

CONSOLIDATION PROGRAM FOR RURAL BANKS IMPLEMENTING GUIDELINES

(Appendix to Sec. 104)

Section 1 - Rationale

The Consolidation Program for Rural Banks (CPRB) was established in recognition of the need to further strengthen and enhance the viability of rural banks given their importance in providing essential financial services to the community, particularly in their specialized or niche markets, and in promoting financial inclusion and financial stability.

The CPRB aims to bring about more resilient rural banks and a less fragmented banking system by encouraging rural banks to merge or consolidate in order to: (i) improve financial strength, enhance viability and generate better return to shareholders; (ii) strengthen management and governance; (iii) generate synergies and economies of scale through common infrastructure, systems and resources; and (iv) expand their market reach.

Section 2 - Definition of Terms

For purposes of this Guidelines, the following acronyms, words and phrases shall mean as follows:

- 2.1 “Agencies” refers, collectively, to BSP, PDIC and LBP as authors and advocates of the CPRB.
- 2.2 “CAR” refers to “Capital Adequacy Ratio”.
- 2.3 “CFIEP” refers to the Countryside Financial Institutions Enhancement Program which shall provide funding support to the CPRB, consistent with its objectives of improving the long term viability of countryside financial institutions.
- 2.4 “CFIEP TC” refers to the CFIEP Technical Committee which is composed of representatives from Bangko Sentral, PDIC and LBP and is mainly tasked to monitor the implementation of CFIEP projects, including the CPRB.
- 2.5 “Consolidation” refers to the combination of at least five rural banks (RBs) resulting in their dissolution and the creation of a new entity, subject to the provisions of existing applicable and relevant laws and Section 5.
- 2.6 “Day” refers to business day or day other than a Saturday, Sunday or day on which commercial banks in Metro Manila are generally closed for business.

- 2.7 “Financial Adviser” refers to the adviser engaged by the Proponent Banks from among the top audit firms¹ and investment houses² with capability to undertake financial advisory services to the Proponent Banks as set forth under Section 8.7.
- 2.8 “Financial Adviser’s Final Report” refers to the written report submitted by the Financial Adviser which includes but is not limited to the: (i) methodology of valuation; (ii) due diligence findings including report on the overall financial condition of the Proponent Banks; (iii) valuation of Proponent Banks which takes into consideration appraisal of assets and legal audit report on pending cases; (iv) proposed ownership and capital structure and proposed consolidation or merger plan of the Resulting Bank; and (v) all reports and documents required to be delivered by the Financial Adviser under this Guidelines and the engagement contract with the Financial Adviser.
- 2.9 “Merger” refers to the combination of at least five RBs, one of which shall be the Resulting Bank, subject to the provisions of existing applicable and relevant laws and Section 5.
- 2.10 “MOA” refers to the “Memorandum of Agreement on the Consolidation Program for Rural Banks among the Proponent Banks” which shall contain the Proponent Banks’ agreements as indicated in Section 7(f).
- 2.11 “MOU” refers to the Memorandum of Undertaking in favor of the Agencies duly and jointly executed by and among the Proponent Banks which shall contain the commitments, representations, warranties and other obligations of the Proponent Banks as indicated in Section 7(g).
- 2.12 “Proponent Banks” refers to the participating RBs which qualify under the CPRB pursuant to Section 5.
- 2.13 “SEC” refers to the Securities and Exchange Commission which approves the registration of the Resulting Bank as a consolidated or merged bank.
- 2.14 “Resulting Bank” refers to the consolidated bank or surviving bank after consolidation or merger, respectively, of the Proponent Banks.

Section 3 - Interpretation

The headings in this Guidelines are inserted for convenience of reference only and shall not limit or affect the interpretation of its provisions. References to sections and annexes are to be construed as references to the Sections and Annexes to this Guidelines.

Section 4 - CPRB Availability Period

The CPRB shall be available for two (2) years from approval by all governing boards of Bangko Sentral, PDIC, and LBP. To avail of the CPRB, letters of intent/application duly supported by certification of board and shareholders' approvals of the Proponent Banks and all other required documents enumerated in Section 7 must have been duly submitted to and received by the PDIC on or before the expiration of the two-year availability period.

