

**CRITERIA FOR CONVERSION OF CONVENTIONAL BANKING BRANCHES  
INTO ISLAMIC BANKING BRANCHES**

SBP has been constantly engaged in development of Islamic banking in Pakistan through policy, regulatory and promotional initiatives. It has issued detailed criteria for establishment of Islamic Banks, Islamic Banking subsidiaries and Islamic banking branches/Division at conventional commercial banks. While the Branch Licensing Policy covers opening of new Islamic banking branches and Islamic banking counters/windows, it did not cover the conversion of conventional banking branches into Islamic banking branches.

In order to streamline the process and facilitate conventional banks in conversion of their existing conventional branches into Islamic banking branches, the following criteria has been developed, which shall be applicable with immediate effect.

- Only those conventional commercial banks which have Islamic Banking Divisions duly allowed by SBP and a composite CAMELS-S rating of at least 'Fair' (3) in the last On-Site report shall be eligible to apply for conversion of their existing conventional branches into Islamic banking branches
- No new licensing fee shall be applicable on conversion of conventional branch(es) into Islamic banking branch(es)
- Banks shall preferably submit conversion requests to Banking Policy & Regulations Department of SBP, separately, at the time of submission of Annual Branch Expansion Plan (ABEP). However, keeping in view the evolving nature of Islamic banking, individual conversion cases may also be considered by SBP for approval.
- Banks shall submit a detailed conversion plan, with a timeline to start and complete the conversion process, duly approved by their respective Shari'ah Advisors to SBP for in-principle approval. A copy of the conversion plan / request shall also be submitted to Islamic Banking Department for information and necessary action. The conversion plan shall inter alia cover the following:
  - i. Identification of proposed branch(es) for conversion;
  - ii. The rationale for conversion of the selected branch(es) into Islamic banking branch(es) along with assessment of business potential in the area to be served by each Islamic banking branch;
  - iii. The three years business plan along with necessary/basic assumptions for the projection;
  - iv. Strategy for informing banks' customers and general public about conversion at least 4 weeks before closure of conventional branch(es);
  - v. Process for obtaining written consent from existing customers for conversion to Islamic banking products and services;
  - vi. Methodology for conversion of existing assets & liabilities into Islamic modes in Shariah compliant manner;
  - vii. Transfer of conventional assets, liabilities including contingent liabilities, dormant accounts and customers who do not wish to convert to Islamic banking to banks' other conventional branch(es);

- viii. Systems and controls for segregation of conventional funds and the funds mobilized under Islamic modes at converted branch(es);
  - ix. Plans / strategy for resolution of adverse findings of internal, external and statutory auditors specially regarding fraud, forgery, money laundering and terrorist financing (if any) before conversion;
  - x. Plan for proper orientation and training of staff of the converted branch(es) in Islamic banking;
  - xi. Any other requirements specified by the respective bank's Shariah Advisor for Shariah compliance of the whole conversion process;
- Based on banks' request, quality of conversion plan and other SBP instructions, the bank may be given in-principle approval to initiate the conversion process. The bank may also be given an opportunity to improve the conversion plan, if it is not satisfying SBP's requirement
  - After getting in-principle approval from SBP, the banks shall initiate conversion process as per the conversion plan and in-principle approval; the conversion process shall be completed within the time period given in the conversion plan
  - Upon completion of all requirements in light of conversion plan and in-principle approval, the bank shall apply for license for Islamic banking branch(es), submitting Shariah Advisor's Certificate confirming that the whole conversion process has been undertaken in conformity with Shariah and surrendering the existing license of conventional branch(es)
  - The converted branch(es) shall only start accepting and offering Islamic Banking products & services to new customers after getting license from SBP as Islamic Banking Branch(es)