



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 728
Series of 2011

Subject: Phased Lifting of Branching Restriction in the Eight (8) "Restricted Areas" of Metro Manila

Pursuant to Monetary Board Resolution Nos. 789 dated 26 May 2011 and 802.A.2 dated 2 June 2011 approving the phased lifting of branching restriction in the eight (8) "restricted areas" of Metro Manila (i.e., Cities of Makati, Mandaluyong, Manila, Parañaque, Pasay, Pasig, Quezon, and San Juan), the following regulations are hereby issued:

Section 1. Statement of Policy. It is the policy of the Bangko Sentral ng Pilipinas (BSP) to promote a competitive market environment conducive to a better and improved quality of financial services delivery. Toward this end, the remaining branching restriction in the eight (8) "restricted areas" of Metro Manila provided in the first paragraph of Subsec. X151.4.d of the Manual of Regulations for Banks (MORB) is hereby lifted under a two (2)-phased liberalization approach.

Under Phase 1 of the liberalization, private domestically incorporated universal and commercial banks (U/KBs) and thrift banks (TBs) with limited branch network in the "restricted areas" of Metro Manila shall be given a time-bound window until 30 June 2014 to apply for and establish branches in the said "restricted areas". Under Phase 2 of the liberalization, branching in said areas will be open to all banks except rural banks (RBs) and cooperative banks (Coop Banks) which are generally not allowed to establish branches in Metro Manila.

The establishment of branches of microfinance-oriented banks and microfinance-oriented branches of banks which are not microfinance-oriented in the "restricted areas" allowed under Subsec. X151.4.d.1, as well as the establishment of one (1) branch in the "restricted areas" of a TB or an RB with head office outside the "restricted areas" and with no existing branch in the "restricted areas" allowed under Subsec. X151.4.d.2 shall continue to be governed by existing regulations.

Section 2. Guidelines on the Establishment of Additional Branches in the "Restricted Areas" under Phase 1. Private domestically incorporated U/KBs and TBs that have less than 200 branches in the "restricted areas" as of 31 December 2010 may apply for branches in "restricted areas" under Phase 1 (ending 30 June 2014) subject to the following requirements:

- a. *Minimum qualifications.* The applicant bank shall comply with the following minimum qualification requirements:
 - 1) The bank must have combined capital accounts of at least P10 billion for a U/KB and at least P3 billion for a TB: *Provided, That* a U/KB with combined capital accounts of less than P10 billion or a TB with combined capital accounts of less than P3 billion shall be allowed to execute an undertaking

to build up capital for a maximum period not later than 30 June 2014: *Provided, further*, That approved branches shall not be allowed to be opened until the capital requirement is met; and

- 2) Neither the bank nor any of its subsidiary banks is under Prompt Corrective Action (PCA) or if under PCA, it shall be compliant with PCA resolution guidelines: *Provided*, That approved branches shall not be allowed to be opened until the PCA status is lifted: *Provided, further*, That the approved branching shall be suspended should PCA be initiated on an applicant bank or any of its subsidiary banks.
- b. *Number of branches that may be established.* Qualified banks may apply to establish as many branches in the "restricted areas" as their qualifying capital can support within Phase 1 period consistent with the theoretical capital requirement computed in accordance with the provisions of Subsec. X151.2.f of the MORB, notwithstanding the provision of Subsec. X151.4.a of the MORB on the maximum number of branch applications that may be submitted at any time.
- c. *Application period.* Qualified banks shall submit their application for establishment of branches in the "restricted areas" under Phase 1 within ninety (90) calendar days from the effectivity date of this Circular.

Only branch applications of banks that meet the minimum qualification requirements shall be given due course.

- d. *Maximum number of branches.* The maximum number of branches that may be established by qualified banks in the "restricted areas" under Phase 1 shall be subject to final adjustment by the Monetary Board based on the total number of applications received. Should the total number of branch applications received by the BSP under Item "c" above exceed the total number determined by the Monetary Board to be optimal over the Phase 1 period, each qualifying applicant bank shall be granted a pro-rata share based on the total number of branches applied for.

Accepted applications shall be charged corresponding special licensing fee per Item "e" below.

The BSP shall post on its website, within a reasonable time from the 90 calendar day period in Item "c" above, the list of applicant banks, the number of branch applications received from each applicant bank, and the final number of branch applications granted to each applicant bank under Phase 1.

- e. *Licensing fee.* The applicant bank shall upon acceptance of branch application pay a special licensing fee per branch depending on the bank's category, as follows:

Bank Category	Licensing Fee Per Branch
U/KB	P20 million
TB	15 million

- f. *Other conditions.* In addition to payment of special licensing fee, the applicant bank shall be subject to the other usual prerequisites and procedures for the grant of authority to establish a branch under Subsecs. X151.2 and X151.3 of the MORB not inconsistent with these guidelines.
- g. *Opening of branches.* The approved branches shall be opened on or before 30 June 2014. Reasonable extensions may be authorized by the Monetary Board on a case-to-case basis provided there are meritorious grounds.

Failure to open a branch within the period authorized by the Monetary Board may result in forfeiture of the branch licensing fee and the right to open such branch.

Section 3. Guidelines for Government-Owned Banks. Government-owned banks may likewise apply for branches in the "restricted areas" subject to justification as to consistency with mandates under their respective charters: *Provided*, That they likewise comply with all other prudential requirements applicable to private banks as well as applicable special branch licensing fees.

