

[BSP CIRCULAR NO. 505, December 22, 2005]

BRANCHING POLICY AND GUIDELINES

Pursuant to Monetary Board Resolution No. 1605 dated 16 December 2005, the Manual of Regulations for Banks (MORB) is hereby amended, as follows:

SECTION 1. Sec. X151 of the MORB and its Subsections are hereby amended to read as follows:

"Sec. X151. Establishments/Relocation/Voluntary Closure/Sale of Branches. THE BANGKO SENTRAL NG PILIPINAS SHALL PROMOTE HEALTHY COMPETITION IN THE BANKING SYSTEM AND MAXIMIZE THE DELIVERY OF EFFICIENT BANKING SERVICES ESPECIALLY IN UNDERSERVED AREAS. TOWARD THIS END, THE FOLLOWING RULES AND REGULATIONS THAT SHALL GOVERN THE ESTABLISHMENT, RELOCATION, VOLUNTARY CLOSURE AND SALE OF LOCAL BRANCHES OF DOMESTIC BANKS, INCLUDING LOCALLY INCORPORATED SUBSIDIARIES OF FOREIGN BANKS, ARE HEREBY ISSUED. THE ESTABLISHMENT OF BRANCHES OF FOREIGN BANKS IN THE PHILIPPINES SHALL CONTINUE TO BE GOVERNED BY THE PROVISIONS OF SEC. X121 OF THE MORB.

"Subsec. X151.1 Prior Monetary board approval. No bank operating in the Philippines shall establish, open or operate branches, or transact business outside the premises of its duly authorized principal office without the prior approval of the BSP.

FOR PURPOSES OF THIS SECTION, THE TERM "BRANCH" SHALL REFER TO ANY OFFICE OR PLACE OF BUSINESS IN THE PHILIPPINES OUTSIDE OF THE HEAD OFFICE AT WHICH DEPOSITS ARE REGULARLY RECEIVED OR WITHDRAWN BUT SHALL EXCLUDE STAND ALONE AUTOMATED TELLER MACHINE (ATM) OR CASH-ACCEPTANCE MACHINE AND AD HOC TELLERING BOOTH. OTHER BANKING OFFICES SUCH AS CONVENIENCE BANKING CENTERS, EXPRESS BANKING CENTERS,

REPRESENTATIVE OFFICES, SALES/SERVICE OUTLETS AND BANKING KIOSKS SHALL BE CONSIDERED A "BRANCH" SUBJECT TO BRANCHING/ APPLICATION RULES IF MANNED BY AT LEAST THREE (3) OFFICERS/ EMPLOYEES AT ANY TIME, AND DEPOSITS ARE RECEIVED/ACCEPTED EVEN THROUGH ATM OR CASH ACCEPTANCE MACHINE. IT SHALL MAINTAIN SEPARATE BOOKS OF ACCOUNTS AND SHALL BE SUBJECT TO THE REPORTORIAL REQUIREMENTS OF THE BSP.

BANKING OFFICES OTHER THAN "BRANCH" AS DEFINED HEREIN MAY BE ALLOWED ANYWHERE, WITHOUT PRIOR BSP APPROVAL, SUBJECT TO THE SUBMISSION OF A CERTIFICATION BY THE HEAD OF THE BRANCHES DEPARTMENT WITH THE RANK OF VICE PRESIDENT OR ITS EQUIVALENT OR BY A HIGHER RANKING OFFICER THAT SAID BANKING OFFICE SHALL NEITHER ACCEPT DEPOSITS NOR SERVICE WITHDRAWALS. THE CERTIFICATION SHALL BE SUBMITTED TO THE APPROPRIATE SUPERVISING AND EXAMINING DEPARTMENT OF THE BSP NOT LATER THAN FIVE (5) BANKING DAYS FROM DATE OF OPENING.

Subsec. X151.2 Prerequisites for the grant of authority to establish a branch/ banking office. WITH PRIOR APPROVAL OF THE MONETARY BOARD, BANKS MAY ESTABLISH BRANCHES SUBJECT TO THE FOLLOWING PRE-QUALIFICATION REQUIREMENTS:

1. COMPLIANCE WITH THE MINIMUM CAPITAL REQUIRED OR AS MAY BE REQUIRED UNDER EXISTING REGULATIONS, WHICH AT PRESENT ARE AS FOLLOWS:

Bank Category	Minimum Capital (In Millions)
Expanded Commercial Banks	P4,950
Non-Expanded Commercial Banks	P2,400
Thrift Banks:	
With Head Office within Metro Manila	P 325
With Head Office outside Metro Manila	52
Rural Banks:	
Within Metro Manila	P 26
Cities of Cebu and Davao	13
1st/2nd/3rd class cities and	
1st class municipalities	6.5
4th/5th/6th class cities and	
2nd/3rd/4th class municipalities	3.9
5th and 6th class municipalities	2.6

2. THE BANK'S RISK-BASED CAPITAL ADEQUACY RATIO AT THE TIME OF FILING THE APPLICATION IS NOT LOWER THAN TWELVE PERCENT (12%);

3. THE BANK'S CAMELS COMPOSITE RATING IN THE LATEST EXAMINATION IS AT LEAST "3", WITH MANAGEMENT COMPONENT SCORE NOT LOWER THAN "3";

4. The bank has established a risk management system appropriate to its operations, characterized by clear delineation of responsibility for risk management, adequate risk measurement system, appropriately structured risk limits, effective internal control system and complete, timely and efficient risk reporting system;

5. NO MAJOR SUPERVISORY CONCERNS OUTSTANDING ON SAFETY AND SOUNDNESS, I.E., THE BANK HAS COMPLIED, DURING THE PERIOD IMMEDIATELY PRECEDING THE DATE OF APPLICATION WITH THE FOLLOWING REGULATORY CHECKPOINTS:

a. No unbooked valuations reserves	as of date of application
b. Regular and liquidity reserve requirements on deposits and deposit substitutes	12 weeks
c. Asset and liquidity cover for EFCDU/FCDU liabilities	3 months
d. Ceilings on loans to DOSRI	3 months
e. Liquidity floor on government deposits	3 months
f. Loans-to-deposits ratio	2 quarters
g. Past due loans ratio does not exceed twenty percent (20%) of total loan portfolio	as of date of application
h. No outstanding violation on single borrower's loan limit and limit on total investment in real estate and improvements including bank equipment	as of date of application
i. No past due obligation with the BSP or with any financial institution	as of date of application
j. No float items outstanding in the "Due From/To Head Office/Branches/Offices" and "Due from BSP" accounts exceeding 1% of the total resources as of end of preceding month	3 months
k. Mandatory allocation of credit resources to small and medium enterprises	2 quarters
l. Mandatory allocation of loanable funds for agrarian reform and agricultural credit in general	2 quarters
m. Real estate loans ratio does not exceed twenty percent (20%) of total loan portfolio (For EKBs/KBs only)	as of date of application
n. No findings of unsafe and unsound banking practices	6 months
o. Accounting records, systems, procedures and internal control are adequate	as of date of application
p. The applicant bank has generally complied with banking laws, rules and regulations, orders or instructions of the Monetary Board and/or BSP Management	as of date of application
q. Member in good standing of the Philippine Deposit Insurance Corporation	as of date of application

6. FOR PURPOSES OF EVALUATING BRANCH APPLICATIONS, THEORETICAL CAPITAL SHALL BE ASSIGNED TO EACH BRANCH TO BE ESTABLISHED, INCLUDING APPROVED BUT UNOPENED BRANCHES/OFFICES, AS FOLLOWS (IN MILLIONS):

Location/Type of Bank	UB/KB	TB/NATIONAL COOP	RB/LOCAL COOP
1. National Capital Region and the Cities of Cebu and Davao	P50	P15	P5
2. 1st to 3rd class cities	P25	P5	P2.5
3. 4th to 6th class cities	P25	P5	P1.5
4. 1st to 3rd class municipalities	P20	P5	P1.0
5. 4th to 6th class municipalities	P15	P2.5	P0.5

THE ASSIGNED THEORETICAL CAPITAL SHALL BE DEDUCTED FROM EXIST- ING QUALIFYING CAPITAL AS DEFINED UNDER SUBSEC. X116.1 FOR PURPOSES OF DETERMINING COMPLIANCE WITH THE TEN PERCENT (10%) RISK-BASED CAPITAL ADEQUACY RATIO.

IF THE APPLICANT BANK'S RISK-BASED CAPITAL ADEQUACY RATIO AFTER DEDUCTING THE ASSIGNED CAPITAL FOR THE PROPOSED BRANCH FROM THE EXISTING QUALIFYING CAPITAL WOULD BE LESS THAN TEN PERCENT (10%), ITS APPLICATION SHALL NOT BE PROCESSED UNLESS IT INFUSED SUCH AMOUNT AS MAY BE NECESSARY TO MAINTAIN ITS RISK-BASED CAPITAL ADEQUACY RATIO TO AT LEAST TEN PERCENT (10%).

