



BANGKO SENTRAL NG PILIPINAS

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

MEMORANDUM NO. M-2014-003

**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) have approved the following amendments and enhancements to the Strengthening Program for Rural Banks (SPRB) Plus to encourage more mergers, consolidations and acquisition of eligible rural banks (RBs) and thrift banks (TBs) by strategic third party investors (STPIs):

- a) Extension of the SPRB Plus until 31 December 2014;
- b) Increase in the Program Fund from P5 billion to an amount to be determined by the Philippine Deposit Insurance Corporation (PDIC) and BSP, once the Fund reaches a level where both agencies agree to augment the Fund;
- c) Revision of the required ownership control in an Eligible Bank by an Eligible STPI to at least 60% (from at least 67%) of the outstanding capital stock of the Eligible Bank to align with the provisions of Circular No. 809 dated 23 August 2013 on the rules and regulations implementing R.A. No. 10574 (An Act Allowing the Infusion of Foreign Equity in the Capital of Rural Banks, Amending R.A. No. 7353, Otherwise known as "The Rural Banks Act of 1992");
- d) Amendments to the following terms and conditions of the PDIC financial assistance (FA):
 - i) PDIC FA shall be in the form of either: a) a combination of Preferred Shares (PS) and Direct Loan; or b) Direct Loan (DL) only;
 - ii) Increase in the amount of the PS component of the SPRB Plus FA from 50% to 100% of the required additional capital to bring the Eligible Bank's risk-based capital adequacy ratio (RBCAR) to 10% for Eligible Banks located in areas affected by typhoon Yolanda. For this purpose, the banks located in areas affected by typhoon "Yolanda" shall be based on the official list of the National Disaster Risk Reduction and Management Council (NDRRMC) and/or the official list of Provinces,

Cities and Municipalities with declaration of State of Calamity. For all other Eligible Banks, the PS component shall remain at 50% of the required additional capital to bring the Eligible Bank's RBCAR to 10%;

- iii) The principal amount of and interest rate on the DL component shall be equivalent to such amount and rate, respectively, that will provide an accumulated net interest spread (NIS) over the tenor of the DL equal to the PS for FA under item d.i(a) above or equal to 100% and 50% of the capital deficiency to bring RBCAR to 10% for Eligible Banks affected by "Yolanda" and other banks, respectively, for FA under item d.i(b) above ; and
- iv) The revision of tenor of the DL to a maximum of 10 years (from a fixed tenor of 10 years).

Shown in Annex A is the SPRB Plus framework with the amended/enhanced features.

For guidance and implementation.


NESTOR A. ESPENILLA, JR.
Deputy Governor

27 January 2014

Att.: A/S

APPROVED AMENDMENTS TO THE STRENGTHENING PROGRAM FOR RURAL BANKS (SPRB) PLUS FRAMEWORK

	EXISTING SPRB PLUS FRAMEWORK	SPRB PLUS FRAMEWORK WITH APPROVED AMENDMENTS
Program Title	Strengthening Program for Rural Banks (SPRB) Plus	Strengthening Program for Rural Banks (SPRB) Plus, As Amended
Legal Basis	RBs and TBs generally serve the same niche markets, mostly catering to the financial needs of the countryside. Hence, the legal basis for SPRB- Module 1 may likewise be used for SPRB Plus, as follows: The SPRB Plus is in recognition of the importance of thrift and rural banks in providing financial services to the community particularly in their specialized or niche markets, and in maintaining financial stability in the economy pursuant to Sec. 17d of RA 3591, as amended (the PDIC Charter).	Same
Rationale	Viability of TBs and RBs is threatened by any or all of the following: a) current slowdown in the economy brought about by the global financial crisis; b) erosion of confidence of depositors due to recent spate of bank failures; c) a number of TBs and RBs are facing high probability of closure due to their serious financial condition. The crucial situation of TBs and RBs, if not properly addressed, could lead to disruption in delivery of essential financial services to the communities they serve, seriously erode confidence in the thrift and rural banking sectors, and could have general or systemic consequences.	Viability of TBs and RBs is threatened by any or all of the following: a) governance issue/lack of competent management team/succession problems; b) erosion of confidence of depositors due to recent spate of bank failures; c) a number of TBs and RBs are facing high probability of closure due to their serious financial condition, especially in the light of typhoon "Yolanda", which totally devastated a number of provinces in the Visayas and other nearby areas; d) the devastation of areas wrought by typhoon "Yolanda" underscores the need for the continuous availability of banking services in such areas, thus promoting financial inclusion. The crucial situation of TBs and RBs, if not properly addressed, could lead to disruption in delivery of essential financial services to the communities they serve, seriously erode confidence in the thrift and rural banking sectors, and could have general or systemic consequences.
Objectives	The SPRB Plus is intended to encourage mergers, consolidations and acquisition of weak RBs and TBs which generally serve the same niche markets to strengthen said banks via grant of FA by PDIC and/or regulatory reliefs/incentives by BSP.	Same

