

The BSP approved last Oct. 5 the application of GM Bank to issue up to P75 million in subordinated notes which will qualify as Tier 2 capital.

Upper Tier 2 allows a bank to raise up to 100 percent of Tier 1 capital as against 50 percent under a lower Tier 2.

"That allows the bank to raise more capital," Tomas Gomez IV, GM Bank president and chief executive officer, said.

Gomez said the fund raising exercise would be pursued in late October or early November.

"This is a landmark capital raising transaction for GM Bank as it allows us to achieve three significant goals: strengthen our capital base and capital adequacy ratios in line with global standards; support our loan portfolio and branch expansion; and widen our investor base," the bank CEO added.

Multinational Investment Bancorporation is the issue manager while the Picazo, Buyco, Tan, Fider, Santos law offices provides legal due diligence.

Malou Cristobal, Senior Vice-President for Multinational Investment said that aside from being the very first issuance for a rural bank, the exercise "takes greater importance from the context of capital market development and pumping needed private sector funds into the countryside."

Unsecured subordinated notes or USD are a form of debt instrument that qualify towards capital and computation of capital adequacy ratios under the rules and regulations of the BSP. Tier 2 or supplementary capital usually has a maturity period of 10 years with a call option after the fifth year.

GM Bank presently has a capital adequacy ratio (CAR) of 12.75 percent. With the capital raising effort, its CAR is expected to expand to 17 percent. That is well above the 10-percent required by monetary authorities.

"We have already secured investor commitments for approximately 80 percent of the issue size and we will be able to issue the entire amount with ease," Gomez said.

Gomez intimated that they are prepared to apply for another Tier 2 capital issue with a preference for US dollars.

"By the first quarter of 2008, we intend to apply for a second round of Tier 2 US dollar-denominated. The Land Bank of the Philippines, a strategic partner of GM Bank, already approved up to P49 million to be invested in GM Bank-issued lower Tier 2 / USD. We just need to get approval from the BSP for this issuance," he added.

GM Bank, one of the largest rural banks in Central Luzon, has 20 branches located in Nueva Ecija, Bulacan and Tarlac. It will open additional branches in Pampanga and Pangasinan.

The Rural Bank focuses its banking activities not only on traditional savings and loan products. GM Bank's core markets are in small and medium enterprises (SMEs) and microfinance.

It is also looking to invest in additional banking services for the countryside. In the area of mobile phone banking, it has partnered with Globe's G-cash. While ATM services, it has partnered with Encash Inc.

GM Bank is the product of a consolidation of two Nueva-Ecija based rural banks, Muñoz Rural Bank and Community Rural Bank of Guimba.

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