Section 5 - Eligibility of Proponent Banks to the CPRB

Proponent Banks should be at least five RBs, the head offices or majority of the branches of which shall preferably be located in the same region or area.

The Resulting Bank should meet all of the following:

- a. CAR of at least 12%; and
- b. Combined unimpaired capital of at least P100 million.

If the Proponent Banks are less than five but based on the submitted documents, the Resulting Bank will have CAR of at least 12% and a combined unimpaired capital of at least P100 million, the application may be accepted.

Section 6 - PRB Support

The Proponent Banks may avail of the following:

6.1 Funding support, subject to subsidy limits set by the CFIEP TC, for:

- a. Financial advisory services in accordance with Sections 8.6 and 13.2;
- b. Business process improvement services in accordance with Section 13.2;

6.2 Capacity building support services in accordance with Section 12.3;

6.3 Possible equity participation by the LBP as provided under Section 10;

6.4 Regulatory Incentives under Section 104 and other existing laws and rules subject to the Proponent Banks' compliance with the requirements therein and approval of the concerned agencies; and

6.5 Other CPRB support as may be provided by Bangko Sentral, PDIC, LBP, and CFIEP

Section 7 - Procedures for Application

To avail of the CPRB's incentives, the Proponent Banks shall submit to PDIC, through the Office of the Vice President-Resolution Group, three sets of the following documents:

- a) Letter addressed to the PDIC and the Bangko Sentral indicating their intention to consolidate or merge under the CPRB;
- b) Duly accomplished CPRB application form;
- c) Resolution of the Board of Directors of the respective Proponent Banks approving the consolidation or merger with other Proponent Banks under the CPRB. The resolution shall be certified under oath by the respective corporate secretaries of the Proponent Banks;
- d) Resolution of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock of each Proponent Bank approving the consolidation or merger with other Proponent Banks under the CPRB. The resolution shall be certified under oath by the respective corporate secretaries of the Proponent Banks;
- e) Secretary's Certificate of Adoption of Board Resolutions of each of the Proponent Banks containing the following:
 - i. Approval by the Board of the request for availment of funding support under Section 6.1;
 - ii. Approval by the Board of the MOA among Proponent Banks containing the terms under Section 7(f), the MOU in favor of the Agencies containing the terms under Section 7(g), Confidentiality Agreement, and other documents as may be required under the CPRB; and
 - iii. Designation of the Proponent Bank's authorized signatories to execute and deliver the foregoing documents in relation to the CPRB and attesting to their specimen signatures.
- f) Duly executed joint MOA among Proponent Banks containing, among others, the following:
 - i. Agreement to consolidate or merge under the CPRB, and to comply with the CPRB's requirements.
 - ii. Commitment to: (a) allow the duly designated Financial Adviser to conduct due diligence on

- the Proponent Banks; and (b) voluntarily disclose and allow access to all records, documents and information pertinent to their respective banks' financial condition and other information as may be required by the Financial Adviser.
- iii. Agreement to accept the results of the Financial Adviser's due diligence review including the consolidation/ merger structure.
 - iv. Infusion of additional fresh capital, as may be needed, to bring the resulting CAR and combined adjusted capital of the Proponent Banks to the required capital level pursuant to Sections 5 and 9.
 - v. Agreement to adopt the human resource and systems integration plan for the Resulting Bank as proposed by the Financial Adviser.
 - vi. Nomination of directors in the Resulting Bank who possess the qualifications and none of the disqualifications under Bangko Sentral regulations, who adhere to sound governance principles and who will work to ensure the viability of the Resulting Bank to attain the objectives of the CPRB.
 - vii. Installation in the Resulting Bank of a professional management team composed of individuals who meet BSP's fit and proper rule.
 - viii. Institution and adoption of capacity building measures.
 - ix. Submission of valuation and appraisal reports, due diligence findings (including report on the overall financial condition of the Proponent Banks) of the Financial Adviser and such other information as may be required by PDIC and Bangko Sentral.
 - x. Submission of the business plan, including strategies, financial projections and proposed organizational structure for the Resulting Bank.
 - xi. Agreement on cost sharing of expenses under the CPRB including dealing with withdrawal (voluntary or involuntary) by any of the Proponent Banks.
 - xii. Agreement to fully reimburse CFIEP for the funding support it extended, in case the consolidation or merger of the Proponent Banks does not materialize.
 - xiii. Designation of a duly authorized representative and his alternate for purposes of communication and coordination with the Agencies.

