



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

MEMORANDUM NO. M-2022-024

To : **All Banks**

Subject : **Rural Bank Strengthening Program**

The Monetary Board (MB), in its Resolution No. 308 dated 3 March 2022, approved the Rural Bank Strengthening Program (RBSP) developed by the Interagency Working Group of the RBSP¹ (IAWG-RBSP). The RBSP was developed to enhance the operations, capacity, and competitiveness of rural banks (RB) in view of their vital role in promoting countryside development and inclusive economic growth.

The RBSP is a structured program comprised of four key elements, namely: (i) strengthened capital base; (ii) holistic menu of five (5) time-bound tracks; (iii) incentives and capacity building interventions; and (iv) review and enhancements of existing regulations.

Details of the RBSP is provided in the attached *Annex A*.

The RBSP shall be available for a period of three (3) years from the date of issuance of this MAB.

For guidance and implementation.

BENJAMIN E. DIOKNO
Governor

 May 2022

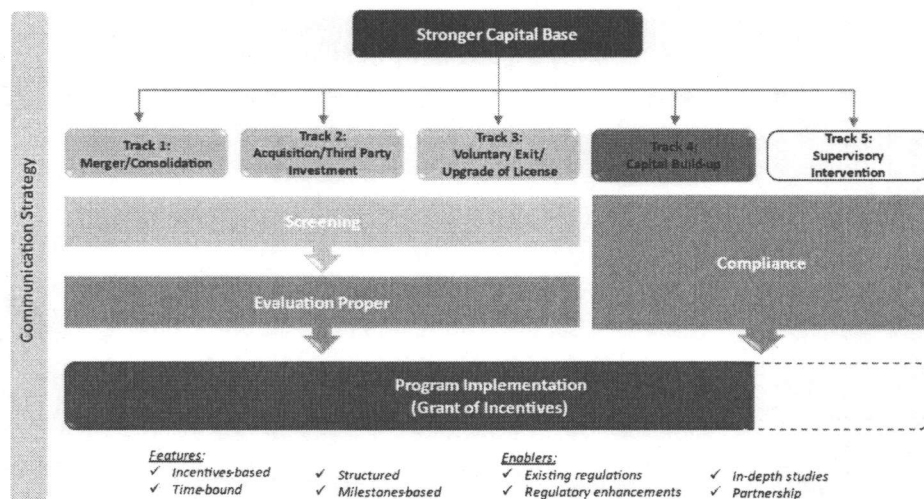
¹ The IAWG-RBSP is composed of the Steering Committee (SC) and Technical Working Group (TWG). The SC is chaired by the BSP and includes the Department of Agriculture and the Small Business Corporation. The TWG is likewise chaired by the BSP and includes members from the Agricultural Credit Policy Council, Philippine Deposit Insurance Corporation, Securities and Exchange Commission, Land Bank of the Philippines, Development Bank of the Philippines, and the Rural Bankers Association of the Philippines. The IAWG was supported by Senior Advisers including Dr. Mario B. Lamberte of the University of the Philippines Public Administration Research and Extension Services Foundation, Inc., and Dr. Gilberto M. Llanto of the Philippine Institute for Development Studies.

The Rural Bank (RB) Strengthening Program

The Rural Bank Strengthening Program (RBSP) is a structured program anchored on the principle that a safe and sound bank is well-capitalized. The RBSP is comprised of four key elements: (i) strengthened capital base; (ii) a holistic menu of five (5) time-bound tracks, all aimed at ensuring that RBs that continue to operate have adequate capital to support their operations and effectively comply with regulatory expectations, (iii) incentives and capacity building interventions to promote successful undertakings; and (iv) review and enhancements of existing regulations to ensure consistency in policy approach and direction.

A schematic diagram of the RBSP is shown below (Fig. 1):

Fig. 1



Key Elements of the RBSP

A. Strengthened Capital Base

The RBSP aims to promote a strong capital base for RBs, which is crucial to addressing the RBs' key challenges. A stronger capital base will enable RBs to enhance their risk management systems; upgrade resources and manage operational costs; meet prudential standards; and accelerate digital transformation.

The five tracks under the program would support the thrust of promoting a strong capital base:

- Track 1: Merger/Consolidation
- Track 2: Acquisition/Third Party Investment (TPI)
- Track 3: Voluntary Exit/Upgrade of License
- Track 4: Capital-Build up Program
- Track 5: Supervisory Intervention

B. Five Time-bound Tracks

▪ Tracks 1 and 2: Merger/Consolidation and Acquisition/Third-Party Investment (MCA Tracks)

The RBSP offers a refreshed merger, consolidation, and acquisition/third-party investment (TPI) or the MCA tracks. These tracks will be implemented in phases to promote parties' commitment until the completion of the program. RBs that will apply for the MCA tracks will be required to undergo pre-onboarding discussions to apprise them of the requirements and consequences of applying under the said track. RBs are expected to conduct a preliminary assessment of their willingness and capacity to adhere to the requirements of the RBSP.

