



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 987

Series of 2017

Subject: Rationalization of Prudential Requirements on Banking Offices and Guidelines on the Establishment of Branch-lite Units

The Monetary Board, in its Resolution No. 2093 dated 15 December 2017, approved the rationalization of prudential requirements on banking offices and guidelines on the establishment of branch-lite units amending relevant provisions of the Manual of Regulations for Banks (MORB).

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

Sec. X151 Establishment/Relocation/Voluntary Closure/Sale of Branches/Branch-lite Units. The Bangko Sentral aims to promote greater access to efficient and competitive banking services through the adoption of proportionate regulatory framework that provides banks with flexibility to execute their strategies and enables them to innovate in line with their business model. This is premised on the expectation that banks have effective governance and risk management systems as well as adequate capital to support the implementation of their strategies.

Toward this end, the following guidelines shall govern the establishment, relocation, voluntary closure and sale of local branches/branch-lite units of domestic banks, including locally incorporated subsidiaries of foreign banks. The establishment of branches of foreign banks in the Philippines, on the other hand, shall continue to be governed by the provisions of Sec. X105 on liberalized entry and scope of operations of foreign banks and Sec. X153 on establishment of sub-branches of foreign bank branches.

For purposes of this Section and its Subsections, the following definitions shall apply:

A *branch* shall refer to any permanent office or place of business in the Philippines other than the head office where a bank may perform activities and provide products and services that are within the scope of its authority and relevant licenses. In this respect, a complete set of books and records shall be maintained in each branch.

A *branch-lite* unit shall refer to any permanent office or place of business of a bank, other than its head office or a branch. A branch-lite unit performs limited banking activities and records its transactions in the books of the head office or the branch to which it is annexed.

Subsec. X151.1 Allowable activities of a branch-lite unit. A branch-lite unit may perform activities and provide any of the products and services that a branch may perform or provide except those suited only to sophisticated clients with aggressive risk tolerance¹; *Provided, That:*

a. The board of directors shall approve the defined range of activities and services that shall be carried out in a branch-lite unit consistent with the bank's business model in providing financial services to a specifically defined market or sector;

b. The board of directors shall ensure that the branch-lite unit has adequate personnel, internal control measures, physical facilities, security arrangements and information systems commensurate with the extent of banking activities undertaken and services offered by the branch-lite unit;

c. Management shall ensure that branch-lite units are considered in the bank's capital adequacy assessment and planning exercises considering the potentially high operational risk exposures of said units;

d. Management shall ensure the timely accounting and reporting of activities and transactions of the branch-lite unit to the head office/branch to which it is annexed; and

e. The bank's risk management system, compliance and internal audit programs shall cover the branch-lite unit.

Subsec. X151.2 Pre-requisites for the grant of authority to establish a branch/branch-lite unit. Banks may establish a branch or a branch-lite unit subject to the prudential criteria provided in Subsec. X1101.2. Any approved but unopened branch/es at the time of application shall be taken into account in determining compliance with the minimum capitalization requirement. No bank operating in the Philippines shall establish a branch or a branch-lite unit or transact business outside the premises of its duly authorized principal office or head office without prior approval of the Bangko Sentral.

Subsec. X151.3 Application for authority to establish a branch/branch-lite unit. Banks seeking to establish a branch or branch-lite unit shall submit the following documents to the appropriate department of the SES:

a. Application letter signed by the chief executive officer or officer of equivalent rank which shall indicate the number of branch/es or branch-lite units to be established and their proposed location/s. In this respect, application for the establishment of branch-lite units shall include the range of activities that will

¹ As described under Subsec. X661.3 of the MORB.

be performed and services that will be offered by the branch-lite unit to a specifically defined market or sector;

b. Secretary's Certificate which indicates the approval of the bank's board of directors of the establishment of branch/es or branch-lite units; and

c. Certification/Undertaking signed by the chief executive officer or officer of equivalent rank that the bank is compliant or will comply, as the case maybe, with the pre-requisites for the grant of authority to establish branch/es or branch-lite units provided under Subsec. X151.2.