- g) Duly executed joint MOU of the Proponent Banks' commitments to the Agencies as follows:
- i. Abide by the terms and conditions of the CPRB as outlined in the Guidelines, and their obligations under the MOA among the Proponent Banks referred to in Section 7(f).
 - ii. Abide by their warranties and representations to the Agencies.
 - iii. Grant authority to PDIC to request for proposals from the pool of financial advisers accredited under the CPRB.
 - iv. In case the consolidation or merger of the Proponent Banks does not materialize, fully reimburse CFIEP's share as specified under Section 13.2 in accordance with their agreement on cost sharing, and to shoulder equally any deficiency in the reimbursement of CFIEP's share, in the event of failure of any of the Proponent Banks to pay its corresponding share.
 - v. Grant authority to BSP to deduct from their respective accounts with Bangko Sentral, any amount due to the CFIEP, in case they fail to remit their corresponding share to reimburse CFIEP share under Section 13.2 in accordance with Sections 14.1 and 14.2.
 - vi. Engage a business process consultant for the Resulting Bank in accordance with Section 12.2, with the approval of the Proponent Banks' respective board of directors.
- h) Duly executed Confidentiality Agreement of each of the Proponent Bank; and
- i) Copy of the Proponent Banks' respective latest audited and interim Financial Statements.

PDIC shall only receive complete sets of the foregoing documents from the Proponent Banks. PDIC shall furnish Bangko Sentral and LBP copies of the complete documents which PDIC received from the Proponent Banks.

Section 8 - Engagement of the Financial Adviser

8.1 Upon receipt of the complete set of requirements as provided under Section 7, PDIC shall request the top audit firms¹ and investment houses² with capability to undertake financial advisory services under Section 8.7 to submit proposals for engagement of their services. The proposals shall be addressed directly to the Proponent Banks' duly designated authorized representative, copy furnished PDIC.

8.2 Within ten (10) days from receipt of all the proposals from the financial advisers, the Proponent

Banks shall:

- a. Collectively decide and select the Financial Adviser with the most reasonable and responsive proposal; and
- b. Notify PDIC in writing of the choice of Financial Adviser.

8.3 Within two (2) days from receipt of notice of choice of Financial Adviser, PDIC shall communicate to CFIEP the Proponent Banks' choice of Financial Adviser.

8.4 Within five (5) days from receipt of the choice of the Financial Adviser, the CFIEP TC shall issue to the Proponent Banks' authorized representative the notice to proceed with the engagement of the Financial Adviser.

8.5 Within five (5) days from the receipt of the notice to proceed, the Proponent Banks shall enter into an engagement contract with the Financial Adviser, copy furnished PDIC.

8.6 Within five (5) days from the execution of the engagement contract with the Financial Adviser, the Proponent Banks' authorized representative shall release to the Financial Adviser the initial payment for its services equivalent to 20% of the Financial Advisers' fee as indicated in the said engagement contract. The balance equivalent to 80% of the Financial Adviser's fee, subject to the subsidy limits set by the CFIEP TC under Section 13.2, shall be for the account of CFIEP. Any excess from the subsidy limits set by the CFIEP TC under Section 13.2 shall be for the account of the Proponent Banks.

The engagement contract with the Financial Adviser shall become effective upon the Financial Adviser's receipt of the 20% initial payment from the Proponent Banks pursuant to the terms of the Financial Adviser's engagement, and such other terms and conditions as may be agreed between the Proponent Banks and the Financial Adviser.

8.7 Upon receipt of the 20% initial payment, the Financial Adviser shall immediately commence and render financial advisory services, which include but are not limited to the following:

- a. Conduct due diligence review to determine the financial condition of each Proponent Bank using standard parameters.

The due diligence review shall take off from the Proponent Bank's latest audited financial statements (Balance Sheet, Income Statement and Cash Flow) and supporting schedules and related documents, as well as the latest interim end-of-month financial statements.

