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State Bank of Pakistan

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In addition to the core team mentioned above, State Bank of Pakistan especially acknowledges the feedback and input received from internal stakeholders and industry experts during the extensive consultative process.

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Acronyms

ADR	Advances to Deposits Ratio
AI/ ML	Artificial Intelligence/ Machine Learning
API	Application Programming Interface
ATM	Automated Teller Machine
BB	Branchless Banking
BCO	Banking Companies Ordinance, 1962
BPRD	Banking Policy & Regulations Department
Board	Board of Directors
CAR	Capital Adequacy Ratio
CCB	Capital Conservation Buffer
CDD	Customer Due Diligence
CDM	Cash and/ or Cheque Deposit Machine
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CNIC	Computerized National Identity Card
CRP	Customer Risk Profiling
DFB	Digital Full Bank
DFS	Digital Financial Services or Solutions
DPC	Deposit Protection Corporation
DRB	Digital Retail Bank
DTL	Deferred Tax Liability
e-KYC	Electronic Know Your Customer
EMI	Electronic Money Institution
FPT	Fit and Proper Test
G2P	Government-to-Person
IA	Intelligent Automation
ICAAP	Internal Capital Adequacy Assessment Process
ICT	Information Communication Technology
IPA	In-Principle Approval
KYC	Know Your Customer
MCR	Minimum Capital Requirement
MFB	Microfinance Bank
N/A	Not Applicable
NOC	No Objection Certificate
P2G	Person-to-Government
PRs	Prudential Regulations
PSX	Pakistan Stock Exchange
PSO/ PSP	Payment System Operator/ Payment Service Provider
RPA	Robotic Process Automation
RWA	Risk Weighted Assets
SBP	State Bank of Pakistan
SECP	Securities & Exchange Commission of Pakistan
SMEs	Small and Medium Enterprises

Overview

- 1.1 The Framework provides a licensing and regulatory regime for applicants desirous of setting up digital banks in Pakistan and has following key purposes:
- a) To prescribe different types of digital banks, their licenses and constitution models that may be pursued by the applicants;
 - b) To set out minimum requirements for digital banks compliance of which need to be demonstrated by the applicants and digital banks;
 - c) To outline minimum eligibility criteria and competencies for sponsors, directors (including sponsor directors) and Chief Executive Officer (CEO) of a digital bank;
 - d) To provide minimum set of documentation and information to be submitted with digital bank license applications and stipulations in relation thereto;
 - e) To communicate digital bank licensing stages, process and timelines, together with minimum documentation and/ or information requirements for each stage;
 - f) To prescribe transition and progression period and associated provisions for digital banks, allowing incremental growth in a risk-controlled manner;
 - g) To provide a set of other minimum business, governance and operating requirements pertaining to digital banks.
- 1.2 Digital banks are required to contribute in delivering the following prime objectives (hereinafter also referred to as Digital Bank Objectives):
- a) Promote financial inclusion;
 - b) Provide credit access to unserved and underserved;
 - c) Provide affordable/cost effective digital financial services;
 - d) Encourage application of financial technology and innovation in banking;
 - e) Foster new set of customer experience;
 - f) Further develop digital eco-system.
- 1.3 Applicants for the digital bank license and licensed digital banks shall demonstrate compliance with all the relevant provisions of this Framework during the respective licensing stages, transition and progression phase as well as during on-going commercial operations.
- 1.4 The above-mentioned requirements include demonstration by the digital bank that its value proposition is innovative, robust, sustainable and fit for the purpose in terms of contributing to Digital Bank Objectives and addressing the needs of the target customer segments, particularly the retail customer segments.
- 1.5 The Licensing Framework applicable to digital banks issued under Section 27 of the Banking Companies Ordinance, 1962 ("BCO") (as may be amended from time to time) is provided in Part A of this Framework.
- 1.6 The Regulatory Framework applicable to digital banks issued under Section 41 of the BCO (as may be amended from time to time) is provided in Part B of this Framework.

Part A – Licensing Framework for Digital Banks

The Licensing Framework of digital banks has been issued under Section 27 of the BCO 1962.

Section I: Interpretations:

The terms used in this Licensing Framework shall have the same meaning as attributed in the Regulatory Framework (Part B) for Digital Banks.

Section II: General Provisions:

1. Applicability of Commercial Bank Licensing Requirements:

- 1.1 The licensing requirements applicable to commercial banks, conventional or Islamic, shall continue to apply with respect to the licensing of the conventional and Islamic variants of digital banks respectively, and shall not be deemed to be excluded unless found to be inconsistent with this Framework. In case of any inconsistency, this Framework shall prevail.
- 1.2 Any reiteration of general licensing requirements applicable to commercial banks is for emphasis and shall not be interpreted to exclude any general licensing requirements, which have not been reiterated.

2. Types of Licenses:

- 2.1 There shall be two types of digital banks:
 - a) Digital Retail Bank (DRB), which may deal with retail customer segments.
 - b) Digital Full Bank (DFB), which may deal with corporate, commercial and retail customer segments.

This framework is primarily designed for setting-up of a new digital bank. However, based on a viable business case and satisfactory Digital Financial Services (DFS) experience, traditional banks/Micro Finance Banks (MFBs) may request SBP for conversion of their institution into a digital bank. In this regard, the applicant bank/MFB shall submit a tenable and comprehensive policy/ transformation plan for its conversion into DRB/ DFB. Nevertheless, the applicant bank/MFBs shall be required to fulfil the prescribed capital requirements during the transition or progression phases.

- 2.2 DRB and DFB licenses may have conventional and Islamic variants. Further, conventional variant of DRB and DFB may also offer Islamic window operations as per existing practice after obtaining specific approval of SBP.
- 2.3 Generally, only a licensed DRB shall be eligible to apply for a DFB license and interested DRBs may apply for DFB license in accordance with clauses 16.1 to 16.7 in Part A. However, SBP may consider direct licensing for DFB as subsidiary of existing banks, licensed by SBP or international banks, subject to fulfillment of minimum capital and other regulatory requirements as prescribed by SBP.
- 2.4 DRBs and DFBs are licensed under Section 27 of the BCO.

3. Suspension or Revocation of Approval or Cancellation of License:

- 3.1 SBP may suspend or revoke any approval or cancel any license in case of any failure of the applicant, sponsors or the digital bank to comply wholly or partly with any applicable licensing requirements.
- 3.2 Notwithstanding anything mentioned hereunder, SBP shall have the discretion to either approve or refuse any request received under this Framework.

4. Digital Bank Sponsors:

- 4.1 The following will be eligible to form and seek a license for a proposed digital bank:
 - a) A traditional bank having minimum one-year experience of delivering Digital Financial Services (DFS) in the retail customer segments, may apply either individually or with other equity participants. However, SBP may advise an extended period of experience if the traditional bank's performance is not considered satisfactory by SBP.
 - b) An international bank or international DFS entity having a successful track record of a minimum of three years of delivering DFS in the retail customer segments, may apply either individually or with other equity participants.
 - c) An Electronic Money Institution (EMI) seeking conversion into a digital bank having minimum one-year experience of delivering DFS in the retail customer segments. However, SBP may advise an extended period of experience if the EMI's performance is not considered satisfactory by SBP. Further, pilot phase operation period of an EMI may be counted towards one year operations requirement for an EMI seeking to transform into a digital bank.
 - d) Those holding majority stake in or exercising control over a MFB, EMI, international bank or international DFS entity having a successful track record of a minimum of three years of delivering DFS in the retail customer segments, may apply either individually or with other equity participants.
 - e) Any other person having a minimum of three years of experience in the financial services, financial technology, telecommunication, merchant aggregation technology platforms, Information Communication Technology (ICT), or other pertinent digital or innovative financial and non-financial domains, when applying to form a digital bank with a minimum of 5% equity in the proposed digital bank, either individually or preferably with at least one of the individuals or entities, as the case may be, listed in sub-clause (a), (b) and (d) being a minimum 5% equity participant in the proposed digital bank.
- 4.2 Of the persons or entities mentioned in clause 4.1 (a) and (d), traditional banks or those with majority stake in or exercising control over MFBs and EMIs are encouraged to collaborate with established entity(ies) or investor(s) who can effectively contribute as sponsor(s) in collectively delivering innovative, robust and sustainable digital bank value proposition, when applying for a digital bank license.
- 4.3 A group, as defined under the Prudential Regulations for Corporate/Commercial Banking, already owning one traditional bank shall not be eligible to apply for a digital bank license, except where the digital bank is proposed as a subsidiary of the traditional bank.
- 4.4 For the purpose of clause 4 and its sub clauses, "international DFS entity" shall mean a digital bank, electronic money institution, payment firm or relevant fintech by whatever name called, such as those dealing in payments, remittances and lending, operating outside of Pakistan.

Section III: Application Process, Licensing Stages and Requirements for Digital Bank:

5. Pre-Application Stage:

5.1 The applicant may request for consultation and clarification at the following email address prior to submission of application:

digitalbanksqueries@sbp.org.pk

6. Application Stage and Documentation / Information Requirements:

6.1 The applicants intending to apply for digital bank's license may submit their requests at the following email address:

digitalbanksapplications@sbp.org.pk

6.2 The application shall specify whether the application is for conventional or Islamic variant of the DRB.

6.3 The application shall be accompanied by all the relevant documentation and information set out in clauses 6.7 to 6.14 below and in Appendix B-1.

6.4 The application shall be considered as complete only after all the documents and information required by SBP have been received. Incomplete applications shall not be entertained.

6.5 The applicant shall deposit a sum of PKR 1,000,000 (One Million Rupees) as a processing fee along with the application. The fee may be deposited through demand draft, pay order or digital channel and shall be non-refundable, even in case of unsuccessful application.

