

STATE BANK OF PAKISTAN

BRANCH LICENING POLICY

The Branch Licencing Policy applicable with effect from 1st April 2001 to all scheduled banks including branches of foreign banks operating within the territory of Pakistan has been updated. The term bank wherever used hereunder shall mean and include banks incorporated in Pakistan as well as all branches of foreign banks operating in Pakistan under Section 27 of Banking Companies Ordinance, 1962.

2. Each bank shall submit to State Bank of Pakistan (SBP) for approval an Annual Branch Expansion Plan (ABEP) at least 30 days before the commencement of each calendar year (January-December) during which it plans to open branches. The plan would, inter alia, indicate the number of the new branches proposed to be opened in urban and rural areas, location of each of the proposed branch and the area which it would serve, branches proposed to be closed (if any), the number of existing branches incurring losses consecutively for the last three years, arrangements for managerial and other staff members and information technology access and linkage for the proposed branches and arrangements for housing each of the proposed branch. State Bank will consider the Plan for new branches keeping in view the need of the system and grant approval in principle for number of new branch(es) that bank will be allowed to open during the given calendar year within 30 days from the date of receipt of ABEP complete in all respect. In case any ABEP of a bank is not approved the SBP will invariably intimate the same in writing to the bank within 30 days from the date of submission of duly completed ABEP to SBP. However, licence for individual branch opening shall be issued on receipt of formal application on prescribed format under the provisions of Section 28 of the Banking Companies Ordinance, 1962 (Annexure 'A'). The licence will be issued for opening of new place of business when evidence is provided that adequate security arrangements are in place at the proposed place of business and the Town Planning Regulations are not violated*. Request for a new branch in Azad Jammu and Kashmir (AJ&K) will have to be supported by the AJ&K Government. The approval in principle granted under a particular ABEP shall lapse in case bank fails to submit a formal

*Evidence regarding provision of adequate security arrangements and observance of town planning regulations will not be pre-condition for approval of ABEP and will only be required at the time of seeking formal licence from SBP.

application for issuance of licence at least 30 days before the expiry of that particular year. Similarly licence issued under respective ABEP shall expire where a bank fails to open the branch before 31st December of that year. The licence may be revoked in case it subsequently transpires that the bank had made material mis-representation of facts or concealment of material information and the responsible official(s) shall personally be liable for action under Section 83 of the Banking Companies Ordinance, 1962.

3. For the installation of Automated Teller Machines (ATMs), banks shall follow the instructions given below.

(a) The banks are free to install ATMs within branch premises (on-site) as well as at offsite places provided they inform State Bank of Pakistan in writing three days before that ATM becomes operational.

(b) Before extending the facility of cash & cheque deposits through ATMs to the customers, banks must develop and put in place a well defined procedure, including resolution of disputes in this regard and forward a copy of this to SBP for information.

(c) A suggested process for cash/cheque deposits in the ATMs and its ultimate credit to the customer's account is enclosed (Annexure-F). The banks may, however, add more steps/measures for cash/cheque deposits to further strengthen the process.

(d) Banks shall ensure proper security at off-site ATMs to avoid any incidents of snatching, robbery, dacoity etc.

(e) Every banking company shall, within seven days after the close of each reporting quarter, submit to Banking Policy Department of State Bank of Pakistan a quarterly statement regarding installation of Automated Teller Machines (ATMs), within and outside the premises for information and record.

4. CAMELS rating of 1,2 and 3 in the last On-Site Inspection of the bank or a satisfactory composite rating of the bank assigned under SBP's Institutional Risk Assessment Framework shall be the eligibility criteria for approval or otherwise of the ABEP. In addition, the eligibility of a bank to open a new place of business shall be considered by the State Bank keeping in view, among others, the financial strength of the bank as evident from its net worth (net equity free of actual and potential losses), adequacy of its capital structure, record of earning capabilities, future earning prospects of the bank, managerial capabilities, bank's liquidity position, track record of the bank's adherence to prudential regulations, credit disciplines, quality of customer's services, staff management relationship and the convenience and the needs of the population of the area to be served by the proposed branch. Moreover, the following considerations will also be taken in the grant of licence: -

i) The opening of branches in rural and under banked areas will be given preference.

- ii) Preference will also be given to those branches, which will be connected electronically, provide utility bill receipt services and expedite delivery of home remittances.
- iii) In case of foreign banks, in addition to above, the performance of their existing branches, level of commitment to the local market, sound international reputation, provision of full range of banking services, new investment by their H.O. etc., will be guiding factors for issuing fresh licences.

5. Banks will be free to close any of their existing branches operating at banked places, without obtaining prior approval of State Bank of Pakistan. Banks will also be free to close any of their existing branches in un-banked area provided the area is not left without an alternate arrangement for provision of banking services to the local community. It is hereby clarified that while closing branches at unbanked places, Post Offices/UBL Post Office Counters or other similar counters operating within a radius of 5 K.M. may not be treated at par with the branches, as these are not a substitute for the branch. A place/area will deem to be un-banked place if no branch of any other bank is operating within radius of 5 K.M. The closure of the branch should be intimated to the State Bank of Pakistan on the prescribed Proforma (Annexure 'D') within twenty one (21) days of the closure of the branch, simultaneously surrendering the licence of the branch to the State Bank. Any branch closed down by the banks in violation of Branch Licencing Policy have to be re-opened and confirmation in this regard be submitted to SBP.