The Financial Adviser shall ensure that the financial statements were prepared in accordance with Philippine Financial Reporting Standards (PFRS) and Bangko Sentral rules and regulations for banks, and reflect the latest financial condition of the Proponent Banks which shall be as of the end of the month immediately preceding the date of application under the CPRB. In case it becomes necessary to adjust the books of the Proponent Banks in order to comply with PFRS and BSP rules and regulations, the Financial Adviser shall restate the financial statements accordingly.

- b. Prepare valuation study on each Proponent Bank based on net asset value (NAV) approach, taking into consideration the appraised value of the fixed assets and the estimated contingent assets and liabilities based on the audit of significant legal cases.
 - i. Where updated appraisal of the Proponent Banks' real properties and fixed assets is necessary, the Financial Adviser shall set the parameters for the internal appraisal and/or for the engagement by the Proponent Banks of (an) independent appraiser(s).
 - ii. The Financial Adviser shall also set the parameters for the legal audit by existing retained/in-house lawyers and/or for the engagement by the Proponent Banks of (a) law firm(s) which shall conduct the legal audit.
- c. Recommend ownership and capital structure of the Resulting Bank based on the results of the valuation study.
- d. Assist the Proponent Banks in the preparation of the business plan/strategy, financial projections, organizational structure and human resource strategy for the Resulting Bank.
- e. Assist in coordinating with the SEC, the Agencies and the Bureau of Internal Revenue, if necessary.
- f. Undertake other functions/activities required to complete and implement the transaction contemplated under the CPRB.

8.8 Within fifteen (15) days from the conclusion of their due diligence review, the Financial Adviser shall submit the Financial Adviser's Final Report containing the result of valuation and the Resulting Bank's ownership structure for approval of the Proponent Banks' respective boards of directors and shareholders, copy furnished PDIC and Bangko Sentral.

The due diligence, valuation study and capital structuring shall not exceed six (6) months from the effective date of the engagement contract with the Financial Adviser.

Section 9 - Infusion of Additional Capital

9.1 In case the resulting CAR and the unimpaired capital of the Resulting Bank based on the Financial Adviser's Final Report are below 12% and P100Mn, respectively, the Proponent Banks shall infuse additional fresh capital to meet the CPRB's minimum capital requirements in accordance with their commitment under the MOA and MOU.

9.2 The Proponent Banks shall cause the infusion of the fresh capital required under the CPRB through any or a combination of the following: (i) the existing shareholders of the Proponent Banks; and/or (ii) a third party investor.

Section 10 - Possible Equity Investment Facility from LBP

10.1 In the event that the resulting CAR of the Resulting Bank falls short of the 12% requirement but is at least 10%, the Resulting Bank may avail of LBP's Equity Investment Facility to bring the CAR to 12%.

10.2 The Resulting Bank's eligibility under this facility shall be subject to the Guidelines on the LBP Equity Investment Facility for CPRB attached hereto as Annex "A" and made an integral part of this Guidelines.

Section 11- Approval of the Consolidation or Merger

11.1 The Proponent Banks shall secure the approval of their respective boards of directors and shareholders on the final plan of consolidation or merger.

11.2 Within forty-five (45) days from receipt of the Financial Adviser's Final Report, the Proponent Banks shall secure the regulatory consents and/or approval of PDIC, Bangko Sentral and SEC as provided under existing laws for all banks on consolidations or mergers.

11.3 Upon Bangko Sentral's issuance of the Certificate of Authority to operate as the Resulting Bank, the Proponent Banks shall secure from the SEC the Certificate of Registration of the Resulting Bank.

Section 12 - Integration and Other Activities of the Resulting Bank

12.1 Within twenty-five (25) days from the issuance by the CFIEP TC of the certificate of completion of the Financial Adviser's Final Report, the Proponent Banks shall conduct:

- a. Integration and business process improvement;
- b. Capacity building activities; and
- c. Such other activities necessary to ensure the success and viability of the Resulting Bank.

12.2 Should the Proponent Banks decide to avail of the funding support for the business process improvement services, it shall notify PDIC of such decision and the choice of consultant, in which case, procedures for the engagement of the Financial Adviser under Section 8 shall be observed as may be appropriate. Provided, however, that the sharing of expenses shall be subject to Section 13.2.