	EXISTING SPRB PLUS FRAMEWORK	SPRB PLUS FRAMEWORK WITH PROPOSED FURTHER AMENDMENTS
Program Period	The SPRB Plus shall be effective upon approval by both PDIC and BSP and shall be available until 31 December 2013 , subject to extension if necessary.	The SPRB Plus, as amended, shall be effective upon approval by both PDIC and BSP and shall be available until 31 December 2014 , subject to extension if necessary.
Program Funding	The P5Bn SPRB Fund shared equally by PDIC and BSP	The P5Bn SPRB Fund shared equally by PDIC and BSP. The Monetary Board and the PDIC Board approved the increase in the Program Fund from P5 billion to an amount to be determined by the Philippine Deposit Insurance Corporation (PDIC) and BSP, once the Fund reaches a level where both agencies agree to augment the Fund.
Eligibility	1. Basic criteria for Eligible Banks: 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 2. Basic criteria for Eligible STPIs*: <u>Universal and Commercial Banks (UKBs), TBs and RBs</u> a. BSP CAMELS rating of at least "3"; b. Not under BSP's Prompt Corrective Action (PCA); and c. No findings of unsafe and unsound banking practice by the BSP or PDIC. <u>Non-Bank Corporations</u> a. Financially strong corporations of good reputation <i>*STPIs may be a single entity or group of entities</i>	Same
Mode of Entry	Eligible STPIs which seek to merge, consolidate, acquire through P&A mode, or acquire not less than 67% of the total outstanding capital of an Eligible Bank shall qualify under the SPRB Plus The STPI 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.	Eligible STPIs which seek to merge, consolidate, acquire through P&A mode, or acquire not less than 60%¹ of the total outstanding capital of an Eligible Bank shall qualify under the SPRB Plus. As amended It is understood that the acquisition of 60% or more of the total outstanding capital of an Eligible Bank shall be subject to ownership limits provided under existing laws.

¹ To align the program's mode of entry with the provisions of BSP Circular No. 809 (series of 2013) relative to ownership of banks.

	EXISTING SPRB PLUS FRAMEWORK	SPRB PLUS FRAMEWORK WITH PROPOSED FURTHER AMENDMENTS
Financial Assistance	The FA shall be extended only to STPIs which 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. FA will be a combination of: - Preferred Shares (PS) – intended to provide additional capital to bring eligible bank's RBCAR to 10%; and - Direct Loan (DL) – to build up sinking fund (SF) to provide an automatic payment mechanism for PS 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. A. Features/Terms of PS will be as follows: - Non-voting, cumulative, convertible to common - Redeemable starting at the end of 5th year but not later than the 10th year - Put option to be exercised by PDIC as follows: - in the event of any default on the part of the bank to comply with its covenants under the rehabilitation plan - SF is equal to the amount of PS - Amount – up to 50% of the required additional capital to bring the eligible bank's RBCAR to 10% - Dividend rate – equal to prevailing 5-year FXTN B. Terms of DL - Purpose – to purchase Government Securities (GS) - Principal – equivalent to such amount that will allow the	The STPI 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. The FA shall be extended only to STPIs which are TBs and RBs that are not subsidiaries of UKBs or not part of banking groups. 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. FA will be either: a combination of: - Preferred Shares (PS) – intended to provide additional capital to bring eligible bank's RBCAR to 10%; and - Direct Loan (DL) – to build up sinking fund (SF) to provide an automatic payment mechanism for PS. Direct Loan only – intended to provide income support to the surviving bank OR 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 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: Features/Terms of PS will be as follows: - Non-voting, cumulative, convertible to common - Redeemable starting at the end of 5th year but not later than the 10th year - Put option to be exercised by PDIC as follows: - in the event of any default on the part of the bank to

