

**POLICY FOR OPENING OF OVERSEAS OFFICES & ESTABLISHMENT  
OF A SUBSIDIARY BANKING COMPANY OUTSIDE PAKISTAN<sup>1</sup>**

State Bank of Pakistan had issued policy for opening of new branches abroad in its consolidated Branch Licensing Policy issued vide BPRD Circular No.15 dated October 12, 2007. After necessary review of the instructions, a policy for opening of overseas offices and establishment of a subsidiary banking company outside Pakistan is given below:-

There are two chapters: Chapter-I deals with issues relating to overseas branches/representative offices whereas policy for opening of subsidiary banking company outside Pakistan is given in Chapter-II.

**CHAPTER – I: OPENING/CLOSING/SHIFTING OF OVERSEAS OFFICES**

The Policy covers the following areas:

(A) Opening of overseas offices (B) Shifting/closing of the overseas offices and (C) Performance monitoring of overseas operations.

**(A) OPENING OF OVERSEAS OFFICES<sup>2</sup>**

In order to prescribe risk-based regulatory requirements, overseas offices have been classified into following three categories:

- 1) **Offices for commencement of branch operations through opening of 1<sup>st</sup> branch in a foreign country**
- 2) **Offices for expanding branch network through opening of additional branch(es) in the same foreign country**
- 3) **Offices for marketing/advisory services in a foreign country**

Banks<sup>3</sup> will apply for SBP's 'in-principle approval' to open any of the three categories of overseas offices. They will approach SBP for such approval prior to approaching the regulator in the host country.

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<sup>1</sup> State Bank reserves the right to require any bank to meet any additional condition for granting of license/approval for opening of any overseas office. Similarly, State Bank reserves the right to decline any request for opening of any office abroad or direct any bank to close their any/all offices abroad, without assigning any reason. Banks will be issued licenses whereas permission letters will be issued to DFIs and banks for opening representative offices.

<sup>2</sup> Although bank branches in Export Processing Zones established by Government of Pakistan have been classified as 'overseas offices', but banks will continue to follow instructions issued for opening of branches in EPZ as per BPRD Circular No15 of 2007.

<sup>3</sup> The word 'bank' also includes Islamic bank.

**1 – Offices for commencement of branch operations through opening of 1<sup>st</sup> branch in a foreign country**

Banks are required to meet the following conditions for seeking SBP's 'in-principle approval' to commence branch operations in the proposed foreign country:-

- a) Prior approval of Board of Directors of the applicant bank should be obtained before approaching SBP for opening of overseas branch(es) in the proposed country
- b) The applicant bank must have a network of at least 75 domestic branches
- c) The applicant bank should meet minimum capital requirement as prescribed by SBP from time to time
- d) The applicant bank should be maintaining 1.3 times of minimum capital adequacy ratio as prescribed by State Bank from time to time
- e) The applicant bank should be rated at least 'Fair' under CAMELS-S rating framework in the last onsite report by State Bank
- f) The applicant bank should have earned profit during the last three consecutive years
- g) Detailed information regarding amount of investment/other initial expenditure should be furnished to SBP
- h) A comprehensive business plan for the 1<sup>st</sup> five years and a feasibility study will be submitted to State Bank. It should also include 'break even-period' and 'pay-back period'
- i) In addition to the above, the applicant bank will submit latest (i) Audited Annual accounts, (ii) Branch Opening Policy/regulations of the host country, (iii) Supervisory practices in the host country, (iv) Operating results and qualitative performance of all the existing overseas branches/offices as well as rating of existing overseas operations, if any, by the host regulator

**2-Offices for expanding branch network through opening of additional branch(es) in the same foreign country**

Banks are required to meet the following conditions for seeking State Bank's 'in-principle approval' to expand branch network through opening of additional branch(es) in the same foreign country:-