The business process improvement shall include:

- a. Integration process (data and records integration, consolidation of backroom activities, financial reporting);
- b. Development and updating of manuals; and
- c. Guidance on automation/new system requirement as a result of the integration.

12.3 The Agencies and CFIEP shall provide capacity building support services such as trainings on credit evaluation and administration, audit and internal control, personnel management, accounting/record keeping, treasury, information technology, and governance at no cost to the Resulting Bank.

Section 13- CPRB's Funding and Expenses

13.1 CFIEP shall participate in the CPRB by providing the funding requirements in accordance with this Guidelines.

13.2 Subject to the subsidy limits set by the CFIEP TC, the cost of the financial advisory and business process improvement services inclusive of applicable taxes shall be shared by the CFIEP and the Proponent Banks (or Resulting Bank) in accordance with the following proportion:

CFIEP 80%

Proponent Banks/Resulting Bank 20%

13.3 The Agencies shall not be liable for any amount due to the Financial Adviser in excess of CFIEP's share under Section 13.2. Any additional payment for the financial advisory and business process improvement service providers shall be for the account of the Proponent Banks (or Resulting Bank).

13.4 All other fees and expenses related to the consolidation or merger of the Proponent Banks under the CPRB shall be shouldered by the Proponent Banks (or Resulting Bank).

13.5 For CFIEP's corresponding share in the fees under Section 13.2, the same shall be remitted to the Financial Adviser and the business process consultant only after the Proponent Banks shall have paid their proportionate share.

Section 14 - Reimbursement to CFIEP

14.1 The Proponent Banks shall be under obligation to reimburse CFIEP's share under Section 13.2 in accordance with their agreement on cost sharing within three (3) days from receipt of the demand for reimbursement in case the consolidation or merger does not materialize.

14.2 In case a Proponent Bank refuses or fails to remit any payment due to CFIEP under Section 14.1, SSP, after due notice from the CFIEP to the Proponent Bank concerned, shall proceed to debit the Proponent Bank's demand deposit account therewith, corresponding to the amount due for payment as contained in the CFIEP's demand for reimbursement/payment from the Proponent Bank concerned pursuant to the authority granted to Bangko Sentral under the MOU executed by the Proponent Banks. The full amount debited shall be credited to the demand deposit account of the CFIEP with SSP.

14.3 Any deficiency due to the failure by any of the Proponent Banks to pay CFIEP in full of its corresponding share shall be divided equally among the remaining Proponent Bank. The procedures set forth under the preceding section shall be observed in the payments/collection of such deficiency. The Proponent Banks shall exercise their rights under their agreement if any, or under the law, to exact reimbursement from any non-paying Proponent Bank accordingly.

Section 15 - Amendments

The Agencies may execute a supplement or amendment hereto for the purpose of adding, changing or modifying provisions of this Guidelines as may be necessary to achieve the CPRB's objectives.

Section 16 - Repealing clause

Previous issuances/guidelines inconsistent herewith are deemed superseded.

Section 17 - Effectivity

This Guidelines shall take effect immediately.

Annex A**CONSOLIDATION PROGRAM FOR RURAL BANKS
GUIDELINES ON THE LAND BANK OF THE PHILIPPINES (LBP) EQUITY INVESTMENT FACILITY****A. Rationale**

Upon consolidation or merger of Proponent Banks, and in case the resulting Capital Adequacy Ratio (CAR) and the unimpaired capital of the Resulting Bank based on the Financial Adviser's report are below 12% and P100Million, respectively, the Resulting Bank shall infuse additional fresh capital to meet the capital and CAR requirements of the Consolidation Program for Rural Banks (CPRB), through any or a combination of the following: (i) the existing shareholders of the Proponent Bank; and/or (ii) a third party investor.

In the event that upon capital infusion by the existing shareholders or third party investors, the CAR of the Resulting Bank is at least 10% but below 12%, the Resulting Bank may avail of LBP's equity investment facility under the CPRB.

B. Objectives

LBP equity infusion shall be undertaken to meet the following objectives:

1. Increase the CAR from at least 10% to 12%;
2. Strengthen the capital base of the Resulting Bank;
3. Help sustain long-term viability of the Rural Banking sector.