Subsec. X151.4 Location of branches/branch-lite units. As a general rule, banks shall be allowed to establish branch/es or branch-lite units anywhere in the Philippines, including in cities previously considered as restricted areas²: *Provided, That, if TBs/RBs will establish branches in cities/municipalities of a higher classification than their head office, the applicable minimum required capital under Subsec. X111.1 shall be increased to that of the city/municipality of the higher classification, regardless of where the head office is located.*

In addition, the following guidelines shall apply to Coop Banks:

a. The Coop Bank of the province may set up branches/branch-lite units anywhere within the province subject to compliance with the applicable branching rules and regulations as provided in Sec. X151.

b. Coop Banks from other provinces may set up branches/branch-lite units in cities or municipalities of another province where there are no other Coop Bank head office/branch/branch-lite units.

Subsec. X151.5 Processing and special licensing fees.

a. *Processing fee.*

The bank shall be immediately charged with the total processing fee computed for all branches/branch-lite units approved, in accordance with the following:

Banking Unit and Bank Category	Processing Fee Per Branch/Branch-Lite Unit	
	Metro Manila, cities of Cebu and Davao, All Other Cities, 1 st to 2 nd Class Municipalities	3 rd to 6 th Class Municipalities
a. Branch		
(1) UBs/KBs/Affiliated TBs	P200,000	P100,000
(2) Non-affiliated TBs	100,000	50,000
(3) RBs/Coop Banks	25,000	12,500
b. Branch-lite unit	10,000	5,000

² Refer to the cities of Makati, Mandaluyong, Manila, Parañaque, Pasay, Pasig, Quezon, and San Juan. The branching restriction in these areas was fully lifted effective on 1 July 2014.

Provided, That branches/branch-lite units to be established in unbanked cities and municipalities shall be exempted from the processing fee.

b. *Special licensing fee.*

For applications to establish branches/branch-lite units in cities previously considered as restricted areas as defined under Subsec. X151.4, the applicant bank shall upon acceptance of said applications pay a special licensing fee per branch/branch-lite unit depending on the bank's category, as follows:

Bank Category	Licensing Fee Per Branch	Proposed Licensing Fee Per Branch-lite Unit
UB/KB	P20 million	P5 million
TB	15 million	3 million
RB/Coop Bank	1.5 million	300 thousand

Subsec. X151.6 Establishment of other banking offices. (Deleted by this Circular)

Subsec. X151.7 Opening of branches/branch-lite units. Approved branches/branch-lite units shall be opened, as follows:

Approved branches/branch-lite units shall be opened, within one (1) year from the date of approval thereof, subject to extension on a case by case basis; *Provided*, That: the entire period from date of approval of the establishment of the branch/branch-lite unit up to the requested extension shall not exceed three (3) years.³

The opening of approved branches/branch-lite units may, however, be suspended or revoked by the appropriate department of the SES upon approval of the Deputy Governor x x x

Failure to open the approved branches/branch-lite units within the period provided shall result in the forfeiture of the bank's right to open such branches/branch-lite units and of all fees paid to the Bangko Sentral in relation to such application.

Approved but not yet opened branches/branch-lite units may be relocated upon prior approval by the Deputy Governor, SES, subject to the presentation of justification and valid reason for the relocation, and resubmission of the information/documents enumerated in Subsec. X151.3 on application for authority to establish a branch/branch-lite unit: *Provided*, That branches/branch-lite units located outside the cities previously considered as restricted areas as

³ Branch applications that have been approved prior to 07 January 2017 shall be allowed to open the corresponding branches within three (3) years from date of approval.

defined under Subsec. X151.4 which will be relocated therein shall be subject to the special licensing fee under Subsec. X151.5 upon approval of the relocation: *Provided, further,* That the opening of the relocated branch/branch-lite unit shall be made within the prescribed period mentioned above from date of approval of its establishment.

As an incentive to merger/consolidation of banks or purchase/acquisition of majority or all of the outstanding shares of stock of a distressed bank for the purpose of rehabilitating the same, opening or relocation of approved but not yet opened branches/branch-lite units may be allowed within two (2) years from date of merger/consolidation or purchase/acquisition of majority or all of the outstanding shares of stock of a distressed bank for the purpose of rehabilitating the same.

