



Bangko Sentral ng Pilipinas

MAYNILA, PILIPINAS

OFFICE OF THE GOVERNOR

Circular No. 340
Series of 2002

Pursuant to Monetary Board Resolution No. 1040 dated 18 July 2002, the rules and regulations for the establishment of branches/loan collection and disbursement points (LCDPs) of microfinance-oriented banks established under Circular No. 273 and the establishment of microfinance-oriented branches/LCDPs of banks that are not microfinance-oriented, are hereby issued as follows:

Section 1. Application for authority to establish branches. The application for authority to establish a branch/LCDP shall be signed by the President of the bank or officer of equivalent rank and shall be accompanied, as a minimum, by the following information/documents:

- a. Certified true copy of the resolution of the bank's board of directors authorizing the establishment of the branch/LCDP and indicating the proposed site.
- b. A feasibility study covering the first two years of operations of the proposed branch/LCDP.
- c. Organizational set-up of the proposed branch/LCDP showing the proposed staffing pattern.
- d. Certification signed by the President or officer of equivalent rank that the bank has complied with the capital and standard pre-qualification requirements for the grant of banking authorities as well as with the additional requirements under item b, Section 2, items a. iii, a. iv and e, Section 3 of this Circular.
- e. A manual of operations on microfinancing duly approved by its board of directors (for a bank that is not microfinance-oriented).
- f. In the case of a bank that is not microfinance-oriented, a certification by the President or officer of equivalent rank that the bank has at least one (1) year track record in microfinancing



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together with the profile of its existing microfinance clients or has people with such experience.

Section 2. Capital requirements.

- a. Capital shall be assigned to each branch/LCDP to be established as follows (amounts in million pesos):

<u>Type of Bank</u>	<u>Amount</u>
Universal banks & commercial banks	P20
Thrift banks & national cooperative banks	5
Rural banks & local cooperative banks	2.5

- b. The bank's risk-based capital adequacy ratio at the time of filing the application is not lower than twelve percent (12%)
- c. Rural banks or local cooperative banks with unimpaired capital accounts of less than P10 million shall not be allowed to establish any branch/LCDP

The assigned capital required under item (a) above for each branch/LCDP to be established need not necessarily be infused but may consist of existing capital accounts if the applicant bank has excess capital. Said assigned capital shall however be theoretically deducted from existing unimpaired capital accounts for purposes of determining compliance with the 10% risk-based capital adequacy ratio and whether or not the applicant bank has to put up additional capital for the branch/office proposed to be established.

For this purpose, a bank applying for authority to establish a branch/LCDP need not infuse additional fresh capital if its risk-based capital adequacy ratio after theoretically deducting the required capital for the branch/LCDP proposed to be established will still be 10% or more. Otherwise, it will be required to infuse fresh capital in such amount as may be necessary to restore its risk-based capital adequacy ratio to at least 10%.

Section 3. Additional requirements/restrictions. In addition to the standard pre-qualification requirements for the grant of banking authorities, the establishment of a branch/LCDP shall be subject to the following conditions:

a. **For all types of banks**

- i. The branch and/or office where the proposed LCDP will be attached shall have an adequate loan tracking system that allows daily monitoring of loan releases, collection and arrearages, and any restructuring and refinancing.
- ii. The proposed branch shall be managed by a person with adequate experience or training in microfinancing.
- iii. The bank has in place 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 and complete, timely and efficient risk reporting system.
- iv. The bank's CAMELS composite rating in its latest examination is at least "3" with Management score of not lower than "3".
- v. The branch may only be established in places not fully served by existing microfinance banking office(s).
- vi. LCDPs may only be established within the region where the head office or a mother branch/unit is located and in any province adjacent to the province where such head office/mother branch/unit is located (for all types of banks except rural banks and local cooperative banks)
- vii. The operations of LCDPs shall be limited to collections, disbursement/releases of loans and acceptance of deposits from their microfinance borrowers. They shall not maintain cash and other cash items. The proceeds of their loan collection and accepted deposits net of disbursements shall be remitted on the same day to their respective head offices, mother branch/unit or deposited to any accessible bank. The security, infrastructure and other requirements on

regular bank branch shall not be applicable to LCDPs. They are not, however, prohibited from implementing said requirements.

b. For thrift banks and national cooperative banks

- i. A thrift bank or national cooperative bank with unimpaired capital accounts of at least P650 million may establish branches on a nationwide basis while a thrift bank or national cooperative bank with less than P650 million unimpaired capital accounts shall only be allowed to establish branches in the region where its head office is located and in any province adjacent to the province where such head office is located.

c. For rural banks and local cooperative banks

- i. A rural bank or local cooperative bank with unimpaired capital accounts of at least P10 million but less than P50 million shall be allowed to establish branches/LCDPs anywhere in the province where its head office is located and in municipalities or cities adjacent to the municipality or city where said head office is located;
- ii. A rural bank or local cooperative bank with unimpaired capital accounts of at least P50 million shall be allowed to establish branches/LCDPs anywhere in the region where its head office is located and in any province adjacent and contiguous to the province where such head office is located.

d. For banks that are not microfinance-oriented

- i. 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.

e. **For microfinance-oriented banks**

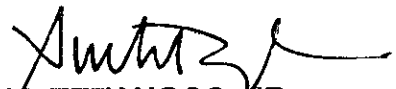
- i. Has been in profitable operation for at least one (1) year.

Section 4. The provision of the existing regulations on branching regarding the date of opening of approved branches and the requirements for such opening shall also apply to branches/LCDPs herein allowed to be established. The general moratorium on the establishment of regular branches/other offices by banks that are not microfinance-oriented shall however remain.

Section 5. **Sanction.** Any violation of the provisions of this Circular shall be a ground for the cancellation of the franchise and closure of any branch/LCDP established hereunder without prejudice to the imposition of the applicable criminal and administrative sanctions prescribed under Sections 36 and 37, respectively of R.A. No. 7653, otherwise known as "The New Central Bank Act".

This Circular shall take effect immediately.

FOR THE MONETARY BOARD:


AMANDO M. TETANGCO, JR.
Officer-in-Charge

30 July _____ 2002