6.6 In case SBP has any concerns pertaining to any part of the application, SBP may give the applicant an opportunity to address those concerns.

Feasibility Study, Business and Enablement Plan

6.7 The applicant shall submit comprehensive feasibility study, business and enablement plan including the components listed in Appendix C with the license application.

6.8 The business plan shall include detailed financial projections and underlying assumptions, covering a period of at least five years from the commencement of commercial operations. In case the break-even period exceeds five years, the projections shall cover the extended period.

6.9 The business plan shall include justifications if the financial projections signify a consistent or rising loss trend without a clear and tenable path to profitability, or indicate a break-even period exceeding five years from commencement of commercial operations.

6.10 A reliance on undue subsidies or financial incentives from the group that creates an unsustainable quicker path to profitability shall be discouraged.

Sponsors' Financial Strength and Funding Plans

6.11 The sponsors shall exhibit strong financial strength in the form of ready and unencumbered sources of funds and liquidity and a viable capital and funding plan to be able to comply with Minimum Capital Requirement (MCR), Capital Adequacy Ratio (CAR) and other capital and liquidity requirements on an on-going basis, with particular regard to the MCR plan as per Regulation 4 of the Regulatory Framework (Part-B) for Digital Banks.

6.12 SBP shall review the sources of funds, financial standing and credit worthiness of the sponsors, including their ability to raise future capital requirements.

6.13 SBP may request clarification regarding the sponsor of proposed DRB, having majority stake in or exercising control over the DRB.

Fit and Proper Test

6.14 FPTs shall be conducted for sponsors, directors, key executives and the CEO in accordance with Regulation 10 of the Regulatory Framework (Part-B) for Digital Banks.

7. No Objection Certificate:

7.1 If the SBP considers the application satisfactory, SBP may issue a No Objection Certificate (NOC), which may be subject to certain terms and conditions and may be used for incorporation of the proposed DRB as a public limited company with Securities and Exchange Commission of Pakistan (SECP).

8. In-Principle Approval (IPA):

8.1 Subsequent to receiving the NOC from SBP, the applicant shall apply to SECP for incorporation of the proposed DRB as a public limited company. The applicant shall establish its principal/registered office in Pakistan.

8.2 After incorporation of the company and complying with all the other terms and conditions stated in the NOC, the applicant shall apply to SBP for In-Principle Approval (IPA) within six months of the issuance of NOC.

8.3 The application for the IPA shall be accompanied by a certified copy of the incorporation certificate issued by SECP, certified copies of the Memorandum of Association and Articles of Association and any other documentation and/ or information as advised by SBP.

8.4 If SBP considers the application satisfactory, SBP may grant an IPA laying out terms and conditions required to be fulfilled prior to the commencement of pilot operations.

8.5 IPA shall remain valid for a period of 12 months from the date of its issuance (IPA validity).

8.6 The applicant may request SBP for an extension in IPA validity at least two months prior to IPA expiry, together with rationale. SBP may, at its discretion, extend the IPA validity.

9. Operational Readiness:

9.1 Once the applicant attains operational readiness and complies with all the terms and conditions under the IPA including meeting the applicable MCR, it shall apply to SBP within the IPA validity for a restricted license to commence pilot operations.

9.2 The application under clause 9.1 above shall include:

- a) A Board resolution authorising the applicant to apply for the restricted license;
- b) A detailed report approved by the Board demonstrating operational readiness, supported by adequate documentation evidencing such readiness, including in the areas of governance, organisational structure, process and technology pertaining to business, operations, risk, compliance, consumer protection, business continuity and cyber security;

- c) Evidence of placement with SBP of a security deposit at least equivalent to the deposit cap specified in Regulation 6.4 of the Regulatory Framework for Digital Banks, as amended from time to time.
- d) An enforceable and executable bank guarantee submitted by sponsor at the time of seeking SBP's approval for commencement of pilot operations, issued by a reputable bank covering a reasonable period as advised by SBP and in accordance with the phased MCR. The bank guarantee shall be invoked upon non-fulfilment of MCR related commitments/plan. The bank guarantee issued by the parent bank to its subsidiary digital bank, on arm's length basis, may also be acceptable. The bank providing this guarantee shall have its entity's credit rating at least in the AA category from a reputable credit rating agency.

9.3 SBP may require the proposed DRB to share any additional documentation or information pertaining to operational readiness.

9.4 SBP shall assess the operational readiness and compliance with all the terms and conditions of IPA through on-site inspection. If deemed appropriate, SBP may also advise the applicant to submit third party assessment report from a reputable expert as acceptable to SBP.

10. Pilot Stage under Restricted License:

10.1 After all the SBP requirements have been met including assessment of operational readiness to the satisfaction of SBP, the applicant may be awarded a restricted license authorising commencement of pilot operations.

10.2 The pilot stage shall be for a minimum duration of three months.

10.3 The restricted license shall be non-renewable and valid for a fixed term not exceeding nine months from the date of issuance.

10.4 If there is a delay in satisfactory conclusion of pilot operations beyond the restricted license validity period, the DRB may apply to SBP for a second restricted license with justification.

10.5 SBP may, under exceptional circumstances, issue a second restricted license for a specified period not exceeding six months from the date of its issuance.

10.6 During the pilot stage, the DRB shall comply with the conditions specified in Regulation 6 of Regulatory Framework (Part-B) for Digital Banks.

11. Commencement of Commercial Operations:

11.1 Subsequent to conclusion of pilot operations and compliance with all the terms and conditions under the restricted license for pilot stage including meeting the applicable MCR, the applicant shall apply to SBP, within the time stipulated under the restricted license, for a license to commence commercial operations.

11.2 The application under clause 11.1 above shall be accompanied by:

- a) A Board resolution authorising to apply for commencement of commercial operations;
- b) A detailed report duly approved by the Board demonstrating readiness for such launch containing details of pilot stage including satisfactory outcomes, description of infrastructure deployed and capabilities augmented for commercial operations, as well as any further documentation, including independent cyber security assessment

of the technological infrastructure, necessary to evidence the DRB's preparedness to launch commercial operations.

- 11.3 SBP may require the DRB to provide any additional documentation or information.
- 11.4 SBP shall assess through on-site inspection, DRB's readiness for commercial launch including performance during pilot operations and compliance with all the terms and conditions of restricted license for pilot stage. If deemed appropriate, SBP may also advise the applicant to submit a third party assessment report from a reputable expert as acceptable to SBP.
- 11.5 After all the SBP requirements have been complied within the validity period of the restricted license, including fulfilling the MCR, SBP may grant a license to commence commercial operations under transition phase, with new terms and conditions.
- 11.6 DRB shall initiate commercial operations within the timelines stipulated in the license referred to above, at which point the transition phase shall commence.
- 11.7 During the transition phase, the DRB shall comply with the conditions provided under Regulation 7 of Regulatory Framework (Part-B) for Digital Banks.

12. Additional Requirements for Digital Bank Subsidiary of a Traditional Bank:

- 12.1 A traditional bank may apply for DRB license, provided the traditional bank meets the capital guidelines issued by SBP and supervisory rating as acceptable to SBP during the last three on-site inspections.
- 12.2 In addition to general requirements applicable to DRB license applicants, an application under clause 12.1 above shall be accompanied by:
 - a) Audited financial statements of the parent bank for the last three years;
 - b) Internal audit findings of the parent bank during the last two years relating to governance, risk, compliance and controls, human resource, IT and digital operations;
 - c) Digital strategy, current stage of digitisation and future plans of the parent bank to be implemented;
 - d) IT organogram, current IT strategy and future plans of the parent bank to be implemented;
 - e) Details of strategic direction and performance of the parent bank within the retail customer segments (particularly concerning financial inclusion and credit access);
 - f) Information demonstrating human resource capacity and competencies of the parent bank relating to the implementation of digital and IT business strategies and to offer digital products to customers;
 - g) Most recent customer experience survey and service quality reports of the parent bank during the preceding six months;
 - h) Plan of the proposed DRB to leverage the parent bank capabilities in delivering its business strategy and value propositions.

However, if any of above mentioned reports/documents/information is already available with SBP as part of its supervisory or oversight function, the same is not required to be submitted again with DRB application

12.3 While reviewing the application, SBP shall consider the historical conduct, capacity and readiness of the parent bank in the light of any of the documentation and information mentioned in clause 12.2 above and competition and concentration in the financial sector.

13. Additional Requirements for Sponsors of MFBs and EMIs Applying for Digital Retail Bank License:

13.1 In addition to general requirements applicable to DRB license applicants, an application made by those having majority stake in or exercising control over an MFB or EMI shall be accompanied by:

- a) Audited financial statements of the MFB or EMI for the last three years;
- b) Internal audit findings of the MFB or EMI during the last two years relating to governance, risk, compliance and controls, human resource, IT and digital operations;
- c) Business strategy or plan of the MFB or EMI, along with achievements of key performance benchmarks set out in the plan;
- d) Digital strategy, current stage of digitisation and future plans of the MFB or EMI;
- e) IT organogram, current IT strategy and future plans of the MFB or EMI;
- f) Information demonstrating human resource capacity and competencies of the MFB or EMI relating to the implementation of digital and IT business strategies and to offer digital products to customers;
- g) Most recent customer experience survey and service quality reports of the MFB or EMI during the preceding six months.

However, if any of above mentioned reports/documents/information is already available with SBP as part of its supervisory or oversight function, the same is not required to be submitted again with DRB application.

13.2 While reviewing the application from above-mentioned applicants, SBP may give due regard to the performance of respective MFB or EMI in the light of any of documentation and information mentioned in clause 13.1.