Subsec. X151.8 Requirements for opening a branch/branch-lite unit. Not later than five (5) banking days from the date of opening, the bank, through its chief compliance officer and the head of the branch banking operations, shall:

- a. Notify in writing the appropriate department of the SES of the actual date of opening of the branch/branch-lite unit;
- b. Submit a certification on compliance with the following, as applicable:
 - (1) Adequacy of personnel, internal control measures, physical facilities, information systems and security arrangements, including the installation of security devices and accessibility to persons with disability as required under Subsecs. X181.5 and X160.10, respectively;
 - (2) Posting in conspicuous places in the premises of the branch/branch-lite unit of the required notices, schedules and other relevant information pertaining to lending and deposit operations activities;
 - (3) Availability of efficient means of accounting and reporting as well as communication facilities (to be specified) between the head office, branches, and branch-lite units; and
 - (4) The requirements enumerated under Subsec. X151.2 as of the time of actual opening.

A bank that fails to comply with any of the requirements under Subsec. X151.2 on the pre-requisites for the grant of authority to establish a branch/branch-lite unit as of the date of the intended opening of the branch/branch-lite unit shall refrain from opening the branch/branch-lite unit on such date until it has complied with all the requirements under Subsec. X151.2: *Provided,* That the provisions of Subsec. X151.7 on the date of opening of branch/branch-lite unit shall be observed; and

c. In the case of microfinance-oriented branch⁴, certify that the branch has:

(1) a manual of operations on micro-financing duly approved by the bank's board of directors;

(2) an adequate loan tracking system that allows daily monitoring of loan releases, collections and arrearages, and any restructuring and refinancing arrangements;

(3) is managed by a person with adequate experience in microfinancing activities; and

(4) at least seventy percent (70%) of deposits lent out to qualified microfinance, including BMBE borrowers, and the microfinance/BMBE loans of said branch shall at all times be at least fifty percent (50%) of its gross loan portfolio.

Subsec. X151.9 Relocation of branches/branch-lite units. Relocation of existing branches/branch-lite units, whether to be opened at the new site on the next banking day or within one (1) year from the date of closure of the branch/branch-lite unit, shall be allowed in accordance with the following procedures:

a. x x x

b. x x x

c. x x x

d. x x x that the bank has complied with Items "b" and "c" of Subsec. X151.8 on the requirements for opening a branch/branch-lite unit shall be submitted to the appropriate department of the SES. x x x

e. Branches/branch-lite units may be relocated anywhere: *Provided*, That branches/branch-lite units located outside the cities previously considered as restricted areas as defined under Subsec. X151.4 which will be relocated therein shall be subject to the special licensing fee under Subsec. X151.5: and

f. Relocation of branch/branch-lite unit beyond one (1) year from the date of closure shall be deemed as permanent closure and surrender of license of the branch/branch-lite unit at the old site, and the opening of a branch/branch-lite unit at the new site shall be deemed as an establishment of a new branch/branch-lite unit subject to the provisions of Subsec. X151.2.

Subsec. X151.10 Temporary closure, permanent closure and surrender of branch/branch-lite unit license, and sale/acquisition of branches/branch-lite units

a. x x x

⁴ This provides financial services primarily to the sectors specified under Subsec. X102.3 of the MORB.

(1) x x x

(2) x x x

(3) x x x

(4) Within five (5) banking days from the date of reopening of the branch/branch-lite unit, a notice of such reopening together with a certification signed by the CCO and the head of the branch banking operations with the rank of vice president or its equivalent or by a higher ranking officer that the bank has complied with Items "b" and "c" of Subsec. X151.8 on the requirements for opening a branch/branch-lite unit shall be submitted to the appropriate department of the SES.

