

GUIDELINES AND CRITERIA FOR SETTING UP A COMMERCIAL BANK

INTRODUCTION

1. State Bank of Pakistan (the central bank of the country) is the sole supervisory and regulatory authority of Commercial Banks, Islamic Commercial Banks, Development Financial Institutions (DFIs), Micro Finance Banks and Exchange Companies in Pakistan. The authorization/issuance of a commercial banking licence has been vested in State Bank of Pakistan (SBP) under Section 27 of the Banking Companies Ordinance, 1962. Basle Core Principle No. 5 also prescribed some broad guidelines for bank licensing. In line with the above, guidelines and criteria for setting up of commercial banks in Pakistan, both by local and foreign institutions/entities/strategic investors are given in the following paras for the ease of different stakeholders and general public. The guidelines for setting up an [Islamic Commercial Bank](#), [Micro Finance Bank](#) and [Exchange Company](#) have been given separately.

2. It may be added that powers of authorization/issuance of licence to Non Banking Finance Companies (NBFCs) and Insurance Companies have been vested in [Securities and Exchange Commission of Pakistan](#), which is also their supervisory and regulatory authority.

GENERAL GUIDELINES

3. The financial sector in Pakistan was opened to private sector (both for local and foreign investment) in 1989 as a part of Federal Government's policy of deregulation and privatization of financial sector. Till the end of the year 1994, a good number of commercial banks and NBFCs were given authorization/licence to commence business. Thereafter, in order to consolidate and strengthen the banking sector, as a first step, a moratorium was placed on setting up of commercial banks owned 100% by the local sponsors, which is still continuing. However, under World Trade Organization commitments undertaken by Pakistan, foreign financial institutions/entities either directly or in collaboration with local partners/sponsors, are permitted to open commercial banks.

4. The detailed guidelines for opening of a commercial bank in Pakistan are as under:-

- 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.
- ii) A minimum of 50% shares have to be offered to general public.
- iii) To be able to commence business of banking, the locally incorporated banks as well as subsidiary of a foreign bank should have a minimum paid up capital (free of losses) of Rs.10 billion or any other amount as prescribed by SBP from time to time. However, foreign banks desirous to conduct banking business in branch mode should have transparent shareholding pattern, listed

on stock exchange in their home country and their proposed branches should have a minimum assigned capital (free of losses) of Rs 3 billion or any other amount as prescribed by SBP from time to time, subject to following conditions;

- a) The foreign bank holds paid up capital (free of losses) of at least equivalent to US\$ 300 million and have a CAR of at least minimum prescribed by their home regulator or SBP, whichever is higher.
- b) The bank will operate with a branch network of 5 branches; in case the bank intends to commence business with more than 5 branches or expands its operations in future, the MCR would be as follows:

Branch Network	MCR
From 6 to 50 branches	Rs. 6 billion or any other amount as prescribed by SBP from time to time.
More than 50 branches	Rs. 10 billion or any other amount as prescribed by SBP from time to time

- iv) The bank shall at all times maintain a [minimum capital](#) adequacy ratio of 10% or any other percentage as specified by the SBP from time to time.
- v) At least 20% of the total paid up capital shall have to be subscribed personally by the sponsor directors. Sponsors shall give an undertaking to SBP to inject capital whenever required by the regulatory authority. Sponsors shall also submit an undertaking to SBP that they shall comply with all terms and conditions of banking licence.
- vi) The number of sponsor directors shall not be less than seven.
- vii) Sponsors/sponsor directors 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. Sponsors shall require prior written approval from SBP for entering into any share sale/purchase agreement/memorandum of understanding.
- viii) The dividend on foreign shareholding can be remitted freely abroad as per prevailing [Foreign Exchange Rules](#).
- ix) The following categories are allowed to conduct banking business in branch mode as well as a wholly owned locally incorporated subsidiary: -
 - a) Banks from countries belonging to regional groups and associations of which Pakistan is a member.
 - b) Foreign banks having a global tier-1 paid up capital of US\$5 billion or more.

- x) Apart from the category mentioned at (ix) above, a foreign corporate entity/body desirous of conducting banking business in Pakistan must incorporate a locally incorporated company with a maximum of 49% shareholding by the foreign strategic investor/entity/financial institution.
- xi) The board of directors and chief executive shall meet the prescribed [fit and proper test](#).
- xii) [A group, as defined in Prudential Regulations](#), shall not be eligible to own more than one commercial bank.
- xiii) The opening of upto 10 branches immediately after the commencement of business till 31st December of the Calendar year in which bank has commenced business may be considered on merit and as per the choice of sponsors subject to provisions of 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.

