- **Mergers and Consolidation**

  (*Circular No. 172 dated 3 September 1998, Circular Letter dated 6 October 1998, Circular No. 193 dated 22 March 1999, Circular No. 207 dated 21 July 1999, Circular No. 225 dated 3 February 2000 and Circular No. 237 dated 19 April 2000*)

  - Under existing Philippine banking rules and regulations, merger and consolidation are defined as follows:

  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/are terminated.

  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.

  - As a means to develop larger and stronger financial institutions, an enhanced incentive package for mergers and consolidations between and/or among banks and other financial intermediaries were offered for a period of 3 years from 31 August 1998, subject to BSP approval. *(Circular 172 dated 3 September 1998)*

  - For clarity and easy reference, all the existing rules and regulations on mergers and consolidations of banks and other financial institutions were consolidated into one BSP issuance *(Circular No. 237 dated 19 April 2000)*. Thus, *Sections X112 and 4112Q of the MORB/NBFI* were amended, thereby rationalizing the rules and regulations on mergers and consolidations and further improving the incentive package for participating institutions. Modifications included, among others, the deletion of the 3-year limit on offering of the new incentive package and the addition of the following incentives:

  a) The temporary relief from full compliance with the prescribed net worth-to-risk assets ratio by the resulting bank, subject to certain conditions which may be prescribed by the MB;

b) The rediscounting of up to 150 percent of adjusted capital accounts for a period of 1 year, reckoned from the date of merger or consolidation provided the merged/consolidated bank meets the required NWRA ratio and all of the other requirements for rediscounting;
c) The possible grant to UBs/KBs whose outstanding real estate loans exceed 20% of total loan portfolio a 1-year grace period within which to comply with the prescribed 20 percent ratio reckoned from the date of merger or consolidation;
d) The restructuring/plan of payment of past due obligations of the proponents with the BSP as of the date of merger/consolidation over a period not exceeding 10 years;
e) In the case of RBs, the grant of access to the BSP rediscounting window for a period of 2 years from the date of merger or consolidation even if its past due ratio exceeds 25% of loan portfolio but not exceeding 30%, provided the merged/consolidated bank meets all other requirements (During the 2-year period, its rediscounting limit per application may be increased to an amount equivalent to the total rediscounting limit per application of each of the constituent banks before merger or consolidation.);
f) Subject to the approval of the MB, allowing concurrent officerships between a merged or consolidated bank/financial institution and another bank/financial institution; and concurrent directorships in cases where a bank acquires shares of stock of another bank for the purpose of merging or consolidating the 2 banks regardless of whether the banks belong to the same category or both have quasi-banking functions;
g) Subject to other requirements on the establishment of branches, possible grant of authority for the establishment of branches by the merged or consolidated rural bank in the cities of Cebu and Davao if same has put up the minimum capital requirements for these places and/or the establishment of branches in Greater Manila Area if the capital of the merged/consolidated rural bank is at least equal to the capital requirement for new thrift banks in Metro Manila;
h) The grant of automatic extension of 5 years for retirement of government preferred shares to be reckoned from the date of merger/consolidation; and
i) The amortization of goodwill up to a maximum period of 40 years, if warranted.

- All applications for merger and consolidation shall be subject to stress testing to ensure that these will result in the creation of viable institutions even without incentives (forthcoming policy).