14. Additional Requirements for Transformation of EMI into Digital Retail Bank:

Eligibility Criteria and Documentation/ Information

14.1 An EMI with minimum one year experience of providing DFS from the commencement of commercial operations as an EMI may apply to SBP for transformation into a DRB. In case SBP is not satisfied with the EMI's performance, it may advise the EMI to continue its operations as an EMI for an extended period of operations before reapplying for DRB license. Further, pilot phase operation period of an EMI may be counted towards one year operations requirement for an EMI to transform into digital bank.

14.2 In addition to general requirements applicable to DRB license applicants, an application under clause 14.1 above shall be accompanied by:

- a) A Board resolution authorising the application for transformation of the EMI to a DRB.
- b) Feasibility, business and enablement plan approved by the Board, which incorporate separate plans for transformation and conversion covering following components including timelines:
 - i. Legal and corporate formalities to be addressed;
 - ii. Business model alignment including customer segments, products and services;

- iii. Channel alignment including digital improvisation;
 - iv. Evolution of organisational governance, structure, people, processes/ operations and technology;
 - v. Portfolio conversion;
 - vi. Compliance with all the pertinent provisions of Enterprise Technology Governance & Risk Management Framework issued by SBP and amended from time to time;
- c) Audited financial statements of the EMI;
 - d) Business and digital strategies or plans, achievements of the EMI against key performance benchmarks set out in the plans, future initiatives to be implemented;
 - e) IT organogram, current IT strategy and future plans of the EMI;
 - f) Information demonstrating human resource capacity and competencies of the EMI relating to the implementation of digital and IT business strategies and to offer digital products to customers;
 - g) Most recent customer experience survey and service quality reports of the EMI during the preceding six months.

However, if any of above mentioned reports/documents/information is already available with SBP as part of its supervisory or oversight function, the same is not required to be submitted again with DRB application.

14.3 SBP may, in its discretion and based on its evaluation of the soundness of the business case, allow an established EMI in Pakistan to transform into a DRB.

Licensing and Transition Requirements for EMIs

14.4 SBP shall evaluate the license application in accordance with the process that applies generally to DRBs. As part of the evaluation, it shall also consider the EMI's performance and capacity in the light of the documentation/ information mentioned in clause 14.2 above.

14.5 The process for NOC applicable to other DRB license applicants shall apply except that the NOC issued by SBP shall relate to changes required in the legal form of the EMI to a public limited company if it is incorporated as private limited company, and generally also in the name and Memorandum and Articles of Association of the EMI.

14.6 IPA issued by SBP to the EMI shall contain the terms and conditions for the grant of restricted license for pilot stage, including satisfactory conclusion of transformation, as per the transformation plan finalised in accordance with SBP's advice.

14.7 EMI shall submit to SBP, quarterly progress reports, duly approved by the Board, demonstrating achievements against transformation plan and the IPA conditions.

14.8 The license for commercial operations allowed to the relevant DRB shall also include terms and conditions in relation to any portfolio conversion, based on the conversion plan finalised as per SBP's advice.

14.9 DRB shall convert its portfolio during the transition period, in accordance with the finalised plan referred to above, within the timelines stipulated therein.

14.10 Further to the stipulations under clauses 14.1 to 14.9 above, the EMI shall be subject to all the relevant provisions as generally applicable to DRB license applicants and DRBs.

14.11 In case the EMI does not commence commercial operations as a DRB within the validity period of restricted license for pilot stage, SBP may, in its sole discretion, reinstate the EMI license.

15. Acquisition by Digital Banks of any Existing Business or Assets:

15.1 An applicant considering to set-up a digital bank by acquiring any existing business lines, assets or portfolios, including the whole or part of branchless banking operations or technology from a group or non-group entity, shall incorporate the acquisition plan within the feasibility study, business and enablement plan to be submitted with the application for DRB license.

15.2 The valuation of business, assets and portfolios to be acquired shall be accompanied by a certificate from a reputable valuator describing the basis of valuation and the price at which the business, assets and portfolios are being acquired.

Section IV: Application Process, Licensing Stages and Requirements for Digital Full Bank:

16. Application Stage and Documentation / Information Requirements:

16.1 An interested DRB may submit a license application for DFB any time after the conclusion of its transition phase.

16.2 The application shall be accompanied by all the relevant documentation and information as indicated in Appendix B-2, in addition to the following:

- a) Audited financial statements of the DRB for the last three years;
- b) Internal audit findings of the DRB during the last two years relating to governance, risk, compliance and controls, human resource, IT and operations;
- c) Business and digital strategies or plans, achievements of the DRB against key performance benchmarks set out in the plans, future initiatives to be implemented;
- d) IT organogram, current IT strategy and future plans of the DRB to be implemented;
- e) Information demonstrating human resource capacity and competencies of the DRB relating to the implementation of digital and IT business strategies and to offer digital products to customers;
- f) Most recent customer experience survey and service quality reports of the DRB during the preceding six months.

However, if any of above mentioned reports/documents/information is already available with SBP as part of its supervisory or oversight function, the same is not required to be submitted again with DFB application

16.3 SBP shall assess the performance of DRB considering certain aspects, including any of those mentioned in clause 16.2 above.

16.4 During the assessment, SBP may require the DRB to provide any documentation or information pertaining to readiness for operating as DFB.

16.5 Subsequent to addressing all the related requirements, the DRB shall first receive an approval from SBP after which it shall fulfil all the terms and conditions mentioned therein within the stipulated timelines, including meeting the applicable MCR.

- 16.6 SBP may conduct its own inspection/ review of readiness of DRB to operate as DFB. If deemed appropriate, SBP may also advise the applicant to submit a third party assessment report from a reputable expert as acceptable to SBP.
- 16.7 Once all SBP requirements have been met, the DRB shall be granted a DFB license enabling it to commence progression period for DFB, as provided under Regulation 8 of Regulatory Framework (Part B) for Digital Banks. Granting of the DFB license, however, shall not prejudice the DRB license held by the entity.

Part B: Regulatory Framework for Digital Banks

The regulatory framework for digital banks has been issued under Section 41 of the Banking Companies Ordinance, 1962.

1. Applicability of Commercial Bank Regulatory Requirements:

1.1 The business, governance and operational requirements applicable to commercial banks in general, conventional or Islamic, shall continue to apply with respect to conventional and Islamic variants of digital banks to the extent that those are also relevant in the context of digital banks, and shall not be deemed to be excluded unless inconsistent with these regulations. In case of any inconsistency, these regulations shall prevail. Any reiteration of general aspects that apply to commercial banks is for emphasis and shall not be interpreted to exclude any relevant requirements, which have not been reiterated in these regulations.

1.2 SBP may, at any time, issue any instructions, directives, circulars, notifications, guidelines or any other direction or advice specifically applicable to digital banks.

2. Cancellation of License:

2.1 SBP may cancel a digital bank license under relevant provisions of the BCO, 1962, in case of any failure of the applicant, sponsors or the digital bank to comply wholly or partly with these regulations.

3. Interpretations:

For the purpose of these regulations, unless there is anything repugnant in the subject or context:

- (1) **Agriculture entity** means an individual, small enterprise or medium enterprise, engaged in the agriculture business and which falls under the purview of the Prudential Regulations for Agriculture Financing.
- (2) **Capital Adequacy Ratio or CAR** means the ratio determined in accordance with the Instructions on implementation of Basel capital standards in Pakistan, issued by SBP and amended from time to time.
- (3) **Common Equity Tier 1 or CET1** shall have the same composition as indicated in the Instructions for Basel capital standards in Pakistan, issued by SBP and amended from time to time.
- (4) **Consumer financing (or consumer finance)** shall have the same meaning as in the Prudential Regulations for Consumer Financing issued by SBP and amended from time to time.
- (5) **Control** shall have the same meaning as in the Banking Companies Ordinance, 1962.
- (6) **Corporate or commercial entity** means a segment comprising business entities, which are not micro entities or SMEs.
- (7) **Digital bank** means a bank licensed under Section 27 of the Banking Companies Ordinance, 1962, in accordance with this Framework, that provides solutions predominantly through digital and electronic means and which does not have physical branches, subject to any exceptions under these regulations, as may be amended from time to time. This term includes both conventional and Islamic Digital Retail and Digital Full Bank.
- (8) **Digital Bank Objectives** means the objectives listed in Section 1.2 of the Overview.
- (9) **Digital Financial Services** mean Financial products and services, including payments, transfers, savings, credit, insurance, securities, financial planning and account statements that are

delivered via digital/electronic technology such as e-money (initiated either online or on a mobile phone), payment cards and a regular bank account.

