PHILIPPINE COMPETITION COMMISSION
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25/F Vertis North Corporate Center 1,
North Avenue, Quezon City 1105
www.phcc.gov.ph
queries@phcc.gov.ph
(+632) 8771 9722

IN THE MATTER OF THE COMPLETED ACQUISITION BY PRODUCERS SAVINGS BANK CORPORATION OF 99.98% OF PBCOM RURAL BANK, INC.'S ISSUED AND OUTSTANDING STOCK	**MAO Case No. M-2024-010**

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COMMISSION DECISION NO. 013-M-2024

This refers to the completed acquisition by Producers Savings Bank Corporation (Producers Bank) of 99.98% of the issued and outstanding stock of PBCOM Rural Bank, Inc. (PBCOM Rural Bank) (hereinafter shall be collectively referred to as the Parties). The Parties submit this acquisition (the Transaction) to the Philippine Competition Commission (the Commission) for review.[1]

Upon careful review of the existing market conditions, various submissions, representations of the Parties to the Commission, the application of the Philippine Competition Act (PCA), its Implementing Rules and Regulations, related issuances and regulatory framework, and based on the findings and recommendation of the Mergers and Acquisitions Office (MAO), the Commission finds that the Transaction has not resulted in a substantial lessening, restriction, and prevention of competition and will not likely give rise to competition concerns in the relevant market for the reasons discussed below.

The Parties and the Transaction

Producers Bank is a thrift banking corporation[2] that operates as a stand-alone bank focused on serving rural areas[3] by accepting deposits from and providing loans to farmers, micro, small and medium enterprises (MSMEs), and teachers.[4] Producers Bank had 175 operating branches in 11 regions in 2018.[5] By year-end 2023, it expanded its network of branches to 273 covering 15 regions.[6]

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1 The Philippine Competition Commission conducts reviews of mergers and acquisitions, including joint ventures, pursuant to Sections 16 and 17 of Republic Act No. 10667, otherwise known as the Philippine Competition Act (PCA), and Section 1, Rule 4 of the Implementing Rules and Regulations of the PCA.

2 Producers Bank, 2018 Audited Financial Statement (AFS).

3 Producers Bank's Submissions to the MAO.

4 *Id.*

5 Producers Bank, 2018 AFS, the branches are in Regions I, II, III, IV-A, V, VI, VII, X, XI, Cordillera Autonomous Region and National Capital Region.

6 Producers Bank, 2023 Annual Report.

Mr. Andres M. Cornejo, the current President and Chief Executive Officer of Producers Bank, owns [redacted]% of its outstanding shares,[7] making Producers Bank its own Ultimate Parent Entity (UPE).

The acquired entity, PBCOM Rural Bank, primarily offers loans and deposit products and services,[8] and is authorized by the Bangko Sentral ng Pilipinas (BSP) to operate as a rural bank. It has 17 branches and 9 branch-lite units nationwide.[9]

PBCOM Rural Bank's UPE is Philippine Bank of Communications, Inc. (PBCOM). PBCOM is a universal bank[10] offering services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange, and trust services through a network of 89 local branches nationwide.[11]

On 14 June 2019, the Parties executed a Memorandum of Agreement (MOA)[12] where Producers Bank purchased 99.98% stock[13] of PBCOM Rural Bank.[14] PBCOM Rural Bank's entire assets and liabilities were acquired by Producers Bank following the Securities and Exchange Commission's (SEC) approval of the Parties' Articles and Plan of Merger on 15 April 2021.[15]

Due to the Parties' failure to notify the Commission of the Transaction prior to its consummation, the MAO filed a complaint against the Parties on 13 August 2020 for violation of Section 17 of the PCA and Rule 4, Section 3(g) of the Implementing Rules and Regulations.[16] On 20 December 2023, the Parties, together with PBCOM, were held liable for failure to comply with the compulsory notification requirement pertaining to the Transaction in accordance with Section 17 of the PCA.[17]

Subsequently, PBCOM and Producers Bank submitted their notification for the Transaction on 20 February 2024 and 16 May 2024, respectively.

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7 Producers Bank, 2023 Annual Report and General Information Sheet.

8 PBCOM Rural Bank, 2018 AFS.

9 As of 31 December 2018.

10 PBCOM, 2023 AFS, https://www.pbcom.com.ph/sites/default/files/2024-06/2023%20Audited%20Financial%20Statement.pdf (last accessed 9 August 2024).

11 PBCOM, 2018 AFS.

12 Producers Bank's Submissions to the MAO.

13 1,249,616 issued and outstanding shares; Memorandum of Agreement executed on 14 June 2019.