	EXISTING SPRB PLUS FRAMEWORK	SPRB PLUS FRAMEWORK WITH PROPOSED FURTHER AMENDMENTS
	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: $Principal = (PS/Tenor \text{ of DL})/NIS \text{ rate}$ c) Interest rate per annum – prevailing 10-year FXTN (net of final tax) less NIS rate of 3% d) Tenor – 10 years, due and demandable upon redemption of PS or exercise of put option e) Collateral/Security – Pledge of GS to be purchased using proceeds of DL	comply with its covenants under the rehabilitation plan • SF is equal to the amount of PS d) Amount – up to 100% or 50% of the required additional capital to bring the eligible bank's RBCAR to 10% for eligible banks located in areas affected by typhoon Yolanda² and other eligible banks, respectively. e) Dividend rate – equal to the prevailing 5-year FXTN (gross basis) at the time of the release of the FA Terms of DL a) Purpose – to purchase Government Securities (GS) b) Principal – equivalent to such amount that will provide an accumulated 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 – maximum of 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 an accumulated NIS over the tenor of the DL to such amount equal to 100% and 50% of the capital deficiency to bring the eligible bank's RBCAR to 10% for eligible banks affected by typhoon Yolanda and other eligible banks, respectively; 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 100% and 50% of the capital deficiency to bring the eligible bank's RBCAR to 10% for eligible banks affected by typhoon Yolanda and other eligible banks, respectively; d) Tenor –maximum of 10 years;

² For this purpose, the banks located in areas affected by typhoon Yolanda shall be based on the official list of the NDRRMC and/or the official list of Provinces, Cities and Municipalities with declaration of State of Calamity.

	EXISTING SPRB PLUS FRAMEWORK	SPRB PLUS FRAMEWORK WITH PROPOSED FURTHER AMENDMENTS
		e) Collateral/Security – Pledge of GS to be purchased using proceeds of DL
Major Terms and Conditions	Major terms of the conditions of the SPRB 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 and banking rules and regulations.	Same
Other Terms		Applications approved but not yet implemented or in process under the existing SPRB Plus shall qualify under the amended SPRB Plus.
Regulatory/ Branching Incentives	In addition to the incentives/regulatory reliefs granted by BSP under the SPRB Module 1 as listed in Annex B, STPI banks can avail of additional branching incentives as follows: The branch licensing fees* to be waived by the BSP shall be equivalent to the amount of capital contribution of the STPI banks 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 bank's capital contribution in a TB is P50 million, said STPI bank is qualified to	Same

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	establish 3 branches (P50 million/P15 million=3.33 branches) in restricted areas for free. As additional premium, STPI UKBs and TBs shall be granted one (1) additional license in restricted areas while STPI RBs shall be granted one additional branching license in areas outside Metro Manila, for every three (3) distressed banks resolved under the Program. 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, provided that subject branches shall be operational during the lifetime of the Program: <table border="1" data-bbox="687 987 967 1883"> <thead> <tr> <th>Location of Branch</th><th>Date of Implementation</th><th>Theoretical Capital</th></tr> </thead> <tbody> <tr> <td>Metro Manila</td><td>Up to 30 June 2012</td><td>5.0</td></tr> <tr> <td>Cebu and Davao</td><td>From 18 Jan. 2006</td><td>5.0</td></tr> <tr> <td>1st to 3rd Class Cities</td><td>Up to 30 June 2012</td><td>2.5</td></tr> <tr> <td>4th to 6th Class Cities</td><td>Up to 30 June 2012</td><td>1.5</td></tr> <tr> <td>1st to 3rd Class Municipalities</td><td>From 18 Jan. 2006</td><td>1.0</td></tr> <tr> <td>4th Class Municipalities</td><td>Up to 30 June 2012</td><td>0.5</td></tr> <tr> <td>5th to 6th Class Municipalities</td><td>From 18 Jan. 2006</td><td>0.5</td></tr> </tbody> </table> Note: Please refer to Cir. No. 728 for applicable theoretical capital requirement after 30 June 2012. 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 Mn for UKBs and P15 Mn for TBs, the STPI can still avail of one (1) branch license in restricted area for free. 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. *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.	Location of Branch	Date of Implementation	Theoretical Capital	Metro Manila	Up to 30 June 2012	5.0	Cebu and Davao	From 18 Jan. 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 Jan. 2006	1.0	4 th Class Municipalities	Up to 30 June 2012	0.5	5 th to 6 th Class Municipalities	From 18 Jan. 2006	0.5	
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