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INTERIM TIER 1 CAPITAL FOR BANKS UNDER REHABILITATION

The Monetary Board in its Resolution No. 1462 dated 21 December 2007 approved the following guidelines on the issuance of capital notes that will qualify as interim Tier 1 capital for banks under rehabilitation:

SECTION 1. Banks under rehabilitation shall be allowed, upon prior BSP approval, to issue capital notes that shall qualify as interim Tier 1 capital: Provided, That the Philippine Deposit Insurance Corporation (PDIC) shall be the holder of the said capital notes: Provided, further, That any transfer from PDIC of said capital notes shall require prior BSP approval.

SECTION 2. The interim Tier 1 capital notes shall have the following minimum features:

(1) It must be perpetual, unsecured and subordinated;

(2) it must be issued and fully paid-up. Only the net proceeds received from the issuance shall be included as Tier 1 capital. The proceeds of the issuance must be immediately available without limitation to the bank;

(3) It must neither be secured nor covered by a guarantee of the issuer or related party or other arrangement that legally or economically enhances the priority of the claim of the PDIC as against depositors, other creditors of the bank and holders of Lower Tier 2 (LT2) and Upper Tier 2 (UT2) capital instruments;

(4) The PDIC, as holder of the interim capital notes must not have a priority claim, in respect of its principal and coupon payments of the interim Tier 1 capital notes in the event of winding up of the bank, which is higher than or equal with that of depositors, other creditors of the bank and holders of LT2 (e.g. limited life redeemable preferred stock) and UT2 (e.g. perpetual and cumulative preferred stock) capital instruments. The PD!C must waive its right to set-off any amount it owes the bank against any subordinated amount owed to it due to the interim Tier 1 capital notes;

(5) It must not be repayable without the prior approval of the BSP: Provided, That repayment may be allowed only in connection with a call option after a minimum of five (5) years from issue date: Provided, however, That a call option may be exercised within the first five (5) years from issue date upon entry of new investors;

Provided, further, That such repayment prior to maturity shall be approved by the BSP only if it is simultaneously replaced with issues of new capital which is neither smaller in size nor of lower quality than the original issue, unless the bank's capital