6. Banks are free to shift or relocate their banked area branches within the same cities/towns/villages* and on countrywide basis without SBP's prior approval. However prior permission shall be required for shifting of branches from other places in the country to five metropolitan areas i.e. Karachi, Islamabad-Rawalpindi, Lahore, Peshawar and Faisalabad for which they will be required to submit their application on the prescribed proforma (Annexure-E). NBP will, however, be required to obtain prior clearance from Accounts Department, State Bank of Pakistan, before shifting of their branches conducting treasury work. Intimation of shifting of a branch will be sent by the bank concerned to the State Bank of Pakistan within 15 days from the date of its shifting on prescribed proforma (Annexure-C)

7. Request from National Bank of Pakistan for opening of a chest branch at a new place of business must be supported by a clearance from the Accounts Department of State Bank of Pakistan. All applications for opening/shifting of the chest branches will be considered duly supported by a clearance certificate from Accounts Department of State Bank of Pakistan.

*Certificate to be enclosed from the competent authority that both the existing and proposed premises are:

- a. Within the same locality (in case of branches at banked places including big cities);
- b. Within the same territorial limits of the same village (in case of branches at unbanked places).

8. Opening, shifting and closure of Permanent and Temporary Booths.

a). Permanent Booths:

Licence will be freely granted to banks for opening of permanent booth(s) on account of the activities specified hereunder:

- i) Receiving utility bills, Government dues/revenue/cash, collection of fee/dues of educational institutions, receiving cash from patients of hospitals, visa fee or other related cash receipt functions on the recommendations of the concerned Government Departments/Institutions and for providing limited banking facilities (i.e. cash payment and receipt of cash and cheques/demand draft/pay order only) in the premises of Embassies, Consulates, Foreign Missions and International Financial Institutions in Pakistan, on their specific request.
- ii) For exchange of foreign currency subject to normal exchange control regulations at the port of entry in Pakistan.
- iii) National Bank of Pakistan will be allowed to open booths for receiving railway cash and other Government dues on the recommendations of the Department concerned.

b). Temporary Booths:

Banks may open temporary booths without prior permission of State Bank of Pakistan on account of the activities specified hereunder:

- i) For the purpose of affording banking facilities to the public on the occasion of an exhibition, a conference or a mela or any other like occasion, for a period not exceeding one month, a temporary place of business in such locality where that bank has already a place of business.
- ii) For making on the spot payment to growers of agricultural commodities during the crop season as also to the persons in the calamity hit areas.
- iii) For providing limited banking facilities to the participants of international Seminars, trade fairs, exhibitions, sporting and cultural events, conferences and to members of National/Provincial Assemblies and Senate when in session.
- iv) For providing banking facilities to the Hajj Pilgrims, i.e. sale/purchase of Hajj Notes relating to foreign currency, travellers' cheques to the intending/returning Hajjis during Hajj season.

The above temporary booths will be opened subject to the following conditions:

- a. No business other than specified above will be undertaken at the place of business.
- b. The date of opening/closing of these booths should be intimated to the State Bank within seven days from the date of opening/closing of such booths on the prescribed proforma (Annexure-B).
- c. Branches of the bank are not functioning at any of the proposed places/centers.

9. Banks will be free to close any of their existing booths operating at banked places, except for Utility Bills Collection Booths, without obtaining prior approval of State Bank. However, for closure of Utility Bills Collection Booths, banks will be required to obtain prior approval of SBP. Such requests will be considered /decided on merit. In all cases of closure of booths, intimation should reach SBP within 21 days, on the prescribed format along-with original licence of the closed booth for its cancellation.

10. Similarly, banks can shift their permanent booths (other than Utility Bills Collection Booths) within the same city/town/village without prior approval of SBP. However, for shifting Utility Bills Collection Booths including shifting into branch premises, banks will be required to obtain prior approval of SBP, provided such shifting may not attract public complaints. However, licence of a booth shifted into branch premises shall stand cancelled if SBP allows such shifting. In such a case the bank will open a separate counter in the said branch for collection of utility bills. In all cases of shifting of booths, intimation should be given to SBP within 15 days from the date of shifting.

11. Every licensed branch of a scheduled bank shall carry a name and invariably be required to prominently display outside the branch.

12. A processing fee @ Rs.25,000/- per branch applied in Annual Branch Expansion Plan (ABEP) has been fixed with effect from Annual Branch Expansion Plan (ABEP) for 2003. The banks while submitting their ABEP shall invariably enclose a cheque in the name of State Bank of Pakistan as processing fee. The ABEP without the amount of processing fee shall not be entertained. The processing fee will be non-refundable.

13. Banks shall render themselves liable to pay fine as provided in BPRD Circular No.21 dated the 9th June, 1999 for non-compliance/violation of any of the provisions of the Branch Licencing Policy in addition to the penalty mentioned in paragraph (2) above.

-x- -x- -x- -x- -x- -x- -x- -x-