



Bangko Sentral ng Pilipinas

MAYNLA, PILIPINAS

OFFICE OF THE GOVERNOR

Circular No. 237
Series of 2000

Pursuant to Monetary Board Resolution No. 384 dated 10 March 2000, as amended by Monetary Board Resolution No. 573 dated 7 April 2000, the provisions of The Manual of Regulations for Banks and the Manual of Regulations for Non-Bank Financial Institutions are hereby amended as follows:

Section 1. The provisions of Secs. X112 and 4112Q of the Manual of Regulations for Banks and Non-Bank Financial Institutions defining merger and consolidation are hereby transferred to Subsecs. X111.3 and 4111Q.1, respectively, as follows:

“For purposes of this section, merger and consolidation shall mean as follows:

Merger – is the absorption of one or more corporations by another existing corporation, which retains its identity and takes over the rights, privileges, franchises, and properties, and assumes all the liabilities and obligations of the absorbed corporation(s) in the same manner as if it had itself incurred such liabilities or obligations. The absorbing corporation continues its existence while the life or lives of the other corporation(s) is/or are terminated.

Consolidation – is the union of two or more corporations into a single new corporation, called the consolidated corporation, all the constituent corporations thereby ceasing to exist as separate entities. The consolidated corporation shall thereupon and thereafter possess all the rights, privileges, immunities, franchises and properties, and assume all the liabilities and obligations of each of the constituent corporations in the same manner as if it had itself incurred such liabilities or obligations.”



Section 2. Sections X112 and 4112Q of the Manual of Regulations for Banks and Non-Bank Financial Institutions, respectively, together with their corresponding Subsections are hereby amended to read as follows:

"Merger or Consolidation Incentives. In pursuance of the policy to promote mergers and consolidations among banks and other financial intermediaries as a means to develop larger and stronger financial institutions, constituent entities may, subject to Bangko Sentral approval, avail of any or all of the following:

- a. Revaluation of bank premises, improvements and bank equipment of the institutions; Provided, That such revaluation shall be based on fair valuation of the property conducted by a reputable appraisal company which shall be subject to review and approval by the Bangko Sentral;
- b. Unbooked valuation reserves based upon the Bangko Sentral examination and other capital adjustments resulting from the merger or consolidation may be booked on staggered basis over a maximum period of five (5) years;
- c. Exemption from the 20% and 30% limitations on voting stockholdings in the new or surviving institution of any person or persons related to each other within the third degree of consanguinity or affinity, or corporations, respectively; Provided, That this shall be allowed only if the bank that is being merged is distressed AS MAY BE DETERMINED BY THE MONETARY BOARD: Provided, further, That whenever any of the stockholders exceed the 20% and 30% ceilings, their holdings shall not be increased, but may be reduced and once reduced, shall not thereafter be increased beyond the 20% and/or 30% ceilings;
- d. If by reason of merger or consolidation, the resulting bank is unable to comply fully with the prescribed net worth to risk assets ratio, the Monetary Board may, at its discretion, temporarily relieve the bank from full compliance with this requirement under such conditions as it may prescribe;
- e. Amortization of goodwill up to a maximum period of forty (40) years if there are compelling reasons to extend for this long, otherwise the amortization period shall not be longer than ten (10) years;