C. Equity Investment Facility

The Resulting Bank (consolidated or merged bank) under the CPRB may avail of the LBP equity investment facility subject to the following:

1. Eligibility Criteria
 - a. No adverse findings on the principal (Directors/Key Officers);
 - b. CAR of at least 10% but less than 12%;
 - c. Minimum capitalization required by the CPRB;
 - d. Adequate Reserves for the four (4) week period preceding the application (based on the submitted interim financial statements);

- e. Net past due ratio of not more than 15%; and
 - f. The Proponent Banks shall have no past due obligations with LBP and other banks.
2. Maximum amount: Up to 100% of the total capital requirement in bringing the CAR from at least 10% to 12%;

3. Features

- a. Maturity of ten (10) years from the date of release, notwithstanding any change in the structure of ownership of the Resulting Bank;
- b. LBP's entitlement to be represented in the Countryside Financial Institution (CFI)³ Board pursuant to E.O. 20, series of 2015 "Guidelines on the Designation of LBP representatives to the Board of CFIs as may be amended;
- c. Preferred shares;
- d. Cumulative dividends;
- e. To be fully redeemed at maturity at par or book value, whichever is higher plus unpaid dividends, if any;
- f. Non-voting but shall be entitled to vote on corporate acts specified under Section 6 of the Corporation Code;
- g. Dividend Rate of 10-year PDST-R2 plus 2.5%⁴ or a floor rate of 6.5%², whichever is higher, fixed at the time of availment, provided in the event that the PDST-R2 rate will be replaced by a new benchmark rate as determined by the Bankers' Association of the Philippines or the SSP, the new benchmark rate will be adopted for purposes of determining the Dividend Rate;
- h. Booking of the equity by the Resulting Bank shall be recognized under Tier 2 Capital; and
- i. The Resulting Bank shall be required to establish sinking fund with the LBP Trust Banking Group where regular annual contribution to build up over time to cover repayment. The specific date during the year and amount of contribution to the sinking fund shall be stipulated in the Escrow Agreement between the Resulting Bank and LBP which is a pre-release requirement.

4. Other Terms and Conditions:

Issuance of the preferred shares under the CPRB shall require compliance with the following in accordance with Section 125 and other requirements:

- a. It must be issued and paid-in;
- b. It must be subordinated to depositors and general creditors of the Bank;
- c. It is neither secured nor covered by a guarantee of the Issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-a-vis depositors and general creditors of the Bank;
- d. With regard to maturity:
 - 1) It must have a minimum original maturity of at least five (5) years;
 - 2) Its recognition in regulatory capital in the remaining five (5) years before maturity will be amortized on a straight line basis as shown in the table below; and

Remaining Maturity	Discount Factor
5 years and above	0%
4 years to <5 years	20%
3 years to <4 years	40%
2 years to <3 years	60%
1 year to <2 years	80%
<1 year	100%

- 3) There are no step-ups or other incentives to redeem.

- e. It may be callable at the initiative of the Issuer only after a minimum of five (5) years:
 - 1) To exercise a call option the Bank must receive prior supervisory approval; and
 - 2) The Bank will not do anything which creates an expectation that the call will be exercised; and
 - 3) The Bank will not exercise a call unless:

- i. The Bank replaces the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the Bank; or
 - ii. The Bank demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised.
- f. The investor must have no rights to accelerate the repayment of future scheduled payments (coupon or principal), except in bankruptcy and liquidation;
- g. The instrument cannot have a credit sensitive dividend feature, that is a dividend/coupon that is reset periodically based in whole or in part on the Bank's credit standing;
- h. Neither the Bank nor a related party over which the Bank exercises control or significant influence can have purchased the instrument, nor can the Bank directly or indirectly have funded the purchase of the instrument;
- i. It must be underwritten by a third party not related to the issuer bank nor acting in reciprocity for and in behalf of the issuer bank;
- j. The instrument shall be converted into common equity upon the occurrence of a trigger event subject to the provisions as may be defined by BSP. The trigger event occurs when the Bank is considered non-viable as determined by the BSP. Non viability is defined as a deviation from a certain level of Common Equity Tier 1 (CET1) Ratio, inability of the Bank to continue business (closure) or any other event as determined by the BSP, whichever comes earlier.

