



**BANGKO SENTRAL NG PILIPINAS**

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

**MEMORANDUM NO. M-2015-008**

**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 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):

1. Extension of the SPRB Plus from 31 December 2014 to 31 December 2015; and
2. Amendments to the following terms and conditions of the financial assistance (FA) extended by the PDIC to eligible strategic third party investors (STPIs) under the SPRB Plus:

Details	Amendments
a) Interest rate determination of the Direct Loan (DL) component of the FA as follows:	
For combination of Preferred Shares (PS) and DL	Interest rate per annum – equivalent to such rate that will provide the surviving bank with an annual net interest spread (NIS) that will accumulate over the tenor of the DL to such amount equal to the PS, <b><u>less amount of discounts earned if any, on the Government Securities (GS) pledged to PDIC which was purchased from the proceeds of the DL.</u></b>
For DL Only	Interest rate per annum –equivalent to such rate that will provide the surviving 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, <b><u>less amount of discounts earned if any, on the GS pledged to PDIC which was purchased from the proceeds of the DL.</u></b>

<b>b) Collateral/Security of the DL</b>	
	<p><i>The collateral shall exclusively be composed of the following items:</i></p> <ul style="list-style-type: none"><li>• <i>the GS to be purchased using proceeds of the DL; and</i></li><li>• <b><u>amortization fund or the funds corresponding to the amortization of the premium on GS purchased from the proceeds of the DL, if any.</u></b></li></ul>

*The above amendments shall apply to applications approved but not yet implemented and applications in process under the original SPRB and subsequent amendments to the program.*

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

For guidance and implementation.

  
NESTOR A. ESPENILLA, JR.  
Deputy Governor

24 January 2015

Att.: A/S

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

<b>EXISTING SPRB PLUS FRAMEWORK</b>		<b>PROPOSED AMENDMENTS</b>
Program Title	Strengthening Program for Rural Banks (SPRB) Plus, As Amended	Same
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
Program Period	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.	The SPRB Plus, as amended, shall be effective upon approval by both PDIC and BSP and shall be available until 31 December 2015, subject to extension if necessary.
Program Funding	The P5Bn SPRB Fund shared equally by PDIC and BSP with a provision to increase to an amount to be determined by both agencies.	Same
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";</p> <p>b. Not under BSP's Prompt Corrective Action (PCA); and</p> <p>c. No findings of unsafe and unsound banking practice by the BSP or PDIC.</p> <p><u>Non-Bank Corporations</u></p> <p>a. Non-bank corporations that are financially strong and of good reputation;</p> <p>b. Non-bank corporations whose stockholders and management have good reputation and strong financial capacity may also be considered as eligible STPI.</p> <p><i>*STPIs may be a single entity or group of entities</i></p>	Same
Mode of Entry	Eligible STPIs which seek to merge, consolidate, acquire through P&A mode, or acquire not less than 60% of the total outstanding capital	Same

	EXISTING SPRB PLUS FRAMEWORK	PROPOSED AMENDMENTS
Financial Assistance	<p>of an Eligible Bank shall qualify under the SPRB Plus, as amended</p> <p>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.</p> <p>The FA shall be extended only to STPIs which are TBs and RBs that are not subsidiaries of UKBs or not forming part of existing banking groups. Non-bank corporations which are not subsidiaries of UKBs or not part of any 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 either:</b></p> <p><b>1) a combination of:</b></p> <ul style="list-style-type: none"> <li>a) Preferred Shares (PS) – intended to provide additional capital to bring eligible bank's RBCAR to 10%; and</li> <li>b) Direct Loan (DL) – to build up sinking fund (SF) to provide an automatic payment mechanism for PS.</li> </ul> <p style="text-align: center;">OR</p> <p><b>2) Direct Loan only – intended to provide income support to the surviving bank</b></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 FA (either a combination of PS and DL or DL only) should not exceed the cost of closure of the eligible bank.</p> <p><b>The combination of PS and DL under FA#1 will have the following features:</b></p> <p><b>Features/Terms of PS will be as follows:</b></p> <ul style="list-style-type: none"> <li>a) Non-voting, cumulative, convertible to common</li> <li>b) Redeemable starting at the end of 5<sup>th</sup> year but not later than the 10<sup>th</sup> year</li> <li>c) Put option to be exercised by PDIC as follows:</li> </ul>	

