

## o **Chartering/Licensing of Banks**

### Major Classification of Banks

- In accordance with Section 3 and other related sections of the General Banking Law of 2000, the major classifications of banks operating in the Philippines have been modified as follows: *(Circular No. 271 dated 8 January 2001)*
  1. Universal Banks (UBs)
  2. Commercial Banks (KBs)
  3. Thrift Banks (TBs)
  4. Rural Banks (RBs)
  5. Cooperative Banks (Coop Banks)
  6. Islamic Banks (IBs)
  
- For clarification, in the case of a foreign bank which has more than one branch and/or other office in the Philippines, all such branches/offices shall be treated as one unit.

### Entry Limited to Potentially Viable Banks

- The licensing of new banks and branches was liberalized beginning 1993 up to August 1999 subject to stringent entry requirements to ensure that only potentially viable banks may be granted authority. *(Circular No. 51 dated 14 October 1997 – Rules and Regulations Implementing R.A. No. 7721; Circular Nos. 182 to 184 all dated 4 December 1998 – Amendments to requirements for establishment of additional branches of banks in the Philippines)*

### Liberalized Foreign Bank Entry

- In 1994, foreign banks were allowed to operate in the Philippines *(Circular No. 51 dated 14 October 1994 – Rules and Regulations Implementing R. A. No. 7721)* through any of the following modes of entry:
  - a) By acquiring, purchasing or owning up to 60 percent of the voting stock of an existing domestic bank;
  - b) By investing in up to 60% of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or

- c) By establishing branches with full banking authority (maximum of 10 foreign banks).

#### Moratorium on Chartering of New Banks/Branches

- On September 1999, a moratorium in the establishment of new banking offices/branches was declared, except in cities and municipalities where there are no existing banking offices, in line with the thrust of BSP to consolidate the banking industry. (*Circular Letter dated 10 September 1999 – Guidelines in the Suspension of the grant of new bank licenses*)
- On February 2001, the moratorium on chartering activities was partially lifted to allow the establishment of microfinance-oriented banks on a very selective basis, i.e., particularly in areas not serviced by existing rural banks or microfinance-oriented banks. (*Circular No. 273 dated 27 February 2001*)
- The moratorium on the establishment of new commercial banks shall be in effect within 3 years from 13 June 2000, the effectivity date of R. A. No. 8791, otherwise known as the General Banking Law of 2000. (*Circular No. 277 dated 21 March 2001*)
- Pursuant to MB Resolution No. 1040 dated 18 July 2002, the rules and regulations were issued 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. (*Circular No. 340 dated 30 July 2002*)
- The MB, in its Resolution No. 1822 dated 12 December 2002, amended Section 3(e) of Circular No. 340 to read as follows: “e” for micro-finance oriented banks: (1) Has been in profitable operation for at least one (1) year, 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: PROVIDED, THAT AT THE TIME OF FILING THE APPLICATION, THE BANK’S RISK-BASED CAPITAL ADEQUACY RATIO IS NOT LOWER THAN 12% AND THE REQUIRED MINIMUM CAPITAL REQUIREMENT HAS BEEN COMPLIED WITH.” (*Circular No. 365 dated 16 January 2003*)
- On 17 February 2003, Circular No. 340 was amended allowing TBs

or national cooperative banks to establish branches/other offices on a nationwide basis upon compliance with the minimum capital applicable to them. TBs with head offices outside the National Capital Region (NCR) may establish a branch/other office in the NCR after it has put up the minimum capital requirement for a new TB in the NCR. *(Circular No. 369 dated 17 February 2003)*

#### Sale of Duplicate Branches

Meanwhile, banks have been allowed to sell their duplicate branches subject to prior approval of the MB and PDIC. This shall facilitate the sale of these banking offices to other banks that need additional outlets, thereby creating a “market” for these types of bank assets and avoiding any job dislocations for those involved in mergers and consolidations. *(Circular No. 275 dated 28 February 2001)*

#### Relocation of Branches

On 28 August 2001, the MB approved a policy allowing buyers of closed banks to relocate/transfer the branch licenses of the acquired closed banks under certain conditions. *(Circular No. 293 dated 28 August 2001)*

The MB, in its Resolution No. 977 dated 4 July 2002, approved the amendment of Subsection X151.7 of the MORB on the relocation/transfer of branches, i.e., a) the transfer of branches shall be allowed *within* the same city or municipality; and such transfer shall not require prior BSP approval but subject to certain conditions; and b) the relocation/transfer of banking offices *outside* the city or municipality where the branch/banking office to be transferred is located shall be allowed without prior BSP approval, subject to the same conditions in (a) above. *(Circular No. 346 dated 15 August 2002)*

#### Conversion to Other Category of Banks

Conditions for the grant to banks of authority to convert into a lower category (as embodied under Circular No. 229 dated 13 March 2000) was amended to: (1) clarify the period within which the converting bank shall not engage in or renew transactions under authorities not associated with the lower bank category to which it is applying for; (2) impose monetary and non-monetary

penalties for non-compliance with the allowable activities during the transition period; (3) to prescribe that the start of operations in the lower category to which the converting bank is applying for shall be after the approval of SEC of its amended Articles of Incorporation and By-Laws, its compliance with the prescribed conditions for the approval of its conversion and the issuance by BSP of a certificate to operate. *(Circular No. 281 dated 3 April 2001)*