The issuance of any new shares as a result of the trigger event must occur prior to any public sector injection of capital so that the capital provided by the public sector is not diluted.

The requirements on loss absorbency features of Tier 2 capital at point of nonviability as provided in Annex F of Appendix 59 shall likewise be observed.

Following the provisions of Item "10 of Annex F" of Appendix 59, the formula for the conversion of the total outstanding notes into common shares when the trigger event shall have occurred and the Issuer is declared by Bangko Sentral to have reached the point of non-viability, shall be as follows:

$$\text{No. of Common Shares} = \frac{\text{Amount of Investment}}{50\% \times \text{Adjusted Book Value per Share}}$$

where the amount of investment pertains to the preferred shares issued while the adjusted book value per share refers to the book value at the time the capital instrument is issued, and determined using the formula:

$$\frac{\text{Total Stockholder's Equity- Preferred Equity}}{\text{Total Outstanding Common Shares}}$$

The adjusted book value per share shall be the figure that will be obtained from the Financial Adviser's report or from the latest financial statements using the above formula.

The number of common shares obtained using the above formula shall be the minimum number of common shares to be received by LBP.

Other terms/requirement on loss absorbency features include the following:

The issuer must make the necessary adjustments to its Articles of Incorporation to accommodate the conversion of the capital instrument into common shares for loss absorbency at the point of non-viability

k. The write down will have the following effects:

1. Reduce the claim of the instrument in liquidation;
2. Reduce the amount repaid when a call is exercised; and
3. Partially or fully reduce coupon/dividend payments on the instrument.

l. The Issuer must submit a written external legal opinion that it has met the requirements on the issuance of the preferred shares, including the subordination and loss absorption features.

m. It must clearly state on its face that it is not a deposit and is not insured by the Philippine Deposit Insurance Corporation (PDIC).

n. The existing LBP equity investments and loans in the participating banks, if any, should be recognized by the Resulting Bank.

- o. Issuer must meet all of the following Eligibility Criteria prior to the release of the equity investment proceeds:

Parameters	Benchmark
1. Should be Resulting Bank (merged or consolidated) under the CPRB	Complied
2. No adverse findings on the principal (Directors/Key Officers)	Complied
3. Capital Adequacy Ratio (CAR)	At least 10% but less than 12%
4. Minimum capitalization required by the CPRB	At least P100 million unimpaired capital
5. Adequate Reserves for the four (4) week period preceding the application (based on the submitted interim financial statements)	Complied
6. Past Due Ratio (net)	Not more than 15%

- p. The duly approved equity investment proposal can be availed of one (1) year from the date of approval.

- q. In compliance with Annex G of *Appendix 67*,

1) The Issuer shall provide the appropriate Risk Disclosure Statement for the issuance of additional Tier 2 capital instruments. The said disclosure statement shall explain the loss absorbency features of additional Tier 2 capital instruments as well as the resulting processes that will be effected when triggers for loss absorbency are breached;

2) The LBP, through its Investment Banking Group, shall issue certification stating that:

- i. it has been provided a Risk Disclosure Statement which among others, explains the concept of loss absorbency for additional Tier 2 capital instruments as well as the resulting processes should the triggers are breached;
- ii. it has read and understood the terms and conditions of the issuance;
- iii. it is aware of the risks associated with the capital instruments, and
- iv. said risks include permanent write-down or conversion of the debt instrument into common equity at a specific discount.

