

122-C SHARES OF STOCK OF RURAL BANKS AND COOPERATIVE BANKS

The following rules shall govern stockholdings in RBs and Coop Banks:

Government-held shares. The articles of incorporation of RBs or the articles of cooperation of Coop Banks shall provide for: (a) common stock with the power to vote; (b) preferred stock to represent the counterpart capital of the LBP, DBP or any government-owned or controlled bank or FI, which shall be non-voting and preferred as to assets upon liquidation; and (c) preferred stock with such rights, voting powers, preferences and restrictions, as may be approved by the Monetary Board. Preferred and common stocks shall have a minimum par value of one peso (P1.00) per share: *Provided*, That starting 2 July 2009, RBs which have a par value per share higher than P1.00 and choose to lower the par value of their shares of stock will be required to undertake the necessary steps and secure attendant approvals from the board of directors and stockholders of the banks involved as well as from relevant regulatory agencies to ensure that the reduction in par value shall not result to a dilution in the percentage holdings of stockholders and that its effect shall not prejudice the rights of creditor. An RB may not issue no-par value stock.

In the case of an acquisition plan of an RB already approved-in-principle by the Monetary Board where the shares of stock of the target RB are at a par value per share higher than P1.00, the acquiring bank may request from the Bangko Sentral the incentive to value the shares of stock of the to-be-acquired RB at the minimum par value of P1.00: *Provided*, That the acquiring bank will be responsible for securing the necessary approvals from its board of directors and stockholders as well as from the Bangko Sentral and the SEC pursuant to Section 14 of R.A. No. 8791 and Section 38 of the Corporation Code of the Philippines.

The LBP, the DBP, or any government-owned or-controlled bank or financial institution, on representation of the said private shareholders but subject to the investment guidelines, policies and procedures of the bank or financial institution and upon approval by the Monetary Board of the Bangko Sentral, shall subscribe to the capital stock of any RB, which shall be paid in full at the time of subscription, in an amount equal to the fully paid subscribed and unimpaired capital of the private stockholders or such amount as the Monetary Board may prescribe as may be necessary to promote and expand rural economic development.

Limits on stockholdings in several rural banks. Individuals, banks and non-bank corporations may, subject to applicable ownership ceilings, own voting shares in such number of RBs as may be authorized by the Monetary Board.

Convertibility of preferred stock to common stock. RBs may convert their unissued preferred shares into common stock.

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In the case of sale by the DBP, LBP or any government-owned or controlled bank or financial institution of preferred stock to private persons, such stock may be converted into common stock: *Provided*, That such shares may be sold at any time at adjusted book value: *Provided further*, That pending amendment of the bank's articles of incorporation, if necessary for the purpose of reflecting the conversion, the transfer shall be recorded by the bank in its stock and transfer book and such shareholders shall thereafter enjoy all the rights and privileges appurtenant to the converted stock. The certificates for the government preferred stocks so transferred shall be surrendered and cancelled and the corresponding common stock certificates shall be issued.

The corporate secretary of the bank shall submit to the appropriate supervising department of the Bangko Sentral and the SEC a report of every transfer of preferred stock from the LBP, DBP or any government-owned or controlled bank or financial institution to private shareholders within five (5) banking days from the date of such transfer.

When all the preferred shares of stocks held by the LBP, DBP or any government-owned or controlled bank or financial institution have been sold to private shareholders, the bank's articles of incorporation shall be amended to reflect the conversion, if any, of the preferred shares of stock into common stock.

For this purpose, a certificate that all preferred shares have been sold and transferred to private shareholders shall be issued, duly signed by the president, the corporate secretary, and a majority of the board of directors. The bank shall submit copies of such certificate and the amended articles of incorporation to the Bangko Sentral for the issuance of a certificate of authority for the purpose of registering the amended articles with the SEC.

Guidelines for selection. In determining the fitness and propriety of the non-Filipino citizen, excluding foreign banks that will be allowed to invest in the voting stock of an RB, criteria, such as, but not limited to the following, shall be considered:

- a. strategic objectives in investing in an RB;
- b. demonstrated capacity;
- c. good reputation and integrity; and
- d. business model that is credible, innovative and consistent with the policy objectives of R.A. No. 10574.

A foreign bank seeking to own, acquire or purchase up to 100% of the voting stock in an RB shall meet the qualification requirements and selection criteria under Sec. 103 (*Qualification requirements and Guidelines for selection*).

(Circular No. 858 dated 21 November 2014)