Section 4. Phase 2 - Full Lifting of Branching Restriction Starting 1 July 2014. The branching restriction in the eight (8) "restricted areas" of Metro Manila shall be fully lifted under Phase 2 starting 1 July 2014: *Provided*, That branching applications in said areas shall remain subject to the requirements on capital level of at least P10 billion and P3 billion for U/KBs and TBs, respectively, non-PCA status, usual prerequisites and procedures under Subsecs. X151.2 and X151.3 of the MORB including the theoretical capital requirement and a special licensing fee of P20 million and P15 million per approved branch application of a U/KB and TB, respectively.

Section 5. Staggered Implementation of the Increased Theoretical Capital Requirement. The increase in theoretical capital requirement provided under Circular No. 715 dated 4 March 2011 shall be implemented on staggered basis over a three (3)-year period. Subsec. X151.2.f of the MORB is hereby amended, as follows:

"Subsec. X151.2 Prerequisites for the grant of authority to establish a branch. With prior approval of the Monetary Board, banks may establish branches subject to the following pre-qualification requirements:

" x x x

"f. For purposes of evaluating branch applications and determining the number of additional branches a bank may establish, theoretical capital shall be assigned to each branch to be established, including approved but unopened branches, as follows:

(In millions)

Location of Branch	Date of Implementation	UBs/KBs	TBs	RBs/ Coop Banks
Metro Manila	Up to 30 June 2012	₱ 50.0	₱ 15.0	₱ 5.0
	From 1 July 2012 to 30 June 2013	65.0	18.0	6.5
	From 1 July 2013 to 30 June 2014	80.0	21.0	8.0
	From 1 July 2014	100.0	25.0	10.0
Cities of Cebu and Davao	From 18 January 2006	50.0	15.0	5.0
1 st to 3 rd class cities	Up to 30 June 2012	25.0	5.0	2.5
	From 1 July 2012 to 30 June 2013	25.0	6.5	2.5
	From 1 July 2013 to 30 June 2014	25.0	8.0	2.5
	From 1 July 2014	25.0	10.0	2.5
4th to 6th class cities	Up to 30 June 2012	25.0	5.0	1.5
	From 1 July 2012 to 30 June 2013	25.0	6.5	1.8
	From 1 July 2013 to 30 June 2014	25.0	8.0	2.1
	From 1 July 2014	25.0	10.0	2.5
1 st to 3 rd class municipalities	From 18 January 2006	20.0	5.0	1.0
4th class municipalities	Up to 30 June 2012	15.0	2.5	0.5
	From 1 July 2012 to 30 June 2013	16.5	3.3	0.65
	From 1 July 2013 to 30 June 2014	18.0	4.1	0.8
	From 1 July 2014	20.0	5.0	1.0
5 th to 6 th class municipalities	From 18 January 2006	15.0	2.5	0.5

Provided, That:

- (a) Applications received and approved up to 30 June 2012 shall be assessed the amount of theoretical capital applicable on the effectivity date of this Circular, subject to

subsequent reassessments using the increased amount of theoretical capital effective (i) 1 July 2012, (ii) 1 July 2013, and (iii) 1 July 2014, respectively;

- (b) Applications received and approved from 1 July 2012 to 30 June 2013 shall be assessed the amount of theoretical capital effective 1 July 2012, subject to subsequent reassessments using the increased amount of theoretical capital effective (i) 1 July 2013, and (ii) 1 July 2014, respectively;
- (c) Applications received and approved from 1 July 2013 to 30 June 2014 shall be assessed the amount of theoretical capital effective 1 July 2013, subject to subsequent reassessment using the increased amount of theoretical capital effective 1 July 2014; and
- (d) Applications received and approved starting 1 July 2014 shall be assessed using the increased amount of theoretical capital effective said date.

"The assigned theoretical capital for the proposed branch/es shall be deducted from the applicant bank's existing qualifying capital as defined under Subsec. X116.2, solely for the purpose of determining whether its qualifying capital can support the establishment of the additional branch/es. The applicant bank's notional risk-based CAR, after deducting the applicable theoretical capital for the proposed branch/es from the existing qualifying capital, shall not be less than the minimum requirement at the time of approval, provided also that at the time of opening of such branch/es the notional CAR remains compliant with the minimum requirement.¹

"x x x"

Section 6. Incentive for Branching in Lower Class Municipalities. U/KBs and TBs that will establish branches in 3rd to 6th class municipalities shall be charged a lower branch processing fee. Subsec. X151.5 of the MORB is hereby amended as follows:

"Subsec. X151.5 Branch processing fee. Branch processing fee shall be as follows:

Bank Category	Branch Processing Fees	
	Metro Manila, Cities of Cebu and Davao, All Other Cities, 1 st to 2nd Class Municipalities	3 rd to 6 th Class Municipalities
a. UBs/KBs/Affiliated TBs	P 200,000	P 100,000
b. Non-affiliated TBs	100,000	50,000
c. RBs/Coop Banks	25,000	25,000
d. Microfinance-oriented banks or microfinance-oriented branches of banks	5,000	5,000

Provided, That branches of TBs, RBs and Coop Banks to be established within the region where the head office is located shall be free from assessment."

¹ Currently 10%

Section 7. Item "e" of Subsec. X151.4 of the MORB on the limit on number of branches that may be established in the lower class municipalities is hereby deleted and Item "f" of Subsec. X151.4 of the MORB is renumbered Item "e", as follows:

"Subsec. X151.4 Branching guidelines. Branches may be established, subject to the following guidelines:

"a. x x x

" x x x

"e. The Monetary Board 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."

Section 8. Effectivity. This Circular shall take effect fifteen (15) calendar days following its publication either in the Official Gazette or any newspaper of general circulation.

FOR THE MONETARY BOARD:



AMANDO M. TETANGCO, JR.
Governor

23 June 2011