7. The bank has been operating profitably FOR THE YEAR IMMEDIATELY PRECEDING THE DATE OF APPLICATION, or in the case of newly established banks, the submitted projection showed that profitability will be attained on the third year of operations, at the latest;

8. Additional requirements for the establishment of branches of microfinance-oriented banks/and/or microfinance-oriented branches of regular banks:

- Manual of operations on microfinancing duly approved by the board of directors (for microfinance-oriented branches of regular banks only);
- The branch shall have an adequate loan tracking system that allows daily monitoring of loan releases, collections and arrearages, and any restructuring and refinancing arrangements;
- The proposed branch shall be managed by a person with adequate experience or training in microfinancing ACTIVITIES; and
- At least seventy percent (70%) of the deposits generated by the branch to be established shall be actually lent out to qualified microfinance borrowers and the microfinance loans of said branch shall at all times be at least fifty percent (50%) of its gross loan portfolio (for microfinance-oriented branches of regular banks only).

For purposes of this Section, a microfinance-oriented bank or a microfinance-oriented branch is a bank or branch, respectively, that provides financial services and caters primarily to the credit needs of the basic of disadvantaged sectors such as farmer-

peasants, artisanal fisherfolk, workers in the formal sector and migrant workers, workers in the informal sector, indigenous peoples and cultural communities, women, differently-abled persons, senior citizens, victims of calamities and disasters, youth and students, children, urban poor and low income households for their microenterprises and small businesses so as to enable them to raise their income levels and improve their living standards. Microfinance loans are granted on the basis of the borrower's cash flow and are typically unsecured.

Subsec. X151.3 Application for authority to establish branches. An application for authority to establish a branch shall be signed by the president of the bank or officer of equivalent rank and shall be accompanied by the following information/documents:

1. Business plan detailing the primary banking activities/products and services to be offered; competition analysis to show that its application will not lead to overbanking in the target market; and financial projections for the first three years of operations showing sustained viability, as may be required by the appropriate supervising and examining department. In the evaluation of the business plan, due consideration shall be given to banks that are able or are committed to invest or deploy branch resources in their area of operations;
2. Certified true copy of the resolution of the bank's board of directors authorizing the establishment of the branch and indicating its proposed site;
3. Organizational set up of the proposed branch showing the proposed staffing pattern; and
4. Certification/Undertaking signed by the president or the executive vice president that the bank has complied or will comply, as the case maybe, with the prerequisites for the grant of authority to establish a branch/banking office under Subsec. X151.2

Subsection X151.4 Branching Guidelines. BRANCHES MAY BE ESTABLISHED SUBJECT O THE FOLLOWING GUIDELINES:

1. ONLY ONE (1) BRANCH APPLICATION MAY BE SUBMITTED AT ANY TIME EXCEPT FOR BANKS WITH AT LEAST P100 MILLION UNIMPAIRED CAPITAL ACCOUNTS WHICH MAY BE ALLOWED A MAXIMUM OF FIVE (5) INCLUDING APPROVED BUT UNOPENED BRANCH APPLICATIONS, AT ANY TIME;
2. ONLY COMPLETE APPLICATIONS SHALL BE ACCEPTED. PROCESSING SHALL BE ON A FIRST-COME, FIRST-SERVED BASIS.
3. INDUSTRY/MARKET NOTICE OF APPLICATION FOR AUTHORITY TO ESTABLISH A BRANCH SHALL BE POSTED AT THE BSP WEBSITE UPON RECEIPT THEREOF;
4. BANKS SHALL BE ALLOWED TO ESTABLISH BRANCHES ANYWHERE IN THE PHILIPPINES, EXCEPT IN THE CITIES OF MAKATI, MANDALUYONG, MANILA, PARAÑAQUE, PASAY, PASIG AND QUEZON AND THE MUNICIPALITY OF SAN JUAN, METRO MANILA: PROVIDED, THAT BRANCHES OF MICROFINANCE-ORIENTED BANKS, MICRO-FINANCE-ORIENTED BRANCHES OF REGULAR BANKS AND BRANCHES THAT WILL CATER PRIMARILY TO THE CREDIT NEEDS OF BARANGAY MICRO BUSINESS ENTERPRISES (BMBES) DULY-REGISTERED UNDER R.A. NO. 9178 MAY BE ESTABLISHED ANYWHERE, SUBJECT TO COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENTS UNDER SUBSEC. X151.2 AND THE FOLLOWING CONDITIONS:
 - a. A MICROFINANCE-ORIENTED BANK WITH HEAD OFFICE OUTSIDE THE NCR MAY ESTABLISH A BRANCH IN THE NCR AFTER IT HAS PUT UP THE MINIMUM CAPITAL REQUIRED FOR A THRIFT BANK WITH HEAD OFFICE IN THE NCR; AND
 - b. A BANK WITH HEAD OFFICE OUTSIDE THE NCR MAY BE ALLOWED TO ESTABLISH A MICROFINANCE-ORIENTED BRANCH IN THE NCR ONLY AFTER IT HAS PUT UP THE MINIMUM CAPITAL REQUIRED FOR A THRIFT BANK WITH HEAD OFFICE IN THE NCR;
5. THE PROPOSED BRANCH SHALL BE LOCATED AT LEAST 200 METERS AWAY FROM AN EXISTING BANKING OFFICE: PROVIDED, THAT SAID DISTANCE REQUIREMENT SHALL NOT APPLY IN SHOPPING MALLS OR COMMERCIAL CENTER COMPLEXES, INCLUDING BUT NOT LIMITED TO SPECIAL EXPORT PROCESSING ZONES, PUBLIC MARKETS, FISH PORTS, LIVESTOCK/AGRICULTURAL TRADING CENTERS, BIR COLLECTION OFFICES AND INDUSTRIAL/TECHNOLOGICAL PARKS;
6. MAXIMUM OF TWO (2) BANKING OFFICES SHALL BE ALLOWED IN 4TH AND 6TH CLASS MUNICIPALITIES;
7. A RURAL BANK AND A LOCAL COOPERATIVE BANK SHALL ONLY BE ALLOWED TO ESTABLISH A BRANCH IF THEIR UNIMPAIRED CAPITAL ACCOUNTS IS AT LEAST P10 MILLION.
8. A QUALIFIED RURAL BANK OR LOCAL COOPERATIVE BANK WITH UNIMPAIRED CAPITAL ACCOUNTS OF AT LEAST P10 MILLION BUT NOT LESS THAN P50 MILLION MAY ESTABLISH A BRANCH ANYWHERE WITHIN TWO (2) HOUR NORMAL TRAVEL TIME BY LAND/SEA PUBLIC TRANSPORT FROM THE HEAD OFFICE, EXCEPT IN THE NCR;
9. A RURAL BANK WITH UNIMPAIRED CAPITAL ACCOUNTS OF AT LEAST P50 MILLION BUT NOT LESS THAN P100 MILLION MAY ESTABLISH BRANCHES IN ANY ISLAND GROUP (LUZON, VISAYAS OR MINDANAO) WHERE THE HEAD OFFICE IS LOCATED, EXCEPT IN THE NCR;
10. A LARGE RURAL BANK WITH AT LEAST P100 MILLION UNIMPAIRED CAPITAL ACCOUNTS MAY ESTABLISH BRANCHES ANYWHERE IN THE PHILIPPINES, EXCEPT IN THE NCR;
11. A QUALIFIED BANK WITH UNIMPAIRED CAPITAL ACCOUNTS AT LEAST EQUIV- ALENT TO THE MINIMUM CAPITAL REQUIRED FOR A THRIFT BANK WITH HEAD OFFICE IN THE NCR MAY ESTABLISH BRANCHES ANYWHERE, EXCEPT IN THE CITIES OF MAKATI, MANDALUYONG, MANILA, PARAÑAQUE, PASAY, PASIG AND QUEZON, AND THE MUNICIPALITY OF SAN JUAN, METRO MANILA, UNLESS QUALIFIED UNDER ITEM (4) ABOVE; AND
12. THE BSP MAY DECIDE TO DISAPPROVE AN OTHERWISE QUALIFIED BRANCH APPLICATION IF IN ITS DETERMINATION SUCH BRANCH APPLICATION WILL LEAD TO AN OVERBANKING SITUATION IN THE SPECIFIC MARKET: PROVIDED, SUCH DISAPPROVAL SHALL BE SUBJECT TO CONFIRMATION BY THE MONETARY BOARD.

Subsec. X151.5 Branch processing fee. BRANCH PROCESSING FEE SHALL BE AS FOLLOWS:

- MICROFINANCE-ORIENTED BRANCHES/BANKS	P 5,000
- RURAL BANKS/LOCAL COOPERATIVE BANKS	P 25,000
- NON-AFFILIATED THRIFT BANKS/NATIONAL COOPERATIVE BANKS	P 100,000