

GUIDELINES & CRITERIA FOR SETTING UP OF FULL FLEDGED ISLAMIC COMMERCIAL BANK**1. Submission of Application**

Those interested in establishing a full fledged Islamic commercial bank are required to apply to the Director, Banking Policy & Regulations Department (BPRD), State Bank of Pakistan (SBP), I.I. Chundrigar Road, Karachi. Applications may be made giving details with supporting documents, forms etc. Applications, which are not complete in all respects, shall not be considered.

2. Issuance of No Objection Certificate (NOC) for Setting up Full Fledged Islamic Commercial Bank**a. General Guidelines**

The following will be the broad guidelines and criteria for setting up of a full fledged Islamic commercial bank:

- i. The proposed bank should be a Public Limited Company and listed on the Pakistan Stock Exchange. In case it is not listed at the time of commencement of its business, the listing should be completed within a maximum period of two years from the date of commencement of business. A minimum of 50% of shares have to be offered to the general public.
- ii. To be able to commence business the bank shall have a minimum paid up capital of Rs. 10 billion (free of losses) or any other amount as prescribed by the SBP from time to time.
- iii. The bank shall at all times maintain minimum capital & capital adequacy ratio as specified by the SBP from time to time.
- iv. A group as defined in prudential regulations shall not be eligible to own more than one commercial bank.
- v. At least 20% of the total paid up capital (or any other percentage as specified from time to time) shall have to be subscribed personally by the Sponsor(s). Sponsor(s) shall give an undertaking to SBP to inject capital whenever required by the regulatory authority. Sponsor(s) shall also submit an undertaking to the SBP that they shall comply with all terms and conditions accompanying the license.
- vi. No person shall own or control 5% or more of the total paid up capital of the bank in concert with his family members, group companies, associates. Special permission has to be obtained separately from the SBP with proper justification for holding more than 5% of the total paid up capital.
- vii. The number of Directors shall not be less than seven.
- viii. Sponsor(s) shall not dispose off their shares in any manner whatsoever for a minimum period of three years and thereafter only with the specific written approval of the SBP.
- ix. Sponsor(s) shall require prior written approval from the SBP for entering into any share sale/purchase agreement/memorandum of understanding.
- x. The dividend on foreign shareholding can be remitted freely abroad as per prevailing Foreign Exchange Rules.
- xi. The overall operations and services of the bank will be in accordance with the injunctions of Shariah under regulatory framework (instructions/directives/guidelines) issued by SBP for

Islamic Banking Institutions (i.e. full-fledged Islamic banks, Islamic banking subsidiary & Islamic banking branches of conventional banks) from time to time.

b. Fit and Proper Criteria for Sponsor(s)/ Sponsor Director(s)

- i. No director of a bank can be a member of board of directors of any other bank.
- ii. Not more than 25% of the directors shall be from the same family as defined in Section 5(ff) of the Banking Companies Ordinance.
- iii. Sponsor(s)/sponsor director(s) will have to declare personal Net Worth, which should not be less than the amount to be subscribed by them personally. While assessing the sponsor(s)/ sponsor director(s) Fit and Proper Test (FPT), SBP will evaluate their sources of funds, financial standing, and beneficial ownership etc. SBP will also assess sponsor(s) ability to raise capital in the future, if required.
- iv. The directors and chief executive shall meet the SBP prescribed FPT and shall require prior clearance of State Bank of Pakistan.
- v. Application shall stand disqualified if any of the sponsor(s) :-
 - a) has been convicted on account of any criminal offence or financial irregularity whatsoever;
 - b) has been associated with any illegal activity concerning banking business, deposit taking, financial dealings or any other business;
 - c) has failed to meet his or her obligations to banks or financial institutions.
 - d) has defaulted in payment of Government taxes and duties etc.
 - e) has been/is associated as Director and or Chief Executive with the Corporate Bodies whose corporate and tax record (at federal and provincial level) including customs duties, central excise and sales tax has been unsatisfactory.
 - f) in the opinion of the State Bank of Pakistan, has adverse reputation regarding integrity and performance.
 - g) is associated with the business of brokerage, stock exchange, and money changing etc. as stipulated in BPRD Circular No.4 of 2007 or as amended from time to time.