Temporary closure of branches/branch-lite units beyond one (1) year shall be deemed as permanent closure and surrender of license of the branch/branch-lite unit, and re-opening thereof shall be deemed as an establishment of a new branch/branch-lite unit, subject to the provisions of Subsec. X151.2.

b. x x x

x x x

c. *Sale/acquisition of branches/branch-lite unit.* Sale/acquisition of existing/operating branches/branch-lite unit may be allowed with prior approval of the Monetary Board in accordance with the following procedures:

(1) x x x

(2) x x x

(3) x x x

(4) x x x

(5) Request for Monetary Board approval to acquire the branch/branch-lite unit signed by the president of the bank or officer of equivalent rank, together with a certified true copy of the resolution of the bank's board of directors authorizing the acquisition shall be submitted by the acquiring bank to the appropriate department of the SES. The acquiring bank shall likewise comply with the pre-requisites on the grant of authority to establish a branch/branch-lite unit under Subsec. X151.2 and the ceiling on total investments of a bank in real estate and improvements thereon, including bank equipment under Subsec. X160.2.

A bank may purchase/acquire branches/branch-lite unit anywhere, including in Metro Manila subject to compliance with the applicable minimum capital requirement under Subsec. X111.1.

(6) x x x

(7) Within five (5) banking days from the date of opening of the acquired branch/branch-lite unit, a notice of such opening, together with a certification

signed by the CCO and the head of the branch banking operations with the rank of vice president or its equivalent or by a higher ranking officer that the bank has complied with Items "b" and "c" of Subsec. X151.8 on the requirements for opening a branch/branch-lite unit shall be submitted by the acquiring bank to the appropriate department of the SES.

x x x

Subsec. X151.11 Relocation/Transfer of branch/branch-lite unit licenses of closed banks. Buyers of closed banks shall be allowed to relocate/transfer acquired branches/branch-lite units subject to the conditions stated under Items "d" and "e" of the first paragraph of Subsec. X151.9 on relocation of branches/branch-lite units.

Subsec. X151.12 Supervisory Enforcement. The Bangko Sentral reserves the right to deploy any of its supervisory tools to promote adherence to the requirements set forth in the foregoing rules and bring about timely corrective actions and compliance with the Bangko Sentral directives.

For this purpose, the Bangko Sentral may among others, limit the banking activities and services offered by a branch/branch-lite unit or revoke the franchise and close any branch/branch-lite unit. If any part of the certification submitted by the bank as required in this Section is found to be false, the Bangko Sentral may also, among others, suspend the privilege to establish and/or open approved branches/branch-lite units and/or relocate branches/branch-lite units and impose sanctions on the certifying officers concerned.

Subsec. X151.13 – X151.18 (Reserved)

Subsec. X151.19 Teller booths. x x x

Section 2. Section X152 on the relocation of head offices is hereby amended to read as follows.

Sec. X152 Relocation of Head Offices. x x x

a. x x x

x x x

b. x x x

x x x

c. x x x

A bank's head office may be relocated anywhere it is allowed to establish branches as provided in Subsec. X151.4 on location of branches/branch-lite units: *Provided*, That head offices located outside the cities previously considered as restricted areas as defined under Subsec. X151.4 which will be relocated therein shall be subject to the special licensing fee under Subsec. X151.5 upon approval of the relocation.

x x x

Section 3. Subsections X153.2 to X153.6 governing the establishment of sub-branches of foreign banks in the Philippines are hereby amended to read as follows:

Subsec. X153.2 Requirements for establishment of sub-branches of foreign bank branches. In addition to the pre-requisites for the grant of authority to establish a branch/branch-lite unit under Subsec. X151.2, the applicant foreign bank branch in the Philippines shall be subject to the processing fee provided in Subsec. X151.5: *Provided*, That sub-branch applications in the cities previously considered as restricted areas as defined under Subsec. X151.4 shall also be subject to the special licensing fee under Subsec. X151.5, as applicable.

Subsec. X153.3 Date of opening. x x x

Subsec. X153.4 Requirements for opening a sub-branch of foreign bank branches. Not later than five (5) banking days from the date of opening of a sub-branch, the foreign bank branch, through its country manager or the highest ranking officer in the Philippines shall submit the following documents:

- a. Written notice to the appropriate department of the SES of the actual date of opening of the sub-branch;
- b. Proof or evidence of inward remittance needed to meet the additional capital requirements under Subsec. X111.1, as applicable; and
- c. Certification on compliance with Item "b" of Subsec. X151.8 on the requirements for opening a branch/branch-lite unit.