- r. Such other terms and conditions as may be required by LBP

5. Documentary Requirements

a. Pre-processing Requirements

- 1) Written endorsement from LBP Servicing Lending Center (SLC) on Resulting Bank's application for LBP equity investment;
- 2) Original copy of Resulting Bank's application letter signed by its duly authorized signatory;
- 3) Original copy of Board of Directors Resolution approving the Resulting Bank's authorized representative/ signatory to Resulting Bank's application for LBP equity investment with his/her picture and specimen signatures, and the Resulting Bank's application for LBP equity investment;
- 4) Copy of the merger or consolidation plan;
- 5) Certified true copy of Legal Reserves Schedule for 4 weeks immediately preceding the submitted latest quarter-ended financial statements of the current year;
- 6) Financial Statements (FS)- Balance Sheet & Income Statement:
 - a. Certified true copy of audited and Bureau of Internal Revenue (BIR)-filed FS for the past year/s, *if applicable*, stamped received by BIR;
 - b. Certified true copy of latest quarter-ended FS of the current year, stamped received by Bangko Sentral;
 - c. Certified true copy of Computation of Adjusted CAR comprising Part 1: CAR Report and Part II: Qualifying Capital, stamped received by Bangko Sentral:
 - i. For the past year, *if applicable*; and
 - ii. Latest quarter-ended FS of the current year
- 7) Business Plan;
- 8) 5-yr. Financial Projection consisting of the following:
 - a) Capital Structure
 - b) Balance Sheet

Note: The required FS cover only the latest audited BIR-filed FS, latest quarter-ended FS of the current year, and CAR as of latest quarter-ended FS of the current year

- c) Income Statement
- d) Cash Flow Statement

9) Other documents:

- a) Certified true copy of Resulting Bank's authority to operate granted by Banko Sentral;
- b) Certified true copy of existing registration and articles of incorporation and by-laws;
- c) list of major stockholders and their stockholdings with their bio-data;
- d) List of Directors and key officers with their bio-data;
- e) latest background investigation (BI)/credit investigation (CI) results on Resulting Bank (not more than 6 months from latest quarter-ended FS);
- f) Copy of latest approved Credit Facility Proposal (CFP) on Rediscounting facility granted to Resulting Bank, if applicable; and
- g) Copy of the Financial Adviser's Report.

b. Pre-release Requirements

Original copies of the following:

- 1) Resulting Bank's letter request for the release of proceeds of LBP equity investment;
- 2) Board Resolution designating Resulting Bank's authorized signatory for the execution of Memorandum of Agreement (MOA), Escrow Agreement and other pre-release documents with his/her picture and specimen signatures;
- 3) Duly signed and notarized MOA on equity investment;
- 4) Duly signed and notarized Escrow Agreement;
- 5) Duly approved Investment Facilities Proposal (IFP) for LBP equity investment;
- 6) Investment and loan Committee (ILC)/Board Resolutions approving the LBP equity investment;
- 7) Certificate of stock issued in favor of LBP;
- 8) Written commitment of Resulting Bank to effect the conversion at the point of non-viability;

- 9) Waiver of the respective stockholders of their pre-emptive rights on the common shares to be issued to LBP at the point of non-viability;
- 10) SEC-approved amended Articles of Incorporation and by-laws indicating the features of equity investment, and to accommodate the conversion of equity investment to common shares at the point of non-viability in accordance with the Loss Absorption Features under the Terms and Conditions of the Issuance; and
- 11) Pay/Settle all past due obligations (loans and investments) prior to availment.

c. Post-release Requirements

Resulting Banks commit to comply with the following documentary submission until full redemption of the equity investment:

- 1) Annual Submission to LBP of Audited FS (including Auditor's Opinion and Notes to FS};
- 2) Invitation/Notice and Minutes of General Stockholders'/Board of Directors' Meetings submitted to LBP representatives to CFIs;
- 3) SSP-filed annual reports in accordance to Bangko Sentral Circular No. 956 (April 17, 2017) Guidelines on the Submission of Annual Reports and the Sanctions to be Imposed for Non-Disclosure of Relevant Information;
- 4) Notice of Change in Ownership or composition of stockholders in the Resulting Bank, and other major changes that may have material impact to LBP's investment to be implemented in the Bank; and
- 5) Resulting Bank's disclosure on Material Adverse Events.

(CL-2017-069 dated 17 November 2017)

Footnotes

1. As listed in the Business World Top 1,000 Corporations
2. Members of the Investment House Association of the Philippines, provided they are not subsidiaries or affiliates of, or do not belong to the same business group as, any local or foreign bank.
3. CFI shall refer to the Resulting Bank in the consolidation/merger under the CPRB.
4. For confirmation approval by the LBP Committees/ Loan Approving Group (LAG).