c. Information / Documents Required for Processing of Application

The applicant will also submit the following documents/information along with the request:-

- i. Feasibility study on the proposed Islamic commercial bank covering inter alia organizational structure, bank's business model, financial projections and sensitivity analysis. The study should also include analysis of Pakistan's macroeconomic environment and financial system. SBP will assess that applicant operates viably and would not adversely impact the financial stability of the existing banks /financial system.
- ii. Long and short term business strategy/ Plan including 3-5 years branch expansion plan.
- iii. List of companies / firms and their bankers in which sponsor(s)/director(s) and their family members as defined in Section 5(ff) of Banking Companies Ordinance 1962, are interested as directors, chief executive, partner, proprietor, or major shareholders holding 5% or more shares.

- iv. The applicant shall indicate the Shariah compliant modes of finance proposed to be used for conduct of Islamic banking business and operations.
- v. The applicant will also indicate expertise and other facilities available with them for ensuring compliance of their banking business and operations with Shariah.
- vi. A tentative list of Shariah Board members (identified in accordance with “Fit & Proper Criteria” as prescribed in SBP’s Shariah Governance Framework) to be engaged shall be submitted. Subsequently if there is any change in the submitted list the same shall also be conveyed.
- vii. After incorporating the proposed banking company with SECP, it shall appoint the Shariah Board in accordance with provisions of SBP’s Shariah Governance Framework.
- viii. Names of sponsor(s), directors and chief executive along with attested copies of their Computerized National Identity Cards. In case of foreign sponsor(s), copies of their national identification cards and passports duly authenticated by the Embassy of Pakistan in that country.
- ix. In case sponsor is a legal person, duly certified/notarized constituent documents of the entities/companies shall be required.
- x. The amount proposed to be subscribed by each sponsor is required to be indicated separately to consider his/her interest in the bank.
- xi. Personal net worth of each sponsor, duly supported with the certified copies of income tax and wealth tax statements, filed during the last three years.
- xii. In case a sponsor is resident in a country where filing of wealth statement is not a requirement of law, two certificates of personal net worth and general reputation issued by international banks of repute shall be submitted. This requirement is also mandatory for Pakistanis who have recently returned to Pakistan after a stay of more than 10 years abroad.
- xiii. Balance sheets and accounts of the companies in which sponsor(s)/directors and their family members have interest and hold 5% or more shares.
- xiv. Previous experience in banking or other business.
- xv. Last three years balance sheets and accounts of all those concerns in which sponsor(s) have controlling interest.
- xvi. Certified copies of Memorandum and Articles of Association of the banking company.
- xvii. The applicant shall furnish the name of the banks and financial institutions, along with account numbers and name of branches, with which they have been dealing, along with the credit reports from those banks in a separate confidential envelope.
- xviii. Any additional information/ documents required by SBP shall also be provided by the applicant.

d. Application Fee

The applicant shall deposit a sum of Rs 4,000,000/- (Rupees four million) or equivalent in US dollars along with the application as processing fee. The fee so deposited shall be non-refundable. Incomplete application shall neither be entertained nor returned and processing fee in such case shall be nonrefundable. Re-submission shall attract fresh fee. The fee may be deposited through RTGS. In case of non-availability of RTGS the same can be deposited through demand draft or pay order. In case permission is to be refused, SBP shall give an opportunity to the applicant for a representation in writing.

In addition to these guidelines and criteria, wherever deemed necessary, the Guidelines and Criteria for setting up of a commercial bank may also be made applicable by SBP.