- f. Conversion or upgrading of the existing head offices, branches and/or other offices of the merged or absorbed institutions into branches of the new or surviving financial institutions;
- g. Condonation of liquidated damages and/or penalties on loan arrearages to the Bangko Sentral of rural banks which are parties to the merger or consolidation: Provided, That loan arrearages of rural banks to the Bangko Sentral are paid in full or shall be covered by a plan of payment payable on an equal monthly amortization schedule over a period not exceeding ten (10) years;
- h. Relocation of branches/offices may be allowed within one (1) year from date of merger or consolidation in cases where the merger or consolidation resulted in duplication of branches/offices in a service area, or in such other cases/circumstances as may be prescribed by the Monetary Board.
- i. Outstanding penalties in legal reserve deficiencies and interest on overdrafts with the Bangko Sentral as of the date of the merger or consolidation may be paid in installments over a period of one (1) year;
- j. Rediscount ceiling of 150% of adjusted capital accounts for a period of one (1) year, reckoned from the date of merger or consolidation provided the merged/consolidated bank meets the required net worth to risk assets ratio and all of the other requirements for rediscounting;
- k. Commercial banks whose total outstanding real estate loans exceed 20% of total loan portfolio may be given a period of one (1) year within which to comply with the prescribed 20% ratio reckoned from the date of merger or consolidation;
- l. Restructuring/plan of payment of past due obligations of the proponents with the Bangko Sentral as of the date of merger/consolidation over a period not exceeding ten (10) years;
- m. In the case of rural banks, grant of access to the rediscounting window of the BSF for a period of two (2) years from the date of merger or consolidation even if its past due ratio exceeds 25% of loan portfolio but not exceeding 30% provided the merged/consolidated bank meets all the other requirements. During said period of two (2) years, its rediscounting limit per

application may also be increased to an amount equivalent to the total of the rec discounting limit per application of each of the constituent banks before merger or consolidation;

- n. Subject to approval of the Monetary Board concurrent officerships between a merged or consolidated bank/financial institution and another bank/financial institution may be allowed.

Likewise, with prior approval of the Monetary Board, concurrent directorships may be allowed in cases where a bank acquires shares of stock of another bank for the purpose of merging or consolidating the two (2) banks regardless of whether the banks belong to the same category or both have quasi-banking functions;

- o. Subject to the other requirements on the establishment of branches, the merged/consolidated rural bank may be allowed to establish a branch each in Cebu City and Davao City if it has put up the minimum capital requirement for these places;
- p. Grant of automatic extension of five (5) years for retirement of government preferred shares to be reckoned from the date of merger/consolidation;
- q. Training of officers and staff of the merging or consolidating rural banks by the Bangko Sentral;
- r. Any right or privilege granted a merging bank under a rehabilitation program previously approved by the Monetary Board or under any special authority granted by the Monetary Board shall continue to be in effect.

"The foregoing incentives may also be granted in cases of purchases or acquisitions of majority or all of the outstanding shares of stocks of a bank/NBQB." 1/

"Rules on Revaluation of Assets.

- 1. The revaluation of the bank's/NBQB's premises, improvements and equipment shall be allowed only to all institutions participating in a merger or consolidation if all of them belong to the same category, or at least two (2) of them belong to the highest category among the merging or consolidating institutions.

2. In case the merging or consolidating institutions do not belong to the same category or only one of them falls under the highest category, all of them may be allowed to revalue their premises, improvements and equipment: Provided, that the amount of appraisal increment resulting from such revaluation shall be limited to the amount of the total resources of the institution(s) belonging to the lower category or categories." 2/

"Guidelines for Allowing Staggered Booking of Valuation Reserves.

1. The booking on staggered basis over a maximum period of five (5) years of unbooked valuation reserves based upon examination by the Bangko Sentral may be allowed to all institutions participating in a merger or consolidation if all of them belong to the same category or at least two (2) of them belong to the highest category among the merging or consolidating institutions.
2. In case the merging or consolidating institutions do not belong to the same category or only one of them falls under the highest category, all of them may be allowed to book the required valuation reserves BASED UPON EXAMINATION BY THE BANGKO SENTRAL on a staggered basis over a maximum period of five (5) years: Provided, that the aggregate amount of the required valuation reserves shall be limited to the amount of the total resources of the institution belonging to the lower category or categories." 3/