Subsec. X153.5 Limitations on establishment of sub-branches of foreign bank branches. A foreign bank authorized to establish branches in the Philippines pursuant to the provisions of R.A. No. 7721, as amended by R.A. No. 10641, may open up to five (5) sub-branches as may be approved by the Monetary Board. A foreign bank shall also be allowed to establish branch-lite unit subject to the provisions of Section X151. In this regard, a branch-lite unit shall be considered as a sub-branch for purposes of complying with the numerical limit set forth under R.A. No. 7721, as amended by R.A. No. 10641.

Subsec. X153.6 Supervisory Enforcement. The Bangko Sentral reserves the right to deploy any of its supervisory tools to promote adherence to the requirements set forth in Section X153. Non-compliance therein shall subject the foreign bank to supervisory enforcement action, including those mentioned under Subsec. X151.12.

Section 4. Subsection X102.5 of the MORB on the conversion of microfinance-oriented thrift banks/rural banks is hereby amended as follows:

Subsec. X102.5 Conversion of microfinance-oriented thrift banks/rural banks.

a. x x x

x x x

b. Microfinance-oriented branches may convert into regular branches subject to the submission of the following:

(1) Certification signed by the president or officer of equivalent rank that:

(a) At least seventy percent (70%) of deposits generated by the branch shall be lent out to microfinance borrowers;

x x x

Section 5. Subsection X111.1 of the MORB on minimum capitalization is hereby amended to read as follows:

Subsec. X111.1 Minimum capitalization. The minimum capitalization of banks shall be as follows:

x x x

For purposes of compliance with this Subsection, the term branch shall exclude the *branch-lite* units of banks.

The above shall also be the required minimum capitalization upon x x x.

x x x

Section 6. The terms “extension office/s (EOs)” and/or “other banking office/s (OBOs)” mentioned in the following sections/subsections/appendices of the MORB shall be replaced with the term “branch-lite unit/s”:

Sections	X156 and 2172
Subsections	X151.9 to X151.10, <i>except for</i> Subsec. X151.9.e. and f., Subsec. X151.10.a (4) and Subsec. X151.10.c (5) and (7); X150.2; X261.1; 2361.8; 3361.8; and X903.4
Appendices	7, 38, 94, 94b and 110

Section 7. The standard pre-qualification requirement for the grant of banking authorities in Appendix 5 of the MORB is hereby amended to delete the application for the establishment of additional branches of foreign banks (Subsec. X153.2) in the enumeration of banking authorities under items A and B of said appendix. Moreover, Subsection X192.11 on the reports of other banking offices and Appendix 93 on the processing guidelines on the establishment of MF-OBOs/MBOs are hereby deleted.

Section 8. Transitory Provisions. Extension Offices (EOs), other banking offices (OBOs) and micro-finance oriented OBOs (MF-OBOs)/micro-banking offices (MBOs) shall now be referred to as branch-lite units, unless the bank intends to convert them into branch subject to existing regulations. Banks shall be given a period of six (6) months from the date of effectivity of this Circular within which to convert their existing EOs/OBOs/MBOs. Banks shall submit a notification to the appropriate department of the SES five (5) banking days before the conversion of the EOs/OBOs/MBOs into branch-lite units. The notification shall indicate the following: (i) board-approved range of banking activities that will be performed and services that will be offered by the branch-lite unit to specifically defined market or sector except those suited only to sophisticated clients with aggressive risk tolerance; (ii) compliance with the conditions under Subsec. X151.1 of the MORB; and (iii) other relevant information pertaining to the conversion of the existing EOs/OBOs/MBOs into branch-lite units.

The foregoing provision shall be incorporated as a footnote to Subsection X151.1 of the MORB.

Section 9. Effectivity. This Circular shall take effect fifteen (15) calendar days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:


 NESTOR A. ESPENILLA, JR.
 Governor