3. Issuance of License

- i. The bank which may be permitted to be established shall be subject to the prevalent banking and other laws, rules and directives issued by SBP from time to time.
- ii. The license for establishment of a full-fledged Islamic commercial bank, once issued by SBP under Section 27 of Banking Companies Ordinance, 1962 shall be valid for a period of six months from the date of its issuance. The license shall automatically stand cancelled /withdrawn without any notice, in case commencement of banking business as per terms and conditions of the license has not started within six months from the date of issue of license. SBP may, however, consider a request received in writing for an extension in commencement of business on merit.
- iii. The Bank must commence Islamic banking business and operations within six months of the grant of license. The opening of up to 10 branches immediately after the commencement of business till 31st December of the Calendar year in which bank has commenced business may be considered subject to provisions of BPRD's branch licensing policy. The opening of subsequent branches during a calendar year shall be subject to annual branch expansion plan in accordance with the branch licensing policy enforced.
- iv. The NOC / license may be revoked in case it subsequently transpires that the applicant/bank made material misrepresentation of facts or concealment of material information and those responsible shall personally be liable for action under the relevant laws.

4. Commencement of Business

- i. For commencement of business the Islamic bank shall follow instructions mentioned in BPRD Circular No. 01 of 2015 or as amended from time to time.
- ii. All the policies duly vetted by the Shariah Board (SB), and approved by Board of Directors shall be in line with complexity of operations and cover, as a minimum, the requirements set out in BSD Circular No. 03 of 2007 or as amended from time to time. In this regard the following should also be ensured:
 - a) The organogram submitted shall also cover all the functional areas necessary to execute the roles and responsibilities of various organs of the bank including those defined in SBP instructions on Shariah Governance Framework as amended from time to time.
 - b) Accounting policies shall also inter alia include reference to SBP circulars on Islamic Financial Accounting Standards applicable on Islamic banking institutions.
 - c) Formulation of pool management and profit and loss distribution policy in light of SBP instructions issued from time to time. In this regard the bank shall have in place an adequate IT based system which inter alia suitably caters to the requirements of allocation of (a) deposits, (b) financing, investments and placements, (c) income and expenses and (d) movement of assets to/from different pools.

- d) Charity policy in line with instructions issued by SBP on the subject from time to time.
- e) Regarding continuous capacity building of all organs of corporate and Shariah governance, a comprehensive Shariah board vetted and BoD approved training policy along with annual training plan shall also be submitted as per applicable Islamic banking and other SBP departments instructions, issued from time to time.
- f) Further, before commencement of banking business, a full-fledged Islamic bank, granted license by SBP, shall provide following information/documents:-
- Names of chief executive and other key executives as indicated in BPRD Circular No. 4 of 2007 or as amended from time to time.
 - Risk management guidelines
 - Plans for internal control system and scale of authority.
 - Working system and procedure for business operations.
 - Information / documents related to products and services in compliance of IBD Circular Letter No. 2 of 2013 or as amended from time to time.
 - Implementation status in respect of requirements mentioned in SBP's Shariah Governance Framework.

Process Flow (Annexure- I)

1. Submission of Application

The sponsor(s) shall submit the application complete in all respect including the processing fee to the Director, Banking Policy & Regulations Department, State Bank of Pakistan, Karachi for grant of license to establish a full fledged Islamic Commercial Bank.

2. NOC for Incorporation with SECP

The SBP shall process the application and if satisfied with the quality of the proposal, shall issue NOC to the sponsor(s) for incorporation of the proposed banking company with Securities and Exchange Commission of Pakistan (SECP). After incorporating the proposed banking company with SECP it shall appoint a Shariah Board as per requirements of SBP's Shariah Governance Framework and fulfil other conditions specified in the NOC.

3. Grant of License

After incorporating the proposed banking company with SECP and fulfillment of other conditions specified in the NOC, the sponsor(s) by submitting the incorporation certificate shall approach BPRD, SBP for issuance of formal banking license.

4. Commencement of Banking Business

For commencement of business the full fledged licensed Islamic bank shall follow instructions mentioned in BPRD Circular No. 01 of 2015 or as amended from time to time.