14 The purchase price for the common shares of PBCOM Rural Bank was based on the book value of PBCOM Rural Bank after adjustments plus premium not exceeding 30%; Producers Bank's Submissions to the MAO.

15 BSP Circular Letter No. CL-2021-040, available at https://law.upd.edu.ph/wp-content/uploads/2022/06/BSP-Circular-Letter-No-CL-2021-040.pdf (last accessed 18 September 2024).

16 Docketed as PCC Case No. M-2020-003, *Mergers and Acquisitions Office v. Producers Savings Bank Corporation, Philippine Bank of Communications, Inc. and PBCOM Rural Bank, Inc.*

17 Commission Decision No. 23-M-003/2023 (20 December 2023), PCC Case No. M-2020-003, *Mergers and Acquisitions Office v. Producers Savings Bank Corporation, Philippine Bank of Communications, Inc. and PBCOM Rural Bank, Inc.*

The Relevant Market

In its review of a merger or acquisition, the Commission examines all the possible relevant markets[18] that may be potentially affected by the Transaction to determine whether significant harm to competition is likely to occur in any of them.[19]

It appears that there exists a horizontal overlap in the provision of deposit products and services nationwide. On the other hand, there is no vertical relationship between and among the Parties as they do not provide banking services or other related services to each other. Their individual borrower limits tied to their respective capital requirements restrict them from extending loan products to each other.

Provision of Deposit Products and Services to Customers Nationwide

Producers Bank and PBCOM Rural Bank offer deposit products and services comparable to other thrift, rural, commercial, and universal banks. Producers Bank offers demand deposit, savings and time deposit;[20] whereas PBCOM Rural Bank, prior to the acquisition, offers regular,[21] basic,[22] kids and teens, ATM savings, checking, and time deposit.[23]

Product market

A deposit product is an account maintained by a bank which a customer can deposit and withdraw money, and is categorized into *(i)* savings, *(ii)* current or checking, and *(iii)* time deposit.

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18 Philippine Competition Act, Section 4(k). *Definition of Terms.* – Relevant market refers to the market in which a particular good or service is sold, and which is a combination of the relevant product market and the relevant geographic market, defined as follows:
(1) A relevant product market comprises all those goods and/or services which are regarded as interchangeable or substitutable by the consumer or the customer, by reason of the goods and/or services' characteristics, their prices, and their intended use; and
(2) The relevant geographic market comprises the area in which the entity concerned is involved in the supply and demand of goods and services, in which the conditions of competition are sufficiently homogenous, and which can be distinguished from neighboring areas because the conditions of competition are different in those areas.

19 PCC Merger Review Guidelines, Section 2.5.

20 Producers Bank's Submissions to the MAO.

21 Regular Savings allows individuals to deposit and store their money while earning a certain rate of interest on the deposited amount.

22 Basic Deposit gives Filipinos, especially the unserved and underserved, the same benefits of a regular savings account, but with an added function of allowing them to receive and make payments.

23 PBCOM's Submissions to the MAO.

A savings deposit is an interest-bearing deposit account which a customer may withdraw and deposit cash at any time, either upon presentation of a properly accomplished withdrawal slip together with the corresponding passbook or through the automated teller machines.[24] Similarly, a current deposit is for keeping a customer's money available on sight where he or she may withdraw and deposit cash as well as order or receive funds at any time without restriction.[25] A current or checking account holds deposits that are subject to withdrawal either by check or through the automated teller machines.[26] On the other hand, a time deposit is where a certain amount of money in the bank is held for a preliminary fixed period as the bank is obliged to pay out certain interests at a definite time.[27] Interest rates for time deposit are higher than those of savings and current deposits, and withdrawals are limited and usually come with a pre-termination rate or fee.[28]

As explained below, there is no necessary segmentation *(i)* among different types of deposit products or *(ii)* among different bank classifications providing deposit products and services nationwide.

No segmentation among different types of deposit products

On the demand side, customers usually avail of deposit products in general for purposes of saving, storing, and growing their cash. The deposit products offered by banks are all designed to cater to these needs. **Table 1** shows the deposit products and services offered by the Parties.

Table 1. Deposit Products and Services of the Parties.[29]

PBCOM Rural Bank	Producers Bank
Savings Deposit • Basic Deposit • Regular Savings • Kids and Teens • ATM Saving Account	Savings Deposit • Basic Deposit Accounts • Regular Savings – Passbook • Regular Savings – ATM • Corporate Savings
Time Deposit	Time Deposit • Regular Time Deposit • Special Deposit Accounts (SDA) for Banks

[24] *Philippine Veterans Bank v. Commissioner of Internal Revenue*, G.R. No. 205261, 26 April 2021, *citing Philippine Banking Corporation v. Commissioner of Internal Revenue*, G.R. No. 170574, 30 January 2009.
[25] *Id.*
[26] *Id.*
[27] *Id.*
[28] *Id.*
[29] PBCOM's and Producers Bank's Submissions to the MAO.