- a) Prior approval of Board of Directors of the applicant bank should be obtained before approaching SBP for opening of additional branch(es) in the proposed foreign country
- b) The applicant bank should meet minimum capital requirement as prescribed by SBP from time to time
- c) The applicant bank should be maintaining at least 1.3-times of minimum CAR as prescribed by State Bank from time to time
- d) The applicant bank should have at least 'Fair' rating under CAMELS-S rating framework in the last onsite inspection report by State Bank
- e) The applicant bank should have earned profit during the current year

- f) The applicant bank should submit a detailed write-up explaining rationale for expansion of branch network in the proposed foreign country.
- g) Detailed information regarding amount of investment/other initial expenditure will be given to SBP
- h) In addition to the above, the applicant bank will submit latest: (i) Audited Annual accounts, (ii) Branch Opening Policy/regulations of the host country, (iii) Supervisory practices in the host country, (iv) operating results and qualitative performance of all the existing overseas branches/offices as well as rating of existing overseas operations, if any, by the host country's central bank

**3 - Offices for marketing/advisory services in a foreign country as representative office,**

Banks/DFIs are required to meet the following conditions for seeking State Bank's 'in-principle approval' to open an overseas office for marketing/advisory services:-

- a) The applicant should meet minimum capital requirement & CAR
- b) Rating of the applicant should be at least 'Fair' under CAMELS-S rating framework in the latest onsite examination report by State Bank
- c) The applicant should be 'in profit' for the latest year
- d) Prior approval of Board of Directors of the applicant bank/DFI to be obtained
- e) In addition to above, the applicant will submit latest: (i) Audited Annual accounts, (ii) Proposed office opening policy/regulations, if any, and (iii) Rationale for opening of proposed office

If the bank/DFI is granted 'in principle' approval for opening of overseas offices under any of the above categories, it should subsequently approach SBP for a license/formal approval on the prescribed application format, as given in enclosed Form-A, after obtaining approval/NOC from the host central bank/regulator. The 'in principle' approval will be valid for the next six month from the date of its issuance.

**(B) SHIFTING/CLOSING OF OVERSEAS OFFICES**

**Shifting of overseas offices:** Banks/DFIs are required to seek State Bank's prior written approval for shifting of any overseas offices from one location to another location in a foreign country on the prescribed format, as given in enclosed Form-B. Thereafter, they may shift the concerned office. Intimation of such shifting including an original license for necessary amendment should reach Banking Policy & Regulations Department, State Bank of Pakistan within 15 days from the date of shifting of the office.

Banks/DFIs are also required to seek clearance of the host regulator for relocation of their overseas offices, if required under host country's regulations, before approaching State Bank of Pakistan.

**Closure of overseas offices:** Banks/DFIs are required to seek State Bank's prior written permission stating reason for closure of any overseas office in any foreign country. Such application should be accompanied by 'No Objection Certificate' from the regulator of the host country. Banks/DFIs are required to submit such applications as per format given in enclosed Form-C. They will also be required to seek prior clearance regarding issues relating to foreign exchange from Exchange Policy Department, State Bank of Pakistan. Intimation of such closure including surrender of original license/permission letter for necessary cancellation should reach to Banking Policy & Regulations Department within 15 days after closure of such overseas operations.

**(C) PERFORMANCE MONITORING**

Besides ensuring compliance with State Bank's existing instructions for submission of related returns, every bank having overseas offices will submit annual performance report on overseas operations (PROP) on country-to-country & consolidated basis (indicating specifically return on equity, profit after tax, profit repatriated to Pakistan, number of staff, administrative expenses, etc as per format given in enclosed Form-D. The report should be submitted to Banking Policy & Regulations Department by 31<sup>st</sup> March every calendar year giving position as of 31<sup>st</sup> December of the preceding year. If ROE (profit after tax/total capital) fall below 15% in any calendar year both on consolidated & 'country-to-country' basis, the bank will give reason thereof and business plan for improvement in the same. Banks/DFIs are required to plough back at least 34% of their overseas annual profit after tax to their respective head offices in Pakistan on annual basis.