	EXISTING SPRB PLUS FRAMEWORK	PROPOSED AMENDMENTS
	<p>• in the event of any default on the part of the bank to comply with its covenants under the rehabilitation plan</p> <ul style="list-style-type: none"> <li>• SF is equal to the amount of PS</li> </ul> <p>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 Yolanda<sup>1</sup> and other eligible banks, respectively.</p> <p>e) Dividend rate – equal to the prevailing 5-year FXTN (gross basis) at the time of the release of the FA</p> <p><b>Terms of DL</b></p> <p>a) Purpose – to purchase Government Securities (GS)</p> <p>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.</p> <p>c) Interest rate per annum – equivalent to such rate that will provide the surviving bank with an annual NIS that will accumulate over the tenor of the DL to such amount equal to the PS</p> <p>d) Tenor – maximum of 10 years</p> <p>e) Collateral/Security – Pledge to PDIC of the GS to be purchased using proceeds of DL, and such other collateral/security or arrangements as PDIC may require</p> <p><b>The terms of the DL under FA#2 will have the following features:</b></p> <p>a) Purpose – to purchase Government Securities (GS);</p> <p>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;</p>	<p><b>Terms of DL</b></p> <p>c. Interest rate per annum – equivalent to such rate that will provide the surviving bank with an annual NIS that will accumulate over the tenor of the DL to such amount equal to the PS, <u>less amount of discounts earned, if any, on the Government Securities (GS) pledged to PDIC, which was purchased from the proceeds of the DL;</u></p> <p>e. The collateral shall exclusively be composed of the following items:</p> <ul style="list-style-type: none"> <li>• the GS to be purchased using proceeds of DL; and</li> <li>• <u>amortization fund or the funds corresponding to the amortization of the premium on GS purchased from the proceeds of the DL, if any.</u></li> </ul> <p><b>The terms of the DL under FA#2 will have the following features:</b></p>

<sup>1</sup> 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.

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	<p>c) Interest Rate per annum – equivalent to such rate that will provide the surviving 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;</p> <p>d) Tenor – maximum of 10 years;</p> <p>e) Collateral/Security – Pledge to PDIC of the GS to be purchased using proceeds of DL, and such other collateral/security or arrangements as PDIC may require</p>	<p>c. Interest rate per annum – equivalent to such rate that will provide the surviving 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, <u>less amount of discounts earned, if any, on the Government Securities (GS) pledged to PDIC which was purchased from the proceeds of the DL;</u></p> <p>e. The collateral shall exclusively be composed of the following items:</p> <ul style="list-style-type: none"> <li>• the GS to be purchased using proceeds of DL; and</li> <li>• <u>amortization fund or the funds corresponding to the amortization of the premium on GS purchased from the proceeds of the DL, if any</u></li> </ul>
Major Terms and Conditions	<p>Major terms of the conditions of the SPRB FA will be as follows:</p> <p>a) Quasi-reorganization and/Capital restructuring</p> <p>b) Compliance with the FA agreement terms and conditions as follows:</p> <ul style="list-style-type: none"> <li>• Financial Covenants</li> <li>- payment terms and conditions</li> <li>- achievement of rehabilitation plan performance targets</li> <li>• Non-financial covenants</li> <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> <p>c) Compliance with PDIC regulatory issuances and banking rules and regulations.</p>	Same

**PROPOSED AMENDMENTS**

Same

Same

**EXISTING SPRB PLUS FRAMEWORK**

Applications approved but not yet implemented or in process under the existing SPRB Plus shall qualify under the amended SPRB Plus.

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 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:

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 <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.

	EXISTING SPRB PLUS FRAMEWORK	PROPOSED AMENDMENTS
	<p>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.</p> <p>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.</p> <p><i>*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.</i></p>	