	• 5 and ½ Time Deposit • Foreign Currency Deposit Unit (FCDU) Savings Deposit • FCDU Time Deposit
	Demand Deposit • Personal Demand Deposit • Corporate Demand Deposit • Personal Demand Deposit with Automatic Transfer Arrangement (ATA) • Corporate Demand Deposit with ATA

Based on market inquiry, a significant number of customers avail of more than one deposit product depending on their needs, risk appetite, and deposit rates. [30] As such, there is no distinct market for each type of deposit product and services.

On the supply side, banks can easily provide different types of deposit products and services to customers without additional regulatory requirements, as long as these activities fall within the scope of their existing licenses issued by the BSP.[31]

No segmentation between different bank classifications

Customers of both Producers Bank and PBCOM are willing and able to switch to multiple banks, regardless of classification,[32] in cases of unavailability of deposit products and services, or decline in interest rates.[33] Similar deposit products are also available across different classification of banks throughout the country, with minimal variation in interest rates and minimum balance requirements.[34]

Geographic Market

The geographic market is nationwide. Banks and their branches can uniformly offer deposit products and services regardless of their location. They have expanded their

[30] Market inquiry conducted in Producers Bank and PBCOM Rural Bank branches; The Making of an Alert Depositor: How Payment and Interest Drive Deposit Dynamics, https://fnce.wharton.upenn.edu/wp-content/uploads/2024/02/YaoZeng2_29_24.pdf (last accessed 13 September 2024).

[31] 101 CLASSIFICATIONS, POWERS AND SCOPE OF AUTHORITIES OF BANKS, *available at:* https://morb.bsp.gov.ph/101-classifications-powers-and-scope-of-authorities-of-banks/ (last accessed 11 September 2024).

[32] Under the General Banking Law of 2000, there are seven (7) classification of banks, namely: universal banks, commercial banks, thrift banks, rural banks, cooperative banks, Islamic banks, and other classifications of banks as determined by the Monetary Board of the BSP such as digital banks.

[33] Market inquiry conducted in Producers Bank and PBCOM Rural Bank branches.

[34] Interview with PBCOM, Producers Bank, [redacted]

provision through the Electronic Payment and Financial Services, which enable non-branch access to bank deposit-related services. Most banks use standard board rates or apply uniform adjustments by customer segment, resulting in competitive rates across all branches. While it may be convenient for customers to open deposit accounts at banks nearby, there are no barriers preventing them from opening an account in a different location.[35]

Competition Assessment

At the outset, the Commission recognizes the regulatory oversight[36] of the BSP[37] over banks, quasi-banks,[38] trust entities, and other financial institutions. After careful assessment, the Commission finds that the completed Transaction has not resulted in a substantial lessening of competition in the nationwide provision of deposit products and services by banks.

No loss of competition

The Parties did not possess any ability or incentive to exercise market power necessary to engage in anti-competitive behavior even prior to the consummation of the Transaction. Pre-Transaction, the Parties maintained a very minimal market share of [redacted] in terms of total deposits (**Table 2**).

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35 *Supra*, note 34.

36 R.A. 8791 (General Banking Law of 2000), R.A. No. 7906 (Thrift Banks Act), R.A. No. 7353 (Rural Banks Act), R.A. No. 6938 (Cooperative Code of the Philippines), and R.A. No. 6848 (Charter of Al-Amanah Islamic Investment Bank of the Philippines).

37 The BSP was established by virtue of Republic Act No. 7653, otherwise known as "The New Central Bank Act", as an independent central monetary authority mandated to discharge its responsibilities concerning money, banking and credit.

38 R.A. 8791, Chapter II, Section 4.

Table 2. Market Shares Based on Total Deposits as of 2019.[39]

Rank	Name of Bank	Total Deposits (in Php Millions)	Pre-Merger Market Shares	Post-Merger Markt Shares
1	BDO Unibank, Inc.	2,436,916	[redacted]	[redacted]
2	Land Bank of the Philippines	1,783,401	[redacted]	[redacted]
3	Metropolitan Bank & Trust Company	1,500,292	[redacted]	[redacted]
4	Bank of the Philippine Islands	1,457,217	[redacted]	[redacted]
5	Philippine National Bank	774,304	[redacted]	[redacted]
6	China Banking Corporation	688,344	[redacted]	[redacted]
7	Development Bank of the Philippines	554,630	[redacted]	[redacted]
8	Security Bank Corporation	500,718	[redacted]	[redacted]
...	...	...	[redacted]	[redacted]
45	Producers Savings Bank Corporation	15,150	[redacted]	[redacted]
...	...	...	[redacted]	[redacted]
87	PBCOM Rural Bank, Inc.	1,228	[redacted]	[redacted]
	Others	*3,914,081*	[redacted]	[redacted]