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**CHAPTER – II: POLICY FOR ESTABLISHMENT OF A SUBSIDIARY BANKING  
COMPANY OUTSIDE PAKISTAN**

Under section-23(1-d) of Banking Companies Ordinance-1962, a banking company with the previous permission in writing of the State Bank, may carry on the business of banking exclusively outside Pakistan. However, as per section-23(2) of BCO-1962, no banking company shall hold shares in any company whether as pledgee, mortgagee or absolute owner, of an amount exceeding thirty per cent of the paid-up share capital of that company or thirty per cent of its own paid-up share capital and reserves, whichever is less.

Therefore State Bank has formulated the following policy to explain the process for seeking State Bank's approval for establishment of a subsidiary company for carrying on banking business outside Pakistan by banks.

The process for seeking State Bank's permission has two distinct phases: (1) Banks will apply for seeking 'in-principle approval/NOC' in the first phase. After successful completion of the phase-1, (2) they will apply for final permission to establish a subsidiary company to carry on the business of banking outside Pakistan.

**Phase-1: Requirement for obtaining 'in-principle' approval:**

In order to seek 'in-principle approval/NOC' from SBP, banks will submit the following documents with the application.

- a) The applicant bank should be in compliance with respect to minimum capital requirement and minimum capital adequacy ratio in Pakistan after making the proposed investment
- b) The applicant bank must have a network of at least 100 domestic branches
- c) Prior approval of Board of Directors of the applicant bank should be obtained
- d) The applicant bank should be rated at least 'Fair' under CAMELS-S rating framework in the latest onsite inspection report by State Bank
- e) Legal opinion regarding compliance with all the legal formalities/regulations both in Pakistan and the host country and that establishment of a subsidiary company to carry on banking business outside Pakistan will not contravene any law/rule/regulation in Pakistan and in the host country
- f) The applicant bank should have earned profit for the last three consecutive years
- g) Detailed information regarding proposed (i) amount of investment/other expenditure, (ii) shareholding pattern of the proposed subsidiary and voting rights of the applicant bank should be furnished to SBP

- h) In addition to the above, the applicant bank will submit latest (i) Audited annual accounts for assessment of financial standing, aggregate investment portfolio, etc, (ii) Policy/regulations of the host country regarding establishment of proposed subsidiary and repatriation of profit/funds back to Pakistan, (iii) Any scheduled increase in minimum capital requirement in the future, (iv) Supervisory practices in the host country, (iv) Operating results and qualitative performance of all the existing overseas operations as well as rating of existing overseas operations, if any, by the host regulator.

In light of the above information, State Bank will consider their requests for grant of 'in-principle approval/NOC'. Such approval will be valid for the next six-month period from the date of its issuance. Further, banks are advised that such 'in-principle approval/NOC should not be construed as a 'final approval' for establishment of a subsidiary banking company outside Pakistan.

**Phase-2: Requirement for obtaining formal permission:**

After having sought the 'in-principle approval/NOC', banks will submit the following documents/information for seeking 'formal permission' to establish a subsidiary company to conduct banking business outside Pakistan:

- a) In-principle approval/NOC of the host regulator/authority to establish a subsidiary company to carry on banking business
- b) A feasibility study and comprehensive business plan for the 1<sup>st</sup> five years will be submitted to State Bank. It should include 'break even-period' and 'pay-back period'. Business plan should also include: (i) functions and activities to be undertaken by the proposed subsidiary, (ii) the structure of the management and the Board of Directors of the subsidiary, (iii) extent of bank's involvement in the management and Board of Directors, and (iv) the interrelationship between the bank and the subsidiary covering the functions which will be performed by each of the two entities.
- c) Final shareholding pattern and voting rights to take part in subsidiary's decision making process regarding policy making, choosing members of the board of directors, appointment of chief executive, etc.
- d) Information on any change in documents/information submitted earlier for seeking State Bank's 'in principle approval/NOC'
- e) In case establishment of a subsidiary company is done through acquiring shares of any banking company already established outside Pakistan, banks will furnish all necessary information as per the existing instructions of SBP.
- f) The applicant bank will ensure that it has adequate representation in the management team of the new entity
- g) In addition to the above, State Bank may require any other information for considering the application for 'formal permission'