FIT AND PROPER CRITERIA FOR SPONSORS/SPONSOR DIRECTORS

5. The sponsors/ sponsor directors of the proposed bank have to qualify the following “Fit & Proper Test”:-

- i) The sponsor director(s) should not be a director in another commercial bank in Pakistan i.e. he/she is not on the board of directors of another commercial bank in Pakistan.
- ii) The sponsors/sponsor director(s) has declared personal net worth which should not be less than the amount to be subscribed by him individually. While assessing the sponsors’ FPT, SBP will evaluate their sources of funds, financial standing, and beneficial ownership. SBP will also assess sponsors ability to raise future capital requirements, if any.
- iii) No sponsor director shall subscribe more than 5% of the total paid up capital of the bank. Special permission has to be obtained separately from SBP with proper justification for holding more than 5% of the total paid up capital.
- iv) Not more than 25% of the sponsor directors shall be from the same family as defined in [Section 5\(ff\) of the Banking Companies Ordinance, 1962](#).
- v) The sponsor director shall stand disqualified if he/she:
 - a) has been convicted on account of any criminal or financial irregularity whatsoever;
 - b) has been associated with any illegal activity concerning banking business, deposit taking, financial dealing and other business;

- c) has failed in re-payment of obligation(s) to bank(s) or financial institution(s);
- 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 including custom duty, central excise and sales tax has been unsatisfactory;
- f) in the opinion of the sanctioning authority, 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](#).

INFORMATION / DOCUMENTS REQUIRED FOR PROCESSING OF APPLICATION

6. The applicant shall apply for licence for a commercial bank in private sector to the Banking Policy & Regulations Department of SBP along with the following information/documents:-

- i) Feasibility study on the proposed banking company 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 systems. SBP will assess that applicant operates viably and would not adversely impact the financial stability of the existing banks /financial system.
- ii) Name of each sponsor director and chief executive along with attested copies of their Computerized National Identity Cards. In case of foreign sponsors, copies of their national identification cards and passports duly authenticated by the Embassy of Pakistan in that country.
- iii) Short term and long term business plans.
- iv) The amount proposed to be subscribed by each sponsor director is required to be indicated separately to consider his/her interest in the bank.
- v) List of companies/firms and their bankers in which sponsor directors and their family members are interested as directors, chief executives, partners, proprietors or major shareholders holding 5% or more shares.
- vi) Personal net worth of each sponsor director, duly supported with the certified copies of income tax and wealth tax statements, filed during the last three years.
- vii) Balance sheets and accounts of the companies in which sponsor directors and their family members have interest and hold 5% or more shares.

- viii) Previous experience in banking or other business.
- ix) In case of foreign bank/entity/investor or sponsor director resident of countries 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 should be submitted. This requirement is also mandatory for Pakistanis who have recently returned to Pakistan after a stay of more than 10 years abroad. The foreign bank shall also submit the following:-
 - a) A letter from their home country supervisors indicating permission to conduct banking business in Pakistan. Home supervisor (foreign regulator) is also required to confirm whether Pakistani banks have same access to their financial market and are treated fairly.
 - b) Credit rating by an international credit rating agency.
 - c) Global tier I & II capital in US\$ and capital adequacy ratio.
 - d) Ranking of bank by total assets and tier II capital in home country and globally.
 - e) Number of domestic and international branches.
 - f) Name of countries in which bank has presence as representative office, subsidiary and/or branches along with their number.
 - g) Details of supervisory arrangements in home country indicating therein whether home supervisor has adopted Basel Capital Adequacy Framework.
- x) Last three years balance sheets/accounts of all those concerns in which sponsor directors have controlling interest.
- xi) Certified copies of Memorandum and Articles of Association of the banking company.
- xii) The applicant (sponsors) 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.

OTHER DOCUMENTS / INFORMATION

7. Before commencement of banking business, a banking company, granted licence/authorization by SBP, shall provide following information/documents:-

- a) Name of chief executive and other key executives as indicated in [BPRD Circular No. 4 of 2007](#).
- b) Risk management guidelines
- c) Plans for internal control system and scale of authority.
- d) Working system and procedure for business operations.

ESTIMATED TIME FOR PROCESSING OF APPLICATION

8. The application will be processed as quickly as possible. However, the estimated minimum time for processing an application, which is complete in all respect, may take six to eight weeks. In case permission is to be refused, SBP shall give an opportunity to the applicant for a representation in writing.

VALIDITY OF THE LICENCE

9. The licence for establishment of a 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 licence shall automatically stand cancelled /withdrawn without any notice, in case commencement of banking business has not started within six months from the date of issue of licence. SBP may, however, consider a request received in writing for an extension in commencement of business on merit supported by valid reasons.

APPLICATION PROCESSING FEE

10. The applicant shall deposit a sum of Rs 4,000,000 (Rupee four million) or equivalent in US dollars along with the application as processing fee. The fee deposited shall be non-refundable. Incomplete applications shall neither be entertained nor returned. The processing fee in such cases shall also be non-refundable. The fee may be deposited through demand draft or pay order.

CONSULTATION WITH SUPERVISOR

11. The sponsor directors/financial institutions/entities interested in conducting banking business in Pakistan can contact the following for consultation, clarification or additional information before submission of the formal application:-

The Director
Banking Policy and Regulations Department
State Bank of Pakistan
I.I. Chundrigar Road
Karachi.
Ph: 92-21- 99213580
92-21-111-727-111
Fax No: 92-21-99212438, 99212506
www.sbp.org.pk

