to effectively serve the countryside and improve the delivery of financial services to rural communities.

The SPCB Plus, which replaced the SPCB (Strengthening Program for Rural Banks [SPRB] Module II), became effective on 16 September 2013 and shall be available up to 17 September 2014. It has generally the same framework as the SPRB Module II, with the following enhancements/amendments (*Annex A*):

- a. Inclusion of commercial banks (KBs) among the eligible Strategic Third Party Investors (STPIs) in addition to cooperative banks (CBs), rural banks (RBs) and thrift banks (TBs);
- b. Financial assistance (FA) to be extended by the PDIC and LBP can be in the form of direct loan (DL) only (without the preferred shares) intended to provide income support to the surviving bank;
- c. Dividend rate on the preferred shares shall be equal to the rate per annum of the prevailing 10-year FXTN available at the time of the release of FA instead of the 8 percent per annum fixed in the SPCB;
- d. Principal of the DL under the combination of preferred shares (PS) and DL will be 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;
- e. Interest Rate per annum on DL under the combination of PS and DL will be 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 instead of the 3 percent less premium rate of government securities fixed in the SPCB;

- f. Principal of the DL intended to provide income support to the surviving bank will be equivalent to such amount that will provide a NIS equal to the capital deficiency to bring Risk-Based Capital Adequacy Ratio (RBCAR) to 0 percent;
- g. Interest Rate per annum on DL intended to provide income support to the surviving bank will be 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 percent; and
- h. Conduct of due diligence review by PDIC or an external auditor.

Branching and other incentives under the SPCB Plus are provided for under Annex B.

Based on the arrangement agreed upon by the BSP, PDIC and LBP, the eligible STPIs and eligible cooperative banks shall submit to the SPCB Lane a joint letter, separately addressed to PDIC, BSP and LBP, indicating their intention to merge or consolidate, or enter into a purchase of assets and assumption of liabilities or acquisition of control under the SPCB Plus, and all the other required documents (Annex C).

For guidance and implementation.


NESTOR A. ESPENILLA, JR.
Deputy Governor

23 December 2013

Att.: A/S

SPCB PLUS FRAMEWORK

Objectives	To encourage mergers, consolidations and acquisition of CBs to create a strong rural banking system via grant of financial assistance (FA) pursuant to Sec. 17d of RA 3591, as amended (the PDIC Charter).
Program Period	Available from approval date of the amendment up to one (1) year
Program Funding	Actual availments to be sourced from the approved P5Bn fund allocated for the existing SPRB (now referred to as SPRB Module 1)
Eligibility	1. Eligible banks for SPCB Plus FA are as follows: a) cooperative banks (CBs) with risk based capital adequacy ratio (RBCAR) of less than 10%; b) merging, consolidating with or to be acquired via P&A or acquisition of shares of at least 67% by an eligible Strategic Third Party Investor (STPI) 2. Basic criteria for Eligible STPIs: <u>For a CB to be an STPI:</u> a) BSP CAMELS rating of at least "3"; b) Not under BSP's Prompt Corrective Action (PCA); and c) No findings of U&U banking practice by the BSP or PDIC. <u>For a Commercial Bank (KB), Thrift Bank (TB) or Rural Bank (RB) to be an STPI:</u> a) Latest BSP CAMELS rating of at least "3"; b) Not under BSP's Prompt Corrective Action (PCA); and c) No findings of U&U banking practice by the BSP or PDIC; <u>For Non-bank entity i.e. Primary Cooperatives/Cooperative Federation to be an STPI:</u> a) Certification or endorsement of good standing from the Cooperative Development Authority (CDA); b) With proven track record based on Audited financial statements.
Mode of Entry	Modes of Entry: a) Merger or consolidation; b) Purchase of all assets and assumption of all liabilities (P&A) of eligible CB subject to compliance to the Bulk Sales Law; and c) Subscription of shares of at least 67% of the eligible CB. Provided, that in all of the above modalities, the surviving entity must have a net worth of at least P100M and RBCAR of at least 15%.
Financial Assistance (FA)	FA will be either: 1) A combination of: a) Preferred Shares (P/S) – intended to provide 100% of the additional capital to bring eligible bank's RBCAR from negative to 0%; and b) Direct Loan (DL) – to build up sinking fund (SF) to provide an automatic payment mechanism for the PS OR 2) Direct Loan only – intended to provide income support to the surviving bank 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 of FA (either a combination of PS and DL or DL only) should not exceed the cost of closure of the eligible bank. The combination of PS and DL under FA#1 will have the following features:

	Terms of the PS a) Amount - up to 100% of the required additional capital to bring the eligible bank's RBCAR from negative to 0%; 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 Terms of DL a) Purpose – 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; e) Collateral/Security – Pledge of GS to be purchased using proceeds of DL. The terms of the DL under FA#2 will have the following features: a) Purpose – 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.
Major Terms and Conditions	Major terms of the conditions of the SPCB Plus FA will be as follows: a) Quasi-reorganization and Capital restructuring; b) Compliance with the FA agreement terms and conditions as follows • Financial Covenants - payment terms and conditions - achievement of rehabilitation plan performance targets • Non-financial covenants - submission of required reports - improvement of bank operations and governance - conduct by PDIC of periodic on-site inspection and review - appointment of consultant's and/or nomination of representative in the bank's board of directors c) Compliance with PDIC regulatory issuances, CDA and 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 a KB, TB or RB, the surviving entity should continue to operate in the same area/location where the eligible CB originally operates; g) Entitlement to board seat in the surviving entity, as necessary. <u>Other Terms and Conditions</u> Application of the SF for the payment of the PS upon occurrence of the following events:

	a) in the event of any default on the part of the surviving entity to comply with its covenants under the rehabilitation plan; b) SF is equal to the amount of PS
Monitoring Activities	a) PDIC shall monitor the performance of the surviving entity and their compliance with all the conditions of the FA Agreement. b) The surviving entity shall comply with the regular reporting requirements including the submission of quarterly statements of condition, and income and expenses and the annual audited financial statements. c) PDIC, pursuant to these Guidelines and the FA Agreement, shall be authorized to conduct a special review of operations of the surviving entity anytime, as it may deem necessary, to check compliance with financial targets, business plan and relevant FA terms.
Other Incentives	The proponent banks may request for: 1) BSP regulatory relief, branching and other incentives under the amended SPCB Plus framework as may be approved by the Monetary Board (MB). 2) LBP Assistance in accordance with the "LBP Guidelines on Grant of Assistance under SPRB-Module II as follows: a) Equity investment. b) Additional credit facility; and c) Participation in the capacity building program.

**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 branching¹ and other incentives as follows:

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

- a. The special branch licensing fees² 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 ($\text{₱50 million} / \text{₱15 million} = 3.33$ branches) in restricted areas for free.

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

² 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:

Location of Branch	Date of Implementation	Theoretical Capital (In ₱ Mil)
Metro Manila	Up to 30 June 2012	5.0
Cebu and Davao	From 18 January 2006	5.0
1 st to 3 rd Class Cities	Up to 30 June 2012	2.5
4 th to 6 th Class Cities	Up to 30 June 2012	1.5
1 st to 3 rd Class Municipalities	From 18 January 2006	1.0
4 th Class Municipalities	Up to 30 June 2012	0.5
5 th to 6 th 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 (SPCB) PLUS
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 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 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. Proof of Notice to Creditors of the Eligible CB
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 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 many 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 a) 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.