Banks will follow all other regulations/rules/laws and State Bank's instructions issued from time to time while establishing a subsidiary company outside Pakistan. They will have to seek 'NOC' from Exchange Policy Department, State Bank of Pakistan as well. They will ensure that any/all material information about such subsidiary company established outside Pakistan is timely conveyed to Banking Policy & Regulations Department, State Bank of Pakistan. The formal request will be processed after receiving all the necessary information from the applicant bank.

**Closing/Change of ownership of a subsidiary company outside Pakistan**

Before closing or change of ownership of a subsidiary banking company established outside Pakistan, banks/Islamic banks will seek clearance from Banking Policy & Regulations Department and Exchange Policy Department, State Bank of Pakistan.

**Performance Monitoring**

Besides ensuring compliance with State Bank's existing instructions for submission of related returns, every bank having established a subsidiary banking company outside Pakistan will submit annual performance report on the subsidiary's operations. Banks, subject to laws & regulations in the host country, are required to plough back a significant portion of their profit after tax of the subsidiary companies to Pakistan on regular basis.

**Form – A**

**(ON LETTER HEAD OF THE BANK)**

The Director,  
Banking Policy & Regulations Department,  
State Bank of Pakistan,  
**Karachi.**

Dear Sir,

**Application for permission to open a new place of business  
under Section 28 of banking Companies Ordinance, 1962.**

We hereby apply for permission to open a new place of business in terms of Section 28 of the Banking Companies Ordinance, 1962. We give below the necessary information for the purpose.

1. **Name of the bank:**
2. **Location of bank:**
  - i) Registered office/Head office
  - ii) Principal office
3. **Paid up Capital (required and actual)**
4. **Capital Adequacy Ratios (required and actual):**
5. **Whether the banking company is**
  - i) Listed or
  - ii) Unlisted
6. **Date of incorporation:**
7. **Date of commencement of business:**
8. **Existing position of offices:**
  - i) No of rural/urban branches
  - ii) Annual profit after tax (last three years)
  - iii) Country-wise number of overseas offices
  - iv) Profit (two years) of existing overseas branches in the host country and current level of return on equity.
9. **Exact location of the proposed office:**
10. **System of supervision and control over the proposed office:**

Give a brief description of the system of supervision and control which will be exercised over the proposed office.



**11. Forward along with the application:**

- i) Annual/Half yearly/quarterly accounts whichever is latest
- ii) Business plan and feasibility study for the proposed branch.
- iii) All other information as required under the policy

**12. Loss making offices of the bank:**

No. of loss making offices for one years	
No. of loss making offices for three years	

**13. Detail of the proposed office as per Survey Report is enclosed.**

Date.....

(Signature with seal of Head  
of International Division)

Name: -----

Contact No. -----

**ON LETTER HEAD OF THE BANK****Survey Report**

1. **Name of the proposed office:**
2. **Exact location of the proposed office:**
  - i) Shop/Plot No.
  - ii) City/State Name:
  - iii) Country Name:
3. **State reasons for the proposed office and give statistical and other data, as under:-**
  - a) **Business Potential:**
    - i. Industrial area (brief description of facilities/mills and/or special projects)
    - ii. Commercial area (Exports and Imports).
  - b) **Prospects:** Year-wise estimate of business, which the proposed office expects to attracts/undertake within three years of its operation.

(amount in US \$ '000')

Head	1 <sup>st</sup> Year	2 <sup>nd</sup> Year	3 <sup>rd</sup> Year
Deposits			
ii) Advances			
iii) Foreign Remittances			
iv) Exports			
v) Imports			
vi) Capital expenditure/initial expenditure			
vii) Profit after tax			
viii) Return on Equity			

- c) **Estimated break-even period and pay-back period.**

4. **Income (source-wise) which the office expects to earn within 3 years of its operation.**

(amount in US\$ '000')

Source	1 <sup>st</sup> Year	2 <sup>nd</sup> Year	3 <sup>rd</sup> Year
Interest/Return on Advances			
Interest/Return on funds placed with Head Office			
Commission etc.			

