GUIDELINES FOR THE IMPLEMENTATION OF A SPECIAL PROGRAM (“PROGRAM”) WHICH WOULD PERMIT HOLDERS OF ELIGIBLE CENTRAL BANK CREDIT TO TAKE AN EQUITY POSITION IN DISTRESSED LOCAL COMM...

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Pursuant to Resolution No. 519 dated June 11, 1992, the Monetary Board hereby adopts and promulgates the following guidelines for the implementation of a special program (“Program”) which would permit holders of eligible Central Bank credit to take an equity position in distressed local commercial, thrift or rural banks:

SECTION 1. Statement of Policy Objectives — The Program aims:

1.1 To assist in the rehabilitation of distressed banks and thus further strengthen the banking system;

1.2 To permit holders of Central Bank Convertible Debt to convert their restructured loan into long-term equity investments in distressed local banks; and

1.3 To complement Circular No. 1267 in hastening the implementation of much needed financial reforms.

SECTION 2. Qualified Participants — The Program shall be open to holders of eligible Central Bank credit, either original creditors or entities (bank or non-bank) and individuals that are able to acquire said debt in the secondary market. The investment shall be subject to limits set under existing banking laws and regulations.

SECTION 3. Coverage of the Program — The Program shall cover investments in banks insofar as it involves:

3.1 Acquisition of new shares in a distressed local commercial, thrift or rural bank; and

3.2 Acquisition of new shares in a bank under a Central Bank-approved rehabilitation program.

SECTION 4. Debt Eligible for Conversion — For purposes of this Circular, the categories of Central Bank Convertible Debt that may be redeemed are as follows:

CATEGORY

DESCRIPTION

(A)

All principal maturities of external debt covered by the Central Bank Restructuring Agreement.

(B)

Advances outstanding under the New Money Agreement

(C)

New Money Bonds.

(D)

Other debt obligations on such terms and subject to such conditions as may be approved in each case by the Monetary Board.

SECTION 5. Program Size — An initial amount of US$100 million face value of Central Bank Convertible Debt is set aside for the Program on a first come-first served basis.

SECTION 6. Application Fee — At the time of submitting an application for a Conversion Transaction, the applicant shall pay to the Central Bank a non-refundable application fee of P15,000.00 until the Monetary Board shall otherwise provide.

SECTION 7. Application; Approvals — Each applicant wishing to engage in a Conversion Transaction shall submit an application letter, together with any appropriate supporting materials, to the Debt Restructuring Department. The Debt Restructuring Department shall have the authority to seek from the applicant any clarification or additional supporting materials as that Department may find useful in assessing the request. The decision to approve or to disapprove an application will be made in the sole discretion of the Monetary Board. The Debt Restructuring Department will promptly notify the applicant of the decision of the Monetary Board.

SECTION 8. Program Mechanics — The mechanics of the Program are as follows:

8.1 The holder of the Central Bank Convertible Debt with an approval obtained under this Circular surrenders its Central Bank debt holdings to the Central Bank.

8.2 The Central Bank issues non-negotiable and non-assignable Peso-denominated Central Bank Notes (CB Notes) for the full Peso equivalent of the CB debt surrendered using the Central Bank Buying Rate, with the following features:

Interest Rate :

:

To be fixed based on the weighted average of the 364-day Treasury Bill rate in the immediately preceding auction before transaction date so as to give the Central Bank an implicit discount of 25% of face

Interest Payment Period : Semi-annual

Maturity

:

5 years

Amortization

:

Bullet

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8.3 The CB Notes may be utilized in any of the following alternative ways:

> 8.3.1 The holder uses the CB Notes to acquire an equity investment in a distressed local bank. Upon final maturity, the local bank uses the CB Notes to pay its outstanding obligations to the Central Bank or the Philippine Deposit Insurance Corporation (PDIC), which, in turn uses the CB Notes to pay its outstanding obligations to the Central Bank.
>
> 8.3.2 In the absence of any such loan from the Central Bank, the holder may simply exchange the CB Notes for shares in a distressed local bank.