"In the case of purchase or acquisition of majority or all of the outstanding shares of a bank/NBQB by another bank/NBQB, the revaluation of assets and the booking of the required valuation reserves BASED UPON EXAMINATION BY THE BANGKO SENTRAL over a period of five (5) years shall be allowed only if such purchase or acquisition is for the purpose of rehabilitating the former bank/NBQB: Provided, that the revaluation of assets and staggered booking of valuation reserves shall be allowed in full only if both banks/NBQBs belong to the same category. Otherwise, only the bank/NBQB being acquired/rehabilitated shall be allowed to recognize in full the appraisal increment resulting from revaluation of assets and to book valuation reserves on a staggered basis, while in the case of the acquiring bank/NBQB, the appraisal increment resulting from revaluation of assets and the privilege of staggered booking of valuation reserves shall each be limited to the amount of the total resources of the bank/NBQB being acquired/rehabilitated." 4/

"The revaluation of assets and staggered booking of valuation reserves shall be available for a period of two (2) years from 19 February 1999 while the rest of the incentives enumerated under Secs. X112 and 4112Q shall be available for a period of three (3) years from 31 August 1998." 5/

"The appraisal increment resulting from the revaluation shall form part of capital for purposes of determining single borrower's limit and capital to risk assets ratio. The use of appraisal increment for cash dividend shall be governed by the provisions of the Corporation Code." 6/

"THE REVALUATION OF PREMISES, IMPROVEMENTS AND EQUIPMENT OF THE INSTITUTION AS WELL AS THE RECOGNITION OF GOODWILL AS AN INCENTIVE TO MERGERS OR CONSOLIDATIONS SHALL ONLY BE ALLOWED IF THE FOLLOWING CONDITIONS ARE MET:

- i. THE SURVIVING OR CONSOLIDATED ENTITY WILL MEET THE EXISTING CAPITAL REQUIREMENTS AFTER ALL ADJUSTMENTS ARE TAKEN UP IN THE BOOKS OF ACCOUNTS OF THE MERGING OR CONSOLIDATING ENTITIES BUT BEFORE CONSIDERING APPRAISAL INCREMENTS AND GOODWILL, OR THERE WILL BE INFUSION OF FRESH CAPITAL TO MEET SAID EXISTING CAPITAL REQUIREMENTS; AND
- ii. THE MERGER OR CONSOLIDATION WILL RESULT IN A MORE VIABLE FINANCIAL INSTITUTION AS A RESULT OF COST SAVINGS AND IMPROVED COMPETITIVE POSITION.

IN CASE OF PURCHASE OR ACQUISITION OF THE MAJORITY OR ALL OF THE OUTSTANDING SHARES OF STOCKS OF A BANK, THE SAME CONDITIONS MUST BE SATISFIED." 7/

"THE EXEMPTION FROM THE 20% AND 30% LIMITATIONS ON EXISTING STOCKHOLDINGS AS AN INCENTIVE TO PURCHASE OR ACQUISITION OF MAJORITY OR ALL OF THE OUTSTANDING SHARES OF STOCKS OF A BANK SHALL ONLY BE ALLOWED IF THE BANK BEING PURCHASED OR ACQUIRED IS DISTRESSED AS MAY BE DETERMINED BY THE MONETARY BOARD AND SUCH

PURCHASE OR ACQUISITION IS FOR THE PURPOSE OF
REHABILITATING THE BANK." 8/

This circular shall take effect immediately.

FOR THE MONETARY BOARD:


RAFAEL B. BUENAVENTURA
Governor

19 April 2000

1/ .Secs. X112 and 4112Q of the Manual of Regulations for Banks and for
Non-Bank Financial Institutions, respectively

2/ Subsecs. X112.a and 4112Q.a

3/ Subsecs. X112.b and 4112Q.b

4/ Subsecs. X112.c and 4112Q.c

5/ Subsecs. X112.d and 4112Q.d

6/ Subsecs. X112.e and 4112Q.e

7/ Subsecs. X112.f and 4112Q.f

8/ Subsecs. X112.g and 4112Q.g