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Signature of the Survey Officer

- i) Name: -----
- ii) Designation: -----
- iii) Date of Survey: -----

5. **Signature of the Head of International Division recommending opening of the office:**

- i) Name: ----- Designation: ----- Date: -----

**Form – B**

**ON LETTER HEAD OF THE BANK/DFI**

**PARTICULARS OF THE OFFICE(S) SHIFTED**

1. Name of the bank: \_\_\_\_\_
2. Name of the office shifted: \_\_\_\_\_
3. Name of the proposed office after shifting (if changed): \_\_\_\_\_
4. License No. \_\_\_\_\_ Dated: \_\_\_\_\_
5. Exact location of the proposed office at existing place:
  - i) Shop/Plot No.
  - ii) City/State Name.
  - iii) Country Name.
6. Exact location where the office is proposed to be shifted:
  - i) Shop/Plot No.
  - ii) City Name.
  - iii) Country Name.
7. Distance between the old and new office premises: \_\_\_\_\_
8. Date of shifting: \_\_\_\_\_
9. Reason necessitating the shifting (in detail) \_\_\_\_\_
10. Working result of the office at the old place, i.e. deposit advances and profit & loss accounts for the last three financial years.
11. Letter number and date of permission for shifting obtained from the host regulator \_\_\_\_\_
12. Name, Address and contact number of the concerned regulatory body:

\_\_\_\_\_  
(Signature of Officer In-charge)

Counter signature of Head of International Division:

- i) Name: \_\_\_\_\_
- ii) Designation: \_\_\_\_\_
- iii) Date: \_\_\_\_\_

**FORM – C**

**ON LETTER HEAD OF THE BANK/DFI**

**PARTICULARS OF THE OFFICE(S) CLOSED**

1. Name of the bank: \_\_\_\_\_
2. Name of the office: \_\_\_\_\_
3. Exact location of the office(s): \_\_\_\_\_
4. License No. \_\_\_\_\_ Dated: \_\_\_\_\_
5. Date of closure: \_\_\_\_\_
6. Reasons necessitating closure (in detail): \_\_\_\_\_
7. Working result viz. Deposits, Advances Profit/Loss and number of Accounts (category wise) as at end of the last financial year and on the date of closure: \_\_\_\_\_
8. Date & No of NOC obtained from the host regulator \_\_\_\_\_
9. Name, Address and contact number of the concerned regulatory body:
10. Letter No and date of prior clearance obtained from Exchange Policy Department, State Bank of Pakistan \_\_\_\_\_
11. License No. \_\_\_\_\_ Dated: \_\_\_\_\_ is enclosed for cancellation.

\_\_\_\_\_  
Signature of the Country Head

i) Name: \_\_\_\_\_

ii) Dated: \_\_\_\_\_

\_\_\_\_\_  
(Signature of Head of International Division)

**FORM-D**

Banks are required to submit the following report on country-to-country and consolidated basis. This report is in addition to other related returns/reports required by State Bank. If ROE (profit after tax/total capital) fall below 15% in any calendar year both on consolidated and on 'country-to-country' basis, the bank will give reason thereof and business plan for improvements.

**Annual Performance Report on Overseas Operations****As of 31<sup>st</sup> December .....**

(in US\$ '000')

		Current year (t = 0)	Last year (T = -1)	2nd last year (t = -2)
A	Total Assets			
B	Total Liabilities			
C	Capital assigned, reserves and accumulated retained earnings			
D	Profit after tax -- Total			
E	Profit remitted back to Pakistan during the year			
F	No of staff			
G	Total administrative expenses			
H	Return on equity (D/C)			