Nonetheless, the Commission assessed the effects of the consummated Transaction using a price, quality, range, and service framework to determine whether it has resulted in substantial lessening of competition. Particularly, the Commission considered whether the Transaction has led to decreasing interest rates, deterioration of the quality of products and services, and limited switching behavior of clients.

As to interest rates,[40] the Parties face significant competitive constraints from other banks. It is unlikely for the Parties to profitably lower interest rates, raise fees, or heighten minimum daily balance requirements. There is neither an increase in deposit interest rates and fees, or increase in minimum daily balance requirements after the consummation of the Transaction (**Table 3**):

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[39] BSP Statistics – Baking Financial Statements, *available at* https://www.bsp.gov.ph/SitePages/Statistics/BSFinancialStatements.aspx?TabId=3.

[40] For deposit products and services offered by banks, price-related competition refers to changes in interest rates, maintenance fees, and the imposed minimum average daily balance.

Table 3. Changes in Deposit Interest Rates in 2028, 2019, and 2024.[41]

	Deposit Interest Rate				
	Types	**2018**	**2019**	**2024**	**% increase**
Producers Bank	Savings	[redacted]	[redacted]	[redacted]	[redacted]
	Demand	[redacted]	[redacted]	[redacted]	[redacted]
	Time	[redacted]	[redacted]	[redacted]	[redacted]

The Parties have neither the incentive nor the ability to reduce service quality[42] given the competitive conditions in the deposit market.[43] Competition is further amplified by rapid growth and accessibility of digital banking.[44] In a market inquiry, 79% of the respondents stated that they did not observe any change in customer service in Producers Bank.[45]

The Parties may have the ability to charge higher closure fees than its competitors and set a minimum number of days before the closure of deposit accounts to disincentivize switching to other banks. However, it is not profitable for the Parties to do so.[46]

After a careful review of the existing market conditions, various submissions and representations of the Parties, the application of the PCA, its Implementing Rules and Regulations, and related issuances and relevant regulatory framework, the Commission finds that the Transaction has not resulted in substantial prevention, restriction, or lessening of competition.

ACCORDINGLY, the Commission resolves to **CLEAR** the completed acquisition by Producers Savings Bank Corporation of 99.98% of the issued and outstanding stocks of PBCOM Rural Bank, Inc.

This Decision is rendered solely based on the facts disclosed, circumstances of the Transaction known to the Commission during the review period, and documents submitted by Producers Savings Bank Corporation and PBCOM Rural Bank, Inc.

41 Producers Bank's Submissions to the MAO; PBCOM specified that the data for deposit rates per branch of PBCOM Rural was included in the submission of Producers Bank. It is important to note that Producers Bank keeps the archives and data of PBCOM Rural post-Transaction.
42 MAO's Interview with the Notifying Parties; Quality of service can be assessed through performance indicators utilized by banks in their respective branch locations, ATM services, call or tests, and online banking.
43 MAO's Interview with the Notifying Parties.
44 *Id.*
45 *Supra*, note 33.
46 *Id.*

The clearance of this Transaction does not, in any way, affect the Commission's ruling in Commission Decision No. 23-M-003/2023.[47]

SO ORDERED.

24 September 2024.

[redacted]

MICHAEL G. AGUINALDO
Chairperson

[redacted]

MARAH VICTORIA S. QUEROL
Commissioner

(On leave)
MICHAEL B. PELOTON
Commissioner

[redacted]

LOLIBETH RAMIT-MEDRANO
Commissioner

[redacted]

FERDINAND M. NEGRE
Commissioner

Copies Furnished:

Philippine Bank of Communications
PBCOM Tower, 6795 Ayala Avenue cor.
V.A. Rufino Street, Makati City 1226
[redacted]

Producers Savings Bank Corporation
17th Floor, AIC Burgundy Empire Tower
Ortigas Center, Pasig City
[redacted]

Mergers and Acquisitions Office
25th Floor, Vertis North Corporate Center 1
North Avenue, Quezon City
mergers@phcc.gov.ph

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[47] *Mergers and Acquisitions Office v. Producers Savings Bank Corporation, Philippine Bank of Communications, Inc. and PBCOM Rural Bank, Inc.*, PCC Case No. M-2020-003, 20 December 2023.