Upon confirmation and agreement by the BSP and relevant regulators on the MCA application, the applicants will go through a three-stage process, as follows:

- i. **Screening Stage** which involves the assessment of the viability of the application as well as the fitness and propriety of the new shareholders, directors, and officers;
- ii. **Evaluation Stage** which involves the submission of documentary requirements and processing of applications in accordance with the enhanced procedures for MCA¹ application jointly developed by an inter-agency working group; and
- iii. **Program Implementation** which covers the grant of incentives to successful proponent banks, as approved by the Monetary Board.

▪ Track 3: Voluntary Exit or Upgrade of Banking License

The RBSP offers a facilitated, voluntary exit option as well as an opportunity to upgrade banking license.

RBs may opt for the voluntary dissolution and cessation of their banking business, subject to certain conditions and guidelines. Applicants for this track shall likewise undergo the three-stage process to assess their eligibility, starting with the screening stage. The key requirement is that applicant banks have no ground for closure and must also be solvent with sufficient liquid assets to fully repay all its depositors and creditors in a timely manner. Once approved, applicants may receive incentives in the form of waiver of penalties or facilitated settlement of deposit liabilities.

Under Track 3, RBs may also opt to apply for the upgrade of their banking license. Said applications will likewise undergo the three-stage process based on existing regulatory requirements and guidelines. Approved applications may be entitled to incentives and capacity-building interventions similar to those available under the MCA Tracks.

¹ Streamlined Procedures for Applications for Mergers, Consolidations and Acquisitions of Banks to be issued through a Joint Circular by the Bangko Sentral ng Pilipinas (BSP), Philippine Deposit Insurance Corporation (PDIC), Philippine Competition Commission (PCC), Securities and Exchange Commission (SEC) and Cooperative Development Authority (CDA).

- **Track 4: Capital-Build Up Program**

The RBSP includes a time-bound capital build-up program. This track aims to incentivize RBs to meet the new prescribed capital levels in line with the RBSP's goal to strengthen the RBs' capital base. RBs that will successfully complete this track will be entitled to certain incentives similar to those under the MCA tracks.

- **Track 5: Supervisory Intervention**

RBs with serious supervisory concerns as of the date of implementation of the RBSP shall automatically be enrolled in Track 5.

Under this track, the BSP will implement a strict, time-bound, and milestones-based supervisory intervention to mitigate further losses and protect the interest of depositors. Track 5 will leverage on existing supervision approach and strictly adhere to timelines provided for resolution.

C. Incentives and Capacity-Building Interventions

The RBSP shall provide incentives and capacity-building interventions to support the achievement of the program's overall objectives. These will be carried out in partnership with various agencies, multilateral organizations, or development institutions.

- **Incentives**

The potential incentives that may be availed under the RBSP include, but are not limited to the following:

- ✓ Financial advisory support to help defray the expenses or tap the expertise of financial advisors who will support the RBs in completing the requirements for the MCA tracks.
- ✓ Digitalization support which provides an opportunity for qualified RBs to apply for support that may cover the transition to cloud banking, upgrade of banking systems, and capacity-building of personnel.
- ✓ Prudential relief/support measures which are based on existing BSP regulations.
- ✓ Fiscal incentives to be determined by the Department of Finance (DOF).

- **Capacity Building Intervention**

The RBSP will be supported by capacity-building interventions to enhance the quality of corporate governance, improve operations, and enhance the competitiveness of RBs. The capacity-building interventions will focus on the following:

- i) Governance and oversight/managerial functions, including strategic, business, and capital planning.

- ii) Operational/technical functions, including asset classification and provisioning, credit review, internal audit and compliance functions, credit risk granting process, credit rating, and scoring.

This support is available to all tracks of the RBSP except the voluntary exit track.

D. Review and Enhancements of Existing Regulations

The BSP will review and enhance existing regulations to ensure alignment with the RBSP's objectives. This includes (i) the review of the RBs' minimum capital requirements in line with the strengthening of the capital base; and (ii) streamlining of the guidelines on the voluntary surrender of banking licenses to facilitate the liquidation/settlement of deposits under the voluntary exit track.

The principle of proportionality shall serve as the overarching principle that will govern this policy review. In this regard, the policy proposals will consider the size, business model, and risk profile of rural banks without compromising the prudential objectives of the regulatory requirements.