- (10) **Digital Full Bank or DFB** means a bank licensed by SBP under Section 27 of the Banking Companies Ordinance, 1962, by granting a Digital Full Bank license in accordance with this Framework, and includes both conventional and Islamic Digital Full Bank.
- (11) **Digital Retail Bank or DRB** means a bank licensed under Section 27 of the Banking Companies Ordinance, 1962, by granting a Digital Retail Bank license in accordance with this Framework, and includes both conventional and Islamic Digital Retail Bank.
- (12) **Electronic Know-Your-Customer (e-KYC) or Digital KYC** means the process of establishing business relationships and conducting CDD by way of digital and electronic means, including through online and mobile channels.
- (13) **Electronic Money Institution or EMI** shall have the same meaning as in the Payment Systems and Electronic Fund Transfers Act, 2007.
- (14) **Eligible capital or eligible regulatory capital** means the numerator for determining the CAR of a bank, determined in accordance with the Instructions on Basel capital standards in Pakistan, issued by SBP and amended from time to time.
- (15) **Family member** shall have the same meaning as in sub-section (ff) of Section 5 of the Banking Companies Ordinance, 1962, as amended from time to time.
- (16) **Financial inclusion** means access to formal financial services by individuals & firms to use a range of quality payments, savings, credit and third party insurance services, which meet their needs with dignity and fairness.
- (17) **Financial year** shall have the same meaning as in the Companies Act, 2017, as amended from time to time.
- (18) **Group** shall have the same meaning as in the Prudential Regulations for Corporate/ Commercial Banking issued by SBP and amended from time to time.
- (19) **Independent Director** shall have the same meaning as in the Revised Instructions on Independent Directors, issued by SBP vide BPRD Circular No. 15 of 2016 and amended from time to time.
- (20) **Majority stake** means beneficial ownership or control by a person, whether natural or legal, directly or indirectly through family members or subsidiary, of more than one half of the voting power of an enterprise
- (21) **Micro entity** means an entity availing, or eligible and intending to avail any microfinance facility.
- (22) **Minimum Capital Requirement or MCR** shall have the same meaning as in the Instructions for Basel capital standards in Pakistan, issued by SBP and amended from time to time.
- (23) **Money laundering** shall have the same meaning as in the Anti-Money Laundering Act, 2010, as amended from time to time, and the Anti-Money Laundering, Combating the Financing of Terrorism & Countering Proliferation Financing Regulations for SBP's Regulated Entities, as amended from time to time.
- (24) **Payment System Operators or PSO** shall have the same meaning as in the Rules for Payment System Operators and Payment Service Providers, issued by SBP and amended from time to time.

- (25) **Payment Service Providers or PSP** shall have the same meaning as in the Rules for Payment System Operators and Payment Service Providers, issued by SBP and amended from time to time.
- (26) **Proliferation financing** shall have the same meaning as in the Anti-Money Laundering Act, 2010, as amended from time to time.
- (27) **Regulatory sandbox** means an environment in which the participants may implement and use innovative solutions under such conditions, limitations and regulatory exemptions as may be advised by SBP.
- (28) **Retail customer segment** means all the customer segments permissible for commercial banks in general, except the corporate and commercial segments. The term mainly comprises individuals, SMEs, micro and agriculture entities, as defined in these regulations.
- (29) **Risk Weighted Assets or RWA** means the denominator for determining the CAR of a bank, determined in accordance with the Instructions on Basel capital standards, issued by SBP and amended from time to time.
- (30) **Sales & Service Center** shall have the same meaning as provided in the Branch Licensing Policy issued by SBP and amended from time to time.
- (31) **Small & Medium Enterprise (SME)** means small enterprise and medium enterprise as defined under Prudential Regulations for Small & Medium Enterprises Financing issued by SBP and amended from time to time.
- (32) **Smart Branch** means a branch providing basic cash and non-cash services primarily through digital and electronic means, with minimal staff presence for customer facilitation not involving provision of physical applications, forms or statements to the customers.
- (33) **Sponsor shares (or sponsor shareholding)** shall have the same meaning as in the Prudential Regulations for Corporate/ Commercial Banking issued by SBP and amended from time to time.
- (34) **Sponsor shareholder (or sponsors)** shall have the same meaning as in the Prudential Regulations for Corporate/ Commercial Banking issued by SBP and amended from time to time.
- (35) **Sponsor Director** shall have the same meaning as in the Prudential Regulations for Corporate/ Commercial Banking issued by SBP and amended from time to time.
- (36) **Substantial ownership (or strategic stake)** shall have the same meaning as in the Prudential Regulations for Corporate/ Commercial Banking issued by SBP and amended from time to time.
- (37) **Traditional Bank** means a commercial bank licensed under Section 27 of the Banking Companies Ordinance, 1962, as per the relevant licensing regime, with a requirement to establish branch presence. The term traditional bank includes both conventional and Islamic traditional bank.
- (38) **Un-Served** means no access to formal financial services by individuals & firms to use a range of quality payments, savings, credit and third party insurance services which meet their needs with dignity and fairness.
- (39) **Underserved** means limited access to formal financial services by individuals & firms to use a range of quality payments, savings, credit and third party insurance services, which meet their needs with dignity and fairness.

Words and expressions used herein but not defined shall have the same meaning as assigned to them in the State Bank of Pakistan Act, 1956; the Banking Companies Ordinance, 1962; the

Companies Act, 2017; the Payment Systems and Electronic Fund Transfers Act, 2007; the Electronic Transactions Ordinance, 2002; the Foreign Exchange Regulations Act (FERA), 1947; the Anti-Money Laundering Act, 2010; or in any other relevant laws, rules regulations, instructions, circulars, guidelines or frameworks.

4. Minimum Capital Requirements:

4.1 Digital banks shall be subject to Minimum Capital Requirement (MCR) as follows or as may be prescribed by SBP from time to time:

Bank	MCR at grant of restricted license for pilot stage/ DFB license (PKR Billions)	MCR at commercial launch (PKR Billions)	MCR during each financial year after the year of commercial launch/ DFB license (PKR Billions)		
			Year 1	Year 2	Year 3
DRB	1.5	2	2.5	3	4
DFB	6.5	N/A	8	10	-

4.2 Sponsors shall fund any losses incurred to ensure consistent compliance with MCR year to year until the digital bank reaches at least the break-even point.

5. Permissible Customer Segments:

5.1 A DRB shall primarily undertake business with or render services to the retail customer segments.

5.2 A DRB may only deal with corporate or commercial segments to the extent of undertaking business or rendering services of e-wallets or digital payment accounts.

Provided that the aggregate balance in all such accounts pertaining to the said customer segment does not exceed 40% of the bank's total deposits.

Provided further that when calculating the above aggregate balance, the balances of a DRB in relation to P2G, G2P (including social disbursements) and utility payments shall not be included.

5.3 A DFB may deal with corporate, commercial and retail customer segments.

5.4 A digital bank is encouraged to pursue female inclusion and credit access goals.

6. Ongoing Requirements during Pilot Stage:

6.1 During the pilot stage, the DRB shall be prohibited from soliciting deposits from the general public but may deal only with a select group of individual customers to seek their deposit accounts and provide them with basic banking facilities. The types of customers may include sponsors, directors and employees, their relatives, as well as customers of the parent and other group entities. SBP may permit additional customer types including small merchants subject to assessment of the risks presented by such additional types and the relevant measures proposed by the applicant to limit such risks.

6.2 During the pilot stage, DRB may perform controlled testing of its lending models subject to SBP's satisfactory evaluation of the customer lending segment and controls proposed by DRB to contain the credit risk. However, during pilot operation lending shall be capped at 50% of the banks total deposit base.

6.3 During pilot operations, the DRB shall not be permitted to:

- a) Open accounts for businesses or commercial dealings;
 - b) Engage in any services related to foreign currency; and
 - c) Engage in any trade or guarantee business.
- 6.4 Prior to commencement of the pilot stage, a DRB shall, to the satisfaction of the SBP, ensure placement with SBP of a security deposit at least equivalent to the deposit cap specified in Regulation 6.5. Upon the successful launch of commercial operations to the satisfaction of the SBP, the security deposit amount shall be refunded by the SBP.
- 6.5 During the pilot stage, DRB shall be subject to an aggregate deposit cap of 25% of the MCR, as per the table in Regulation 4, while per depositor balance shall be capped at PKR 500,000 (Five Hundred Thousand Rupees).
- 6.6 During the pilot stage, the DRB shall ensure transparent communication with the customers of the terms and conditions such as deposit limit, consumer rights and obligations, risk of exit and the remedies available to them in case of any such event.
- 6.7 If the pilot operations of DRB do not satisfactorily conclude within the restricted license period, the DRB shall be instructed to execute the Board-approved exit plan, which shall include fully discharging the depositors' claims within a defined period. The security deposit under Regulation 6.4 shall provide cover for settling such claims if the DRB is not able to do so due to any reason.
- 6.8 In the case of transferred portfolios such as branchless banking or EMI customers, pilot stage may be exempted or certain conditions of pilot stage may be relaxed subject to SBP's approval.

7. Ongoing Requirements during Transition Phase of Digital Retail Bank:

- 7.1 All DRBs shall undergo a transition phase from the commencement of commercial operations. In certain cases, such as a major portfolio being transferred to the digital bank, the transition period may be exempted with full MCR being met, or relaxed certain transition conditions including deposit caps (with proportionate increase in MCR where considered necessary), to allow business to operate without any undue hindrances/ limits.
- 7.2 The transition phase shall last for a minimum period of three full financial years after the year of commercial launch. However, SBP may reduce the transition period to one year provided that the DRB meets the licensing terms and conditions including applicable regulatory capital requirements. During the transition phase, the digital bank shall submit quarterly progress reports to SBP regarding their compliance against maintenance of required capital levels and progress against the business plan (including digital bank objectives).
- 7.3 During the transition phase, the DRB shall be subject to phased MCR to be met as per the table in Regulation 4, and shall be required to conduct operations in accordance with Regulation 7.4 to 7.8 and any other terms and conditions as set out by SBP in the license.
- 7.4 The sponsors shall not dispose of their shares in a DRB in any manner whatsoever prior to or during the transition phase and thereafter only with prior written approval of SBP in line with applicable laws, rules and regulations.
- 7.5 DRB's aggregate deposit shall be capped at a factor of 6 times of the MCR as required at the time of commencement of commercial operations. This cap shall continue till the end of first full financial year. Subsequently, this cap shall be increased to 9 and 12 times

respectively of the MCR for each of the succeeding financial years during the transition phase, as per the table in Regulation 4. However, this requirement may be relaxed based on the alignment of the same with the applicant's business model.

