



BANGKO SENTRAL NG PILIPINAS

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

CIRCULAR LETTER NO. CL- 2015- 050

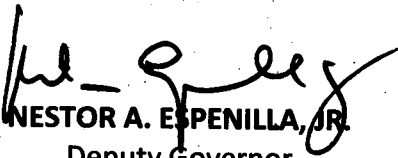
To : All Banks and Non-Bank Financial Institutions

Subject : Consolidation Program for Rural Banks (CPRB)

The Bangko Sentral ng Pilipinas (BSP), Philippine Deposit Insurance Corporation (PDIC), and Land Bank of the Philippines (LBP) have mutually agreed to establish the Consolidation Program for Rural Banks (CPRB), a progressive incentive program designed to encourage mergers and consolidations among rural banks (RBs). The CPRB aims to strengthen the rural banking industry, in recognition of the major role that RBs play in financial inclusion. It intends to promote mergers and consolidations among RBs to bring about a less fragmented banking system by enabling them to improve financial strength, enhance viability, strengthen management and governance and expand market reach, among others.

The CPRB shall be available for a period of two (2) years from the signing of the Memorandum of Agreement among the BSP, the PDIC and the LBP. The eligibility of the merging or consolidating RBs to qualify under the CPRB as well as the incentives thereunder shall be governed by the CPRB Framework (*Annex A*) and the Implementing Guidelines.

For guidance and implementation.


NESTOR A. ESPENILLA, JR.
Deputy Governor

18 August 2015

Att.: A/S

**FRAMEWORK on the
Consolidation Program for Rural Banks**

Legal Basis	Sec. 1 of RA 9576, amending R.A. 3591 (PDIC Charter) mandates PDIC to maintain faith and confidence in the country's banking system and to promote and safeguard the interests of the depositing public by way of helping develop a sound and stable banking system. The Consolidation Program for Rural Banks (CPRB) is in recognition of the need to strengthen and enhance the viability of rural banks given their importance in providing financial services to the community and promoting financial inclusion particularly in their specialized or niche markets, and thereby help maintain financial stability in the economy. Further, pursuant to Section 5 of Republic Act No. 8791 (The General Banking Law of 2000), the Monetary Board may exempt particular categories of transactions from prescribed ratios, ceilings and limitations for banks merging or consolidating.
Objectives	The CPRB is intended to encourage mergers and consolidation of rural banks to bring about a less fragmented banking system by enabling rural banks to: 1. Improve financial strength, enhance viability and generate better return to shareholders; 2. Strengthen management and governance; 3. Generate synergies and economies of scale thru common infrastructure, systems and resources ; and 4. Expand market reach.
Program Period	The CPRB shall be available for a period of two (2) years from program effectivity date.
Eligibility	Proponents should be at least five (5) rural banks (RBs), the head offices or majority of the branches of which, shall preferably be located in the same region or area. Rural banks whose head office is located in a nearby region may be included, if the program objectives shall be met. The resulting bank should meet all of the following: 1. Risk-based capital adequacy ratio (RBCAR) of at least 12%; and 2. Combined unimpaired capital of at least P100Mn.
Program Support	1. Financial advisory services at minimal cost to the proponents. (CFIEP will fund 80% of the cost) a. Advisory on the general conduct of the merger/consolidation process in relation to the program requirements b. Engagement of financial and legal advisers on the optimal merger/consolidation structure c. Due diligence and valuation activities and presentation of the results thereof to the Board of Directors and the shareholders of the proponent banks

	d. Documentation of transaction and submissions to regulatory agencies 2. Business process improvement services at a cost of 20% to the proponents for the first year and 50% during the second year (CFIEP will fund the balance of 80% and 50%, respectively) a. Integration process (data and records integration, consolidation of backroom activities, financial reporting) b. Development and updating of Manuals c. Guidance on automation/new system requirement as a result of integration 3. Capacity building support services at no cost to the proponents (to be funded by CFIEP, BSP, LBP & PDIC) a. Training – credit evaluation and administration, audit and internal control, personnel management, accounting/record keeping, treasury, information technology b. Governance 4. Possible equity participation by the Landbank of the Philippines 5. BSP to observe full flexibility in the grant of incentives allowable under existing banking laws and regulations including BSP Circular No. 237 as amended by Circular Nos. 771 dated 11 October 2012 and 494 dated 20 September 2005 6. Other incentives as may be approved by the PDIC, LBP, and CFIEP
Program Requirements	1. Letter of intent from the proponent banks, together with Board Resolutions manifesting their interest to consolidate with the other proponent banks and authorizing their representative for the program; 2. MOA from the proponent banks to include the following, among others: a. Firm commitment of each proponent bank to enter into a consolidation or merger transaction with the other identified banks and to undertake to comply with all program requirements (to be supported by a Board Resolution); b. Commitment to allow the financial adviser and appraisers to conduct due diligence on their respective banks, provide all information relating to their respective banks' financial condition, and promptly make available all records and disclose all information required by the financial adviser; c. Agreement to abide by the valuation process and results to be conducted by reputable BSP-accredited external auditors/valuation experts; d. Infusion of additional fresh capital (from existing shareholders/new investors) if the resulting adjusted capital and RBCAR of the consolidated bank shall fall below the minimum capital requirements; e. Installation of a professional management team for the consolidated bank;

	f. Nomination of directors committed to adhere to sound governance principles and work to attain the objectives of the program; g. Capacity-building measures; h. Submission of valuation reports of the engaged financial advisers and such other information as may be required by PDIC and BSP; i. Submission of business plan including human resource (HR) strategy and composition of management team and board of directors; j. Reimbursement of their proportionate share to program expenses; k. In the event of withdrawal from the program, reimbursement of their proportionate share to costs already incurred.
Flow of Activities	1. Financial advisory activities a. From among the list of BSP-accredited/selected financial advisers, the proponent banks, as a group, selects the financial adviser which will undertake the program's financial advisory activities. b. Engagement of the services of the selected financial adviser; c. Signing of confidentiality agreement by the engaged financial adviser; d. Conduct of due diligence/valuation by the financial adviser; e. Preparation of reports by the financial adviser to be presented to the proponent banks and regulators; f. Approval by the proponent banks and their shareholders of the results of the valuation which will contain the basis of ownership/share distribution in the consolidated bank; g. Preparation of necessary documents (Plan of Consolidation, Articles of Consolidation, New Articles of Incorporation and By-Laws) to be submitted to SEC h. Submission to PDIC of the necessary documents and the request for PDIC consent of the consolidation transaction under Sec. 21(c) of the PDIC Charter, as amended; i. Submission to BSP of the necessary documents for approval of the consolidation transaction and for the issuance of certificate to register with the SEC; j. Submission to SEC of the registration documents k. Issuance by the BSP of the certificate of authority to operate (as new bank). 2. Conduct of business integration and process review; 3. Conduct of capacity building activities.
MOA among Cooperating Institutions	PDIC, LBP and BSP will execute a Memorandum of Agreement (MOA) in support of CPRB to include a provision for the allocation of P25 million to fund the implementation of the program which will be sourced from Module III of the CFIEP, the related deed of undertaking signed by the members of the Task Force thereof will be appended for the purpose¹. The cooperation of SEC shall likewise be sought through the FSF.

¹ Alternatively, a copy of the memorandum of the Technical Committee, recommending the allocation of the amount for the implementation of the CPRB, as approved by the Task Force, may also be appended.