When the CB Notes are immediately used as consideration for an equity investment in a distressed local bank, the recognized present value of the CB Notes is 75% of face.

The investor shall subscribe to shares to stock of the bank equivalent to the total face value of the CB Notes where 75% is deemed to be paid. The balance of 25% shall be treated as unpaid subscription which shall be gradually realized as additional payment on subscription via a five-year equal amortization schedule. This accounting system shall be subject to the condition that the CB Notes shall not be disposed of or alienated in any manner by the bank up to the dates of their maturity.

SECTION 9. Eligible Domestic Debt for Payment — Eligible domestic debt for payment by the local bank, in relation to Section 8.3.1, shall include current and past due borrowings (principal and interests) with the Central Bank in the form of CB-IBRD loans, emergency loans, as well as outstanding arrearages of operating banks such as special time deposits, overdrafts, accrued interests, liquidated damages, penalties and other unpaid fees. Regular loans (rediscounts) shall be excluded from the category of eligible domestic debt for payment.

SECTION 10. Closing Period — If the Monetary Board approves an application entered under this Program, the investor shall have ninety (90) days from the date of such approval to close the transaction. If the investor fails to close the transaction within such period, the approval relating to that transaction shall automatically lapse.

SECTION 11. Suppletory Application of Central Bank Circular No. 1267 dated December 20, 1990 — The provisions of Central Bank Circular No. 1267 dated December 20, 1990, which are not otherwise inconsistent with this Circular, such as, but not limited to provisions on repatriation of capital and remittance of dividends arising from investments entered under the Program, shall be deemed applicable for transactions entered under this Program.

SECTION 12. Administrative Discretion — It is anticipated that the Monetary Board will from time to time revise the Program, hence, parties who contemplate entering under this Program are advised to obtain from the Debt Restructuring Department the most recent revisions before finalizing any negotiations with respect to the transaction.

SECTION 13. Definition of Terms — When used in this Circular, the following terms shall have the meanings indicated below:

"Central Bank" means the Central Bank of the Philippines.

"Central Bank Buying Rate", for the purpose of determining the Peso equivalent of a foreign currency amount as of the closing date of a Conversion Transaction, means the buying rate quoted by the Central Bank for the purchase of such foreign currency with Pesos at approximately 11:00 a.m. (Manila time) of the banking day (in Manila and Makati) immediately preceding such closing date.

"Convertible Debt" means any item of external debt of the Central Bank falling within the category described in Section 4 hereof.

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"Conversion Transaction" means any transaction involving an investment in a distressed local bank that is made, in whole or in part, with the proceeds of the redemption of an item of Convertible Debt.

"Debt Restructuring Department" means the Debt Restructuring Department of the Central Bank.

"Distressed Bank" may be described as one which is experiencing any of the following difficulties: (a) Undergoing a bank-run; (b) Continuously deficient in reserves; (c) Continuously deficient in capital; (d) Incurring losses in operation, and is considered as such by the Monetary Board upon recommendation of the Supervision and Examination Sector of the Central Bank.

"New Money Agreement" means the $925 million Credit Agreement dated as of May 20, 1985 among the Central Bank as Borrower, the Republic of the Philippines as Guarantor and the banks and financial institutions parties thereto, as such New Money Agreement may be amended from time to time.

"New Money Bonds" means bonds issued by the Central Bank pursuant to the Bond Subscription Agreement dated February 28, 1990 among the Central Bank as Issuer, the Republic of the Philippines as Guarantor and the banks and financial institutions parties thereto, as such Bond Subscription Agreement may be amended from time to time.

"Program" means the program for the conversion of external debt into equity investments in distressed local banks as set forth in this Circular.

This Circular shall take effect immediately.

Adopted: 22 Oct. 1992

FOR THE MONETARY BOARD:

(Sgd.) JOSE L. CUISIA, JR.
Governor

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