Provided that when calculating the above aggregate balance, the balances of a DRB in relation to P2G, G2P (including social disbursements) and utility payments shall not be included.

7.6 If a DRB is not able to meet MCR as per the table in Regulation 4 in a timely manner, the SBP may, if it deems fit, take any or all of the following actions:

- a) Determine and advise a revised deposit cap (relative to MCR or otherwise) that would be applicable for the period in which the SBP has allowed the DRB to meet the MCR target and or impose any other restriction(s), as deemed appropriate.
- b) Advise to invoke the bank guarantee provided by the sponsors.

However, if the DRB still remain capital deficient, then SBP may advise the DRB to invoke the exit plan.

7.7 Aggregate advances shall be capped based on ADR. Till the first full financial year after the year of commercial launch, this limit shall be kept at 50% while it shall be increased to 60% for the second full financial year and 70% for the third full financial year. However, this requirement may be relaxed based on limit alignment with the applicant's business model.

7.8 Aggregate consumer finance shall be capped at 40% of the DRB's total advances throughout the transition phase. For an institution specifically pursuing only a consumer lending proposition in the business plan, consumer finance cap may be relaxed/exempted if the business proposition is acceptable to SBP.

Conclusion of Transition Phase

7.9 The transition phase shall only conclude subject to satisfactory assessment and approval by SBP and only upon compliance with the MCR of PKR 4 billion as well as all other terms and conditions as advised by SBP, including any terms and conditions mentioned in the license.

7.10 After the conclusion of the transition phase, SBP may revise the terms and conditions of the license for continuing the commercial operations.

7.11 Upon conclusion of the transition period all deposit related limits applicable during the transition period shall cease to apply.

7.12 ADR limit shall be increased to 80% with aggregate consumer finance capped at 40% of the DRB's total advances. However, ADR and consumer financing caps may be relaxed based on limit alignment with the applicant's business model.

7.13 DRB may opt for public floatation or listing on the Pakistan Stock Exchange (PSX) any time during or after the transition phase.

7.14 In the event a DRB is unable to conclude the transition within the period as advised by SBP, it may be subject to enforcement action, which may include the direction to implement the Board approved exit plan as well as revocation of its license for the transition phase subsequent to the completion of the exit plan.

8. Ongoing Requirements during Progression Phase for Digital Full Bank:

Progression Phase Requirements

- 8.1 Subsequent to being awarded a DFB license, the DFB shall undertake a progression phase. The progression phase shall continue for a minimum period of two full financial years after the year in which the DFB license was granted.
- 8.2 During the progression period, the DFB shall be subject to phased MCR to be met as per the table in Regulation 4.
- 8.3 During the progression period the DFB shall be required to conduct operations in accordance with Regulations 8.4, 8.5 and any other terms and conditions as set out by SBP in the DFB license.
- 8.4 During the progression period, aggregate advances shall be subject to an ADR cap of 80%. A limit of 30% of DFB's total advances shall be applicable separately for both the aggregate consumer finance and aggregate of corporate and commercial advances. However, ADR, aggregated consumer financing and aggregate corporate and commercial advances caps may be relaxed based on limit alignment with the applicant's business model.
- 8.5 DFBs are required to be listed on the PSX before the conclusion of progression period except for DFB subsidiary of a traditional bank, which may opt for listing during the progression phase or any time thereafter. Provided SBP may require that a specified shareholding continue to vest with any one or an amalgam of sponsors at the time of the application.

Conclusion of Progression Phase

- 8.6 The progression phase shall only conclude subject to:
- a) A satisfactory assessment and approval by SBP;
 - b) The DFB meeting the MCR of PKR 10 billion;
 - c) Compliance, to the satisfaction of the SBP, with all terms and conditions in the DFB license; and
 - d) Compliance, to the satisfaction of the SBP, with any other terms and conditions as advised by SBP.
- 8.7 After the conclusion of progression phase, SBP may revise the terms and conditions of the license for subsequent commercial operations.
- 8.8 Portfolio caps pertaining to advances, as mentioned in Regulation 8.4, shall continue.
- 8.9 If a DFB is unable to conclude the progression within the period as advised by SBP, then SBP may:
- a) Instruct the DFB to discontinue its advancement; and/ or
 - b) Cancel the DFB's license.
- Provided that the discontinuation of advancement or cancellation of DFB license under this Framework shall not prejudice the DRB license held by the entity.
- 8.10 In the event that SBP cancels the DFB license:
- a) The relevant DRB may be required, as per the Board approved exit plan finalised in accordance with SBP's advice, to exit from the corporate and commercial segment within timeframe defined therein.

- b) The DRB shall ensure full discharge of all its connected obligations and responsibilities to customers, SBP and other stakeholders, in line with the provisions of the exit plan.
- c) DRB shall share with SBP, on a quarterly basis, Board approved reports demonstrating progress in line with the Board approved exit plan.

9. Other Transition, Progression and Subsequent Business Requirements:

- 9.1 Exposure limits per borrower and provisioning requirements (including general reserve) as applicable under the Prudential Regulations for Consumer Financing, SME Financing, Agriculture Financing and Corporate/Commercial Banking, as the case may be, shall apply during and after the transition and progression phase.
- 9.2 During the transition and progression phase, the digital bank shall provide quarterly progress reports to SBP relating to its compliance with MCR and its accomplishments of key performance benchmarks as set out in the business plan, including those pertaining to achievements against the Digital Bank Objectives.
- 9.3 Digital bank shall submit an application to SBP for conclusion of the transition/ progression phase, within the time stipulated in the respective license, subsequent to seeking approval from the Board to this effect.
- 9.4 The application shall be accompanied by the Board resolution authorising to apply for conclusion of transition/ progression phase and a report demonstrating the bank's readiness for conclusion of the said phase, duly approved by the Board.
- 9.5 The application shall be reviewed by SBP for compliance with the relevant requirements including meeting the applicable MCR and satisfactory progress in achieving fundamental performance benchmarks mentioned in Regulation 9.2.

10. Fit and Proper Test of Sponsors, Board and CEO:

- 10.1 FPT shall be conducted in accordance with the provisions of these Regulations as well as in conjunction with the Corporate Governance Regulatory Framework, Guidelines and Criteria for Setting up a Commercial Bank or Guidelines for Setting up Islamic Commercial Bank (as the case may be) and other applicable regulations as amended by SBP from time to time.
- 10.2 FPT shall include the assessment of beneficial ownership of sponsors, including and extending to any natural person(s) that may be connected with the sponsors, where applicable.
- 10.3 SBP may as part of the FPT also consider financial performance of the businesses in which sponsors have control or substantial ownership, particularly businesses offering financial services.
- 10.4 In the event of any change(s) in the sponsors, directors, CEO and key executives of a digital bank their appointment shall be subject to Fit and Proper Test (FPT) of SBP as amended from time to time.

11. Constitution of the Board of Directors:

- 11.1 The Board shall have at least seven members, which shall include at least one female member.

11.2 No person, either individually or in conjunction with any family member, may possess right(s) to more than 25% of the representation on the Board of a digital bank.

11.3 No member of the Board shall be a director of another bank/ digital bank/DFI in Pakistan.

11.4 Digital banks shall comply with all provisions applicable to commercial banks in relation to Board composition, independent directors, executive directors and other related aspects.

12. Minimum Set of Board Competencies:

12.1 Each member of the Board shall:

- a) At a minimum possess the qualification of graduation or its equivalent, to the satisfaction of the SBP.
- b) Have at least five years of senior level experience in business/ management in an active capacity.

12.2 At least one member of the Board shall have adequate experience of providing DFS to retail customer segments in an established and reputable bank, MFB, EMI, payment firm or fintech that deals in payments, remittances or lending.

12.3 At least one member of the Board shall have adequate knowledge and experience in any of emerging technologies and trends, such as cloud, open API, cyber security, advanced data and analytics.

12.4 At least one member of the Board shall have adequate experience in banking at a senior level.

12.5 At least one member of the Board may preferably have reasonable DFS experience in international or regional markets.

13. Orientation of the Board of Directors:

13.1 Digital banks shall from time to time arrange orientation of Board members specifically in relation to global, regional and local trends, overall landscape and target market segmentation, insights into general business, governance, operating and technology models, and digital bank regulatory horizon including global and regional perspectives.

14. Minimum Competencies of Chief Executive Officer:

14.1 The Chief Executive Officer (CEO) shall:

- a) At a minimum possess the qualification of graduation or equivalent, to the satisfaction of the SBP;
- b) Possess at least 5 years of direct experience in managing or overseeing preferably DFS of the retail customer segments in any established and reputable bank, MFB, EMI, PSO/PSP, telecommunication company (if it provides cellular mobile, long distance and international, internet services or any other comparable service), fintech (if it deals in payments, remittances or lending) or technology company (if it deals in payments or remittances); or
- c) Possess at least 5 years of banking related experience at senior level as Executive Vice President and above or equivalent in a bank/DFI/MFB. Further, he/she should have adequate knowledge, expertise and skill-mix related to his/her current functional areas, overall size, complexity and risk profile of the bank/DFI/MFB.

15. Corporate Governance Requirements:

15.1 Digital banks shall follow the requirements of the Code of Corporate Governance issued by Securities & Exchange Commission of Pakistan (SECP) for listed companies to the extent any part thereof is not inconsistent with the provisions of the BCO 1962, Corporate Governance Regulatory Framework, applicable Prudential Regulations (PRs) and the other instructions, directives, circulars, notifications, guidelines or any other direction or advice issued by SBP from time to time.

16. Sponsor Shareholding:

16.1 Provisions regarding:

- a) Acquisition and disposal of shares of sponsors and sponsor directors, and
- b) SBP's custody of sponsor shares.

as contained in the regulations related to commercial banks and Islamic banks, shall equally apply to the conventional and Islamic variants of digital banks respectively.

