[BSP CIRCULAR NO. 237, April 19, 2000]

MERGERS AND CONSOLIDATIONS

Pursuant to Monetary Board Resolution No. 384 dated 10 March 2000, as amended by Monetary Board Resolution No. 573 dated 7 April 2000, the provisions of The Manual of Regulations for Banks and the Manual of Regulations for Non-Bank Financial Institutions are hereby amended as follows:

SECTION 1. The provisions of Secs. X112 and 4112Q of the Manual of Regulations for Banks and Non-Bank Financial Institutions defining merger and consolidation are hereby transferred to Subsecs. X111.3 and 4111Q.1, respectively, as follows:

> "For purposes of this section, merger and consolidation shall mean as follows:
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> Merger — is the absorption of one or more corporations by another existing corporation, which retains its identity and takes over the rights, privileges, franchises, and properties, and assumes all the liabilities and obligations of the absorbed corporation(s) in the same manner as if it had itself incurred such liabilities or obligations. The absorbing corporation continues its existence while the life or lives of the other corporation(s) is/or are terminated.
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> Consolidation — is the union of two or more corporations into a single new corporation, called the consolidated corporation, all the constituent corporations thereby ceasing to exist as separate entities. The consolidated corporation shall thereupon and thereafter possess all the rights, privileges, immunities, franchises and properties, and assume all the liabilities and obligations of each of the constituent corporations in the same manner as if it had itself incurred such liabilities or obligations."

SECTION 2. Sections X112 and 4112Q of the Manual of Regulations for Banks and Non-Bank Financial Institutions, respectively, together with their corresponding Subsections are hereby amended to read as follows

"Merger or Consolidation Incentives. In pursuance of the policy to promote mergers and consolidations among banks and other financial intermediaries as a means to develop larger and stronger financial institutions, constituent entities may, subject to Bangko Sentral approval, avail of any or all of the following:

> a. Revaluation of bank premises, improvements and bank equipment of the institutions: Provided, That such revaluation shall be based on fair valuation of the property conducted by a reputable appraisal company which shall be subject to review and approval by the Bangko Sentral;

b. Unbooked valuation reserves based upon the Bangko Sentral examination and other capital adjustments resulting from the merger or consolidation may be booked on staggered basis over a maximum period of five (5) years;

c. Exemption from the 20% and 30% limitations on voting stockholdings in the new or surviving institution of any person or persons related to each other within the third degree of consanguinity or affinity, or corporations, respectively: Provided, That this shall be allowed only if the bank that is being merged is distressed AS MAY BE DETERMINED BY THE MONETARY BOARD: Provided, further, That whenever any of the stockholders exceed the 20% and 30% ceilings, their holdings shall not be increased, but may be reduced and once reduced, shall not thereafter be increased beyond the 20% and/or 30% ceilings;

d. If by reason of merger or consolidation, the resulting bank is unable to comply fully with the prescribed net worth to risk assets ratio, the Monetary Board may, at its discretion, temporarily relieve the bank from full compliance with this requirement under such conditions as it may prescribe;

e. Amortization of goodwill up to a maximum period of forty (40) years if there are compelling reasons to extend for this long, otherwise the amortization period shall not be longer than ten (10) years;

f. Conversion or upgrading of the existing head offices, branches and/or other offices of the merged or absorbed institutions into branches of the new or surviving financial institutions;

g. Condonation of liquidated damages and/or penalties on loan arrearages to the Bangko Sentral of rural banks which are parties to the merger or consolidation: Provided, That loan arrearages of rural banks to the Bangko Sentral are paid in full or shall be covered by a plan of payment payable on an equal monthly amortization schedule over a period not exceeding ten (10) years;

h. Relocation of branches/offices may be allowed within one (1) year from date of merger or consolidation in cases where the merger or consolidation resulted in duplication of branches/offices in a service area, or in such other cases/circumstances as may be prescribed by the Monetary Board.

i. Outstanding penalties in legal reserve deficiencies and interest on overdrafts with the Bangko Sentral as of the date of the merger or consolidation may be paid in installments over a period of one (1) year;

j. Rediscount ceiling of 150% of adjusted capital accounts for a period of one (1) year, reckoned from the date of merger or consolidation provided the merged/consolidated bank meets the required net worth to risk assets ratio and all of the other requirements for rediscounting;

k. Commercial banks whose total outstanding real estate loans exceed 20% of total loan portfolio may be given a period of one (1) year