17. Capital Adequacy Ratio:

17.1 Minimum CAR for a DRB shall be 15% and shall comprise the following:

- a) CET1 CAR = 9.5%
- b) Total CAR = 12.50%
- c) Capital Conservation Buffer (CCB) = 2.5%

17.2 Minimum CAR for a DFB shall be 13.5% until conclusion of the progression phase and shall comprise the following:

- a) CET1 CAR = 7%
- b) Total CAR = 11%
- c) Capital Conservation Buffer (CCB) = 2.5%

17.3 Upon conclusion of the progression period (which also entails meeting the MCR of PKR 10 billion), the CAR regime applicable to commercial banks and Islamic banks shall apply to the conventional and Islamic variants of DFBs respectively.

17.4 For the purpose of maintaining minimum CAR, digital banks may raise sub-ordinated debt in local as well as foreign currency, subject to obtaining prior written approval from SBP. The terms and conditions for raising sub-ordinated debt provided in the BPRD Circular No. 6 of August 15, 2013, as amended from time to time shall apply.

17.5 Calculation of eligible capital and RWA and determination of Pillar III disclosures shall be in accordance with the relevant regulatory provisions applicable to commercial banks. However, for CAR calculation purposes of a digital bank, deduction of book value of intangible assets on account of bank's technology related investment (net of any associated DTL of digital bank), may be phased over a period of five years @ 20% per year. The amount of intangible asset which is not deducted shall attract a risk weight of 100%.

18. Liquidity & Leverage Requirements:

18.1 Digital bank shall comply with the relevant liquidity and leverage requirements applicable to commercial banks in general (conventional or Islamic as the case may be). These include

the Statutory Liquidity Reserve (SLR), Cash Reserve Requirement (CRR), Net Stable Funding Ratio (NSFR), Liquidity Coverage Ratio (LCR) and the Leverage Ratio (LR).

19. Deposit Protection:

19.1 Subject to approvals by the Board of Deposit Protection Corporation (DPC), digital banks shall become members of DPC and shall be liable to pay the premium as prescribed by DPC from time to time. Further, digital banks shall also comply with all the instructions and regulations issued by DPC. However, during the pilot operations, digital banks are not required to hold DPC membership.

20. Exit Plan:

20.1 Every digital bank shall have an exit plan covering a minimum time horizon of the business plan addressing different stress scenarios as well as the digital bank's likely responses.

20.2 The envisaged exit plan may include (without limitation) and involve portfolio exit, liquidation of the bank or sale to a third party. All such options shall be explored with adequate risk assessments. Further, the overall exit time estimates shall also be indicated in the plan.

20.3 The exit plan shall also provide for adequate protection of customer/ depositor interests as well as responsible and effective communications with the concerned stakeholders.

20.4 The exit plan shall remain dynamic to reflect current circumstances and hence be reviewed regularly and updated. The updated plan shall be approved by the digital bank's Board and shared with SBP, along with a summary of revisions and justifications for any changes.

20.5 Digital bank shall establish alerts or thresholds which may lead to an evaluation and decision of whether to put in place various contingency measures or to resort to invoking the exit strategy itself. These triggers may include:

- a) Capital e.g. leverage ratio and CET1 ratio
- b) Liquidity e.g. ADR, CRR & SLR etc.
- c) Earnings e.g. return-on-assets and returns on equity
- d) Asset quality e.g. non-performing loans ratio

20.6 Depending upon its assessment, the exit plan shall be executed upon by the digital bank after seeking prior approval of SBP at least three months prior to the planned date.

20.7 SBP may also require the digital bank to execute the Board approved exit plan if circumstances warrant the same.

20.8 The exit plan to be executed shall be finalised in accordance with SBP's advice and approved by the bank's Board. The bank shall execute the plan within the timeframe defined therein.

20.9 During the exit period, the bank shall ensure full discharge of all its connected obligations and responsibilities to customers, SBP and other stakeholders.

20.10 Throughout the exit period, the digital bank shall submit periodic Board approved reports, as advised by SBP before the execution of exit plan, demonstrating the progress against the Board approved exit plan.

21. Distribution Channels/ Customer Access Points:

21.1 The digital bank shall maintain a distribution strategy, in line with the overall business and operating strategy.

21.2 The distribution strategy shall include a description of each channel/customer access point together with products/ services/ facilities to be offered, rationale/ benefits as well as inherent risks and mitigation measures.

21.3 Digital banks are not required to establish any branch. Digital and electronic means (e.g. mobile phones, internet, own and other banks' ATMs, CDMs, digital kiosks/ pods) and contact/ call centres shall be the primary channels/ access points.

21.4 Digital banks may leverage the following physical channels/ access points after seeking prior approval of SBP where applicable:

- a) Sales and service centres owned by the digital bank
- b) Agents of the digital bank or other banks
- c) Other banks' branches (including of parent bank)
- d) Any other channel as permissible under the applicable laws, rules and regulations

21.5 Notwithstanding Regulations 21.3 and Interpretation 3(7) and in addition to the access points listed in Regulation 21.4, as an exception to the general rule, digital banks are allowed to establish up to a maximum of 25 smart branches owned by them. A digital bank seeking to establish a smart branch(es) may apply in this regard at any time within three years from commencement of commercial operations. Any such smart branch(es) shall be phased out within seven years from commercial launch and shall at the end of such period cease to conduct any operations or business.

21.6 With respect to own smart branches, sales & service centres, ATMs, CDMs and digital kiosks/ pods, digital banks shall follow relevant and applicable requirements of the Branch Licensing Policy in relation to the process for application and approval, along with general instructions on operations at these places. However, provisions not relevant in the context of digital banks such as geographical distribution shall not apply.

21.7 Regarding on boarding and managing own agents, digital banks shall comply with the pertinent requirements of the Framework for Branchless Banking Agent Acquisition and Management. However, they are required to take SBP's specific approval for agent based banking. In case if they are interested to offer only Branchless Banking Account of Level "0" or "1" digitally, they may not require SBP's specific approval of the same.

22. Resource Sharing:

22.1 A digital bank may seek the services of any senior or other management personnel of the parent and other group entities to assist in the digital bank in its strategic affairs, with prior approval from its Board.

22.2 Such assistance shall be sought through deputation arrangements, at arm's length basis, mutually agreed between the digital bank and the relevant parent and other group entities, provided that:

- a) The engagement is warranted in view of the specialised skill set and experience of the personnel that could significantly contribute to the digital bank's capability of delivering on its value proposition;
- b) The assignment is meant to facilitate the bank during the set-up period, pilot stage and/or transition phase; and
- c) The arrangement does not apply to the CEO.

22.3 Based on a reasonable business case, a digital bank may be allowed to use certain services of sponsor/ parent/ group entity acquired at an arm's length basis and keeping in view the sponsor/parent/group's expertise/capacity in that specific area.

23. Parent Bank Oversight:

23.1 The parent bank of a digital bank shall formulate a policy to oversee its digital bank subsidiary, which shall outline the reports to be provided periodically to the parent bank by the subsidiary.

23.2 A digital bank may seek advice and support from the parent bank on its strategic and policy matters, to better align itself with the standard practices across the banking group.

23.3 The parent bank and digital bank may establish matrix reporting relationships between functional heads of two banks specifically in the areas of Risk Management, Compliance, Human Resource and Technology.

23.4 A digital bank shall be subject to specific oversight reviews by the parent bank in risk, compliance and internal audit domains. In addition, the parent bank may conduct reviews of the digital bank in specifically identified strategically important areas, involving business and operational performance against the approved business plans or key performance indicators.

23.5 A digital bank shall share the findings of the parent bank reviews with its senior management and Board for their perusal, decisions and remedial actions.

23.6 Oversight of the digital bank's performance by the parent bank shall not absolve the digital bank from its responsibilities or obligations, and in exercising of management function and decision-making authority.

23.7 SBP may review the business and operational relationships or interactions between the digital and parent banks, including exchange of information and parent oversight/independent review arrangements.

23.8 Confidential information related to customer(s) may be shared with the parent bank only after obtaining consent of the customer(s).

24. Requirements in Risk, Compliance and Certain Operating Model Domains:

Digital bank shall comply with all other relevant requirements applicable to commercial banks in general (conventional or Islamic as the case may be) including but not limited to the following areas:

- a) Risk management (including management of credit, operational, liquidity and interest rate risks; stress testing and ICAAP)
- b) Customer on-boarding and related KYC, e-KYC, digital KYC, video KYC, CDD, CRP and other compliance aspects (including Anti-Money Laundering, Combatting the Financing of Terrorism & Countering Proliferation Financing Regulations)
- c) Foreign Exchange Regulations/ Regime
- d) Technology (including Enterprise Technology Governance & Risk Management Framework)
- e) Outsourcing (including Framework for Risk Management in Outsourcing Arrangements by Financial Institutions)
- f) Cloud
- g) Cybersecurity
- h) Consumer Protection

Appendix A: Summary of Important Business Rules Pertaining to Pilot Operations, Transition/ Progression Phase and Beyond for Digital Banks

Table 1: Digital Retail Bank

Particulars	Application and licensing stages	Transition phase	Conclusion of transition phase and subsequent operations
MCR	PKR 1.5 billion at the pilot stage, progressing to PKR 2 billion at commercial launch	Starting from PKR 2 billion and increasing to PKR 4 billion over a period of three years	PKR 4 billion
CAR	15% (comprising 9.5% CET1 CAR, 12.5% total CAR, 2.5% CCB)		
Key milestones and timelines	<ul style="list-style-type: none"> ▪ Complete application submitted to SBP ▪ SBP's NOC for incorporation of proposed bank as public limited company valid for 6 months ▪ IPA allowed by SBP, valid for a period of 12 months from the date of grant of IPA ▪ Operational readiness and meeting MCR for pilot stage ▪ Application to commence pilot operations ▪ SBP's assessment of operational readiness ▪ Non-renewable restricted license for pilot stage valid for up to nine months ▪ DRB may be allowed another restricted license, valid for six months ▪ Pilot operations for a minimum duration of three months ▪ License to commence commercial operations 	<ul style="list-style-type: none"> ▪ Commences from the commercial launch ▪ For a minimum period of three full financial years after the year of commercial launch ▪ Operations to be in accordance with the terms and conditions in the license to commence commercial operations 	N/A
Customer segments	<p><u>Pilot stage</u></p> <ul style="list-style-type: none"> ▪ Not allowed to widely solicit deposits from the public but may deal only with a select group of customers ▪ Primarily to seek deposit accounts and provide basic 	<ul style="list-style-type: none"> ▪ May deal in all the retail customer segments ▪ DRB generally not permitted to deal in corporate/ commercial segment but allowed digital cash management services, provided aggregate balance 	Same restrictions as applicable during the transition phase

Particulars	Application and licensing stages	Transition phase	Conclusion of transition phase and subsequent operations
	banking facilities, with certain restrictions	<p>in related accounts to not exceed 40% of total deposits</p> <ul style="list-style-type: none"> ▪ Balances in relation to P2G, G2P (including social disbursements) and utility payments to be excluded while determining above limit 	
Deposit caps and other limits	<p><u>Pilot stage</u></p> <ul style="list-style-type: none"> ▪ Aggregate deposits at 25% of the MCR for the pilot stage ▪ Security deposit equal to above-mentioned deposit cap ▪ Per depositor balance capped at PKR 500,000 	<ul style="list-style-type: none"> ▪ Initial aggregate deposit cap at 6 times of the MCR, progressively increasing to 12 times ▪ Aggregate balance in relation to P2G, G2P (including social disbursements) and utility payments to be excluded from the deposits, for the purpose of this limit ▪ Compulsory membership of DPC 	<ul style="list-style-type: none"> ▪ No deposit cap on retail customer segments, as previously applicable during the transition phase ▪ Continued membership of DPC
Advances cap and other limits	<p><u>Pilot stage</u></p> <p>ADR to be maintained at 50% during pilot operations</p>	<ul style="list-style-type: none"> ▪ Initial ADR cap 50% progressively increasing to 70% ▪ Aggregate consumer finance capped at 40% of the total advances ▪ Exposure limits per borrower as per the respective PRs 	<ul style="list-style-type: none"> ▪ ADR increased to 80% with aggregate consumer finance limited to 40% of total advances ▪ Exposure limits per borrower continue to be governed under the respective PRs

Table 2: Digital Full Bank

Particulars	At grant of DFB license	Progression phase	Conclusion of progression phase and subsequent operations
MCR	PKR 6.5 billion	Starting from PKR 6.5 billion and increasing to PKR 10 billion over a period of two years	PKR 10 billion
CAR	13.5% (comprising 7% CET1 CAR and 11% total CAR, 2.5% CCB)		Same CAR requirements as for the commercial banks in general (conventional or Islamic as the case may be)
Key milestones and timelines	<ul style="list-style-type: none"> ▪ DFB license application from a DRB to be entertained any time after the successful conclusion of transition phase ▪ DRB to first receive approval from SBP laying out terms and conditions for grant of DFB license ▪ SBP’s assessment of DRB’s readiness to operate as DFB ▪ DFB license 	<ul style="list-style-type: none"> ▪ Commences from the award of DFB license ▪ For a minimum period of two full financial years after the year of grant of above-mentioned license 	N/A
Customer segments	Can also deal with corporate/ commercial segment besides all the retail customer segments		
Advances cap and other limits	<ul style="list-style-type: none"> ▪ ADR capped at 80% ▪ Aggregate consumer finance and corporate/ commercial advances at a limit of 30% (separately for each segment) of the total advances ▪ Exposure limits per borrower continue to be governed under the respective PRs 		<ul style="list-style-type: none"> ▪ ADR cap as previously applicable during the progression phase ▪ Same consumer finance and corporate/ commercial advances restrictions that apply during the progression phase ▪ Exposure limits per borrower to be governed under the respective PRs

Appendix B-1: Documentation / Information for Digital Retail Bank License Application

- (1) Feasibility study, business and enablement plan as well as five year projections addressing the components outlined in Appendix C.
- (2) Names of CEO, sponsors and sponsor directors, along with attested copies of their CNICs. In case of foreign nationals, copies of their national identification cards and passports, duly authenticated by the Embassy of Pakistan in the respective countries.
- (3) Detailed CVs and proforma information of the CEO, sponsors and sponsor directors in the light of Fit & Proper criteria under the PRs for Corporate/ Commercial Banking.
- (4) Amounts proposed to be subscribed by each sponsor and sponsor director.
- (5) Personal net worth of each sponsor and sponsor director, not being lesser than the amount to be subscribed by them personally. The information shall be supported by certified copies of income tax and wealth tax statements filed during the last three years.
- (6) In cases where sponsors or sponsor directors are residents of countries where filing of wealth statement is not a requirement, two certificates of personal net worth and general reputation issued by international banks of repute. This requirement would also be applicable to sponsors who have returned to Pakistan within six months before the submission of application for license.
- (7) For institutions interested in sponsoring a digital bank, either individually or in collaboration with other sponsors:
 - i. A resolution of their respective Boards/Governing Bodies covering (1) objectives of proposed investment (2) amount to be subscribed, and (3) nomination of directors representing the institution on the digital bank's Board;
 - ii. Details of core business (geographies, customer/ market segments, business lines, products/ services etc.);
 - iii. Audited financial statements for the last three years.
- (8) List of entities in which the sponsors and sponsor directors as well as their family members are interested as directors, chief executives, partners, proprietors or shareholders (holding 5% or more shares). Further, list of bankers and latest balance sheets/ accounts of such entities are also to be provided.
- (9) Last three years' balance sheets/accounts (audited where applicable) of all those entities in which the sponsors and sponsor directors have majority stake or substantial ownership.
- (10) Names of the banks and financial institutions with which the sponsors and sponsor directors have been dealing as well as relevant account numbers and names of branches and, where relevant, credit reports from those banks, all in a separate confidential envelope.
- (11) Previous experience of sponsors and sponsor directors in banks, microfinance banks/ institutions, electronic money institutions, payment firms, fintechs (e.g. those dealing in payments, remittances, lending), e-commerce firms, telecommunication companies, and other entities.
- (12) Following additional requirements where a foreign bank is the sponsor:
 - i. Letter from the home country banking regulators/ supervisors indicating permission to conduct banking business in Pakistan;
 - ii. Credit rating by an international credit rating agency;

- iii. Global Tier I & II capital in US dollars and capital adequacy ratio;
 - iv. Supervisory rating, or any such criteria/ rating, wherever applicable;
 - v. Name of countries in which the foreign bank has presence as subsidiary, foreign branch and/ or representative office.
- (13) Proposed name of the DRB and drafts of the Memorandum and Articles of Association.
- (14) Complete details of the beneficial ownership of sponsors, down to the natural persons.
- (15) In case of proposed Islamic digital bank, constitution and members of the Sharia Board along with their brief resumes.
- (16) Enforceable undertaking from the sponsors as per the format in Appendix D-2:
- i. To meet the obligation of on-going compliance with the MCR, CAR and other capital and liquidity requirements including submission of an enforceable and executable bank guarantee at the time of seeking SBP's approval for commencement of pilot operations, issued by a reputable bank covering a reasonable period as advised by SBP and in accordance with the phased MCR;
 - ii. To discharge any outstanding deposit liabilities in the event of an exit;
 - iii. To comply with all the terms and conditions of digital bank license;
 - iv. That the names of sponsors have not been placed on the United Nations Security Council Consolidated List or any other list of banned, proscribed or blacklisted individuals or other entities maintained by the Government of Pakistan or by any foreign government.
- (17) Any other allied documentation deemed essential by the applicant to demonstrate the representations made in the application pack.
- (18) Any additional documents or information required by SBP, in support of the application.

Appendix B-2: Documentation / Information for Digital Full Bank License Application

- (1) Board resolution authorising the application for DRB's progression to DFB.
- (2) Feasibility study, business and enablement plan as well as five year projections.
- (3) Report approved by the Board on DRB's readiness to operate as DFB, backed by adequate documentation including in the areas of governance, organisational structure, process and technology pertaining to business, operations, risk, compliance, consumer protection, business continuity and cyber security.
- (4) Names of new sponsors and sponsor directors, along with attested copies of their CNICs. In case of foreign nationals, copies of their national identification cards and passports, duly authenticated by the Embassy of Pakistan in the respective countries.
- (5) Detailed CVs and proforma information of new sponsors and sponsor directors in the light of Fit & Proper criteria under the PRs for Corporate/ Commercial Banking.
- (6) Amounts proposed to be subscribed by each sponsor and sponsor director.
- (7) Personal net worth of new sponsors and sponsor directors, not being lesser than the amount to be subscribed by them personally. The information shall be supported by certified copies of income tax and wealth tax statements filed during the last three years.
- (8) In cases where new sponsors or sponsor directors are residents of countries where filing of wealth statement is not a requirement, two certificates of personal net worth and general reputation issued by international banks of repute. This requirement would also be applicable to sponsors who have returned to Pakistan within six months before the submission of application for license.
- (9) For any new institutions interested in sponsoring the DFB:
 - i. A resolution of their respective Boards/Governing Bodies covering (1) objectives of proposed investment (2) amount to be subscribed, and (3) nomination of directors representing the institution on the DFB's Board;
 - ii. Details of core business (geographies, customer/ market segments, business lines, products/ services etc.);
 - iii. Audited financial statements for the last three years.
- (10) List of entities in which new sponsors and sponsor directors as well as their family members are interested as directors, chief executives, partners, proprietors or shareholders (holding 5% or more shares). Further, list of bankers and latest balance sheets/ accounts of such entities are also to be provided.
- (11) Last three years balance sheets/accounts (audited where applicable) of all those entities in which new sponsors or sponsor directors have majority stake or substantial ownership.
- (12) Names of the banks and financial institutions with which new sponsors and sponsor directors have been dealing as well as relevant account numbers and names of branches and, where relevant, credit reports from those banks, all in a separate confidential envelope.
- (13) Previous experience of new sponsors and sponsor directors in banks, microfinance banks/ institutions, electronic money institutions, payment firms, fintechs (e.g. those dealing in payments, remittances, lending), e-commerce firms, telecommunication companies, and other entities.

- (14) Following additional requirements in case of a foreign bank is the sponsor:
- i. Letter from the home country banking regulators/ supervisors indicating permission to conduct banking business in Pakistan;
 - ii. Credit rating by an international credit rating agency;
 - iii. Global Tier I & II capital in US dollars and capital adequacy ratio;
 - iv. Supervisory rating, or any such criteria/ rating, wherever applicable;
 - v. Name of countries in which the foreign bank has presence as subsidiary, foreign branch and/ or representative office.
- (15) Complete details of the beneficial ownership of new sponsors, down to the natural persons.
- (16) Enforceable undertaking from the sponsors as per the format in Appendix D-2:
- i. To meet the obligation of on-going compliance with the MCR, CAR and other capital and liquidity requirements including submission of an enforceable and executable bank guarantee at the time of seeking SBP's approval for commencement of pilot operations, issued by a reputable bank covering a reasonable period as advised by SBP and in accordance with the phased MCR;
 - ii. To discharge any outstanding deposit liabilities in the event of an exit;
 - iii. To comply with all the terms and conditions of digital bank license;
 - iv. That the names of sponsors have not been placed on the United Nations Security Council Consolidated List or any other list of banned, proscribed or blacklisted individuals or other entities maintained by the Government of Pakistan or by any foreign government.
- (17) Any other allied documentation deemed essential by the applicant to evidence the representations made in the application pack.
- (18) Any additional documents or information required by SBP, in support of the application.

Appendix C: Components in the Feasibility Study, Business and Enablement Plan

- (1) Landscape assessment and feasibility study involving a detailed analysis of the market (e.g. socio-economic, banking and payments, financial inclusion, technology, innovation, fintech, overall digital eco-system, regulatory scan, competition from existing conventional bank or Islamic banks and envisaged digital banks).
- (2) Innovative, robust and sustainable digital bank value proposition, including how it shall be leveraging the sponsors' existing businesses and/ or experience/ capabilities.
- (3) Target customer segments and opportunity analyses.
- (4) Target products and services along with customer value propositions, and a description of how these will address the specific needs of target customer segments.
- (5) Customer segment and product evolution over the projection period and, as a minimum over the transition phase.
- (6) Business operations during the pilot stage, particularly customer scope and anticipated deposit size/ business volume.
- (7) Any plan for leveraging BB business/ platform, available with a group banking entity or otherwise with another bank, and the benefits/ impacts thereof.
- (8) Detailed financial projections (bank-wide and for each of the major business line/ customer segment e.g. consumer banking, SME banking, microfinance, agriculture financing) covering a period of at least five years from the commencement of commercial operations. In case the break-even period is more than five years, the projections should cover the extended period.
As guidance, applicants could develop financial projections broadly using the main financial statement formats applicable in generality to commercial banks.
- (9) Detailed set of economic and business conditions as well as other assumptions underlying the financial projections.
- (10) Sensitivity analysis, including reasonable stress scenarios, stressed projections and contingency plans.
- (11) Investment/ financing plan for compliance with phased MCR as per the table in Regulation 4 and other capital and liquidity requirements.
- (12) Exit plan.
- (13) Description/ outline of enablement/ operating model domains including:
 - i. Senior management organisational structure and role competencies;
 - ii. Target human resource model (both in terms of size and major roles) and evolution mainly during the transition period. This part may also include consideration of core competencies specially in product development, emerging tech (e.g. cloud, open API, eco-system building, data sciences, AI/ ML, customer experience);
 - iii. Distribution strategy, channels/ customer access points and their alignment with overall business and operating strategy/ model, together with a description of products/ services/ facilities to be offered, rationale/ benefits as well as inherent risks and mitigation measures;
 - iv. Envisaged branding and marketing initiatives, including go to market strategy;

- v. In relation to own smart branches and sales & service centres, timelines and cities/ locations applicants would like to pursue such branches/ centres;
 - vi. Governance, risk management, compliance and internal audit preparedness. This part may also elaborate on different credit risk models and decision engines planned to be implemented, as prerequisites to digital scoring and lending;
 - vii. Outsourcing strategy encompassing among other elements: (1) major functions/ activities considered as outsourcing candidates (2) outline of group shared services and outsourcing, cost and charge out structures exhibiting adherence to arm's length principle;
 - viii. Envisaged consumer and data protection measures including complaint handling mechanism;
 - ix. Technology strategy including outline of agile technology architecture, use of cloud, RPA/ IA and other emerging tech and progressive plan of technology stack implementation over the transition phase;
 - x. Cloud strategy;
 - xi. Open API strategy;
 - xii. Cyber security/ resilience strategy;
 - xiii. Overview of Business Continuity Management and Disaster Recovery Planning;
 - xiv. Envisaged collaboration and co-creation arrangements, including preferred engagements options with fintechs, integration with e-commerce eco-system and on-line marketplace;
 - xv. Expected use of regulatory sandbox and own/ others' digital labs/ innovation centres.
- (14) Enablement roadmap/ bank set-up plan, identifying responsibilities, dependencies and timelines.
- (15) How the business and enablement/ operating models covered above shall effectively contribute to the Digital Bank Objectives.

Appendix D-1: Format for Guarantee during Phased MCR

To be printed on stamp paper or affixed with stamp duty if and as required under applicable provincial stamp laws

Issue Date:

Reference Number:

Currency:

Amount of Guarantee:

Expiry Date:

Name & Address of Sponsor(s):

Name of Digital Bank:

Name & Address of Guarantor (Bank):

Name & Address of Beneficiary:

Letter of Guarantee

1. We, the undersigned, the Guarantor, (hereinafter referred to as “we” “us” & “our”) hereby guarantee to unequivocally, irrevocably, unconditionally and immediately pay on demand any amount up to [amount] (the “Guaranteed Amount”) if the State Bank of Pakistan is of the opinion that the proposed Digital Bank at any time fails to fulfil applicable minimum capital requirements under the Regulatory Framework (Part-B) for Digital Banks.
2. The invalidity or unenforceability of any one or more phrases, sentences or clauses in this guarantee will not affect the validity or enforceability of the remaining provisions of this Guarantee or any part of this Guarantee.
3. No alteration, variation, supplement, deletion, replacement or waiver of this Guarantee or any of its terms, provisions or conditions will be binding unless made in writing and signed by the Guarantor and the Beneficiary.
4. The liability of the Guarantor will continue until the payment is made of every obligation towards the Beneficiary and until payment of the Guaranteed Amount or any part thereof demanded by the Beneficiary has been completed.
5. Any notice to be given to the Guarantor may be sent by mail, telephone, email or otherwise delivered to the address provided above.
6. This Guarantee is a continuing guarantee and shall remain in force notwithstanding the liquidation or dissolution of the Guarantor or the proposed Digital Bank, or the appointment of an administrator, receiver or similar office-holder of the Guarantor or the proposed Digital Bank or in relation to all or any part of its assets. The liability hereunder shall not be discharged or impaired by reason of any change (substantive or otherwise) made now or in future by the State Bank of Pakistan or any act of matter whatsoever which (but for this provision) might have discharged or impaired the Guarantor’s liability.
7. No failure to exercise and no delay on the part of the Beneficiary in exercising any right under this Guarantee and no course of dealing between the parties shall be construed or operate as a waiver of that right nor shall any single or partial exercise of any right preclude any other or further exercise of it or exercise of any other right.

Appendix D-2: Format for Sponsors' Undertaking

To be printed on stamp paper or affixed with stamp duty if and as required under applicable provincial stamp laws

To
The Director
Banking Policy and Regulations Department
State Bank of Pakistan

I/We [name of natural or legal person], [name of father/husband in case of natural person], of [residential address in case of natural person, registered address in case of legal person], [CNIC/NICOP number in case of Pakistani citizen natural person, nationality and passport number in case of non-Pakistani citizen natural person, country of incorporation and corporate registration number in case of legal person] (hereinafter referred to as the "Sponsor", which term includes representative heirs, executors/administrators, legal representatives/successors and assigns), a proposed sponsor of [name of digital bank] (hereinafter referred to as the "Proposed Digital Bank"), jointly and severally undertake to the following:

- a) Sponsor shall ensure that the Proposed Digital Bank shall meet any and all requirements and obligations of the Proposed Digital Bank, including but not limited to ensuring ongoing compliance monitoring of the Minimum Capital Requirement, Capital Adequacy Ratio and other capital and liquidity requirements as may be applicable to the Proposed Digital Bank.
- b) Sponsor shall ensure that in the event of an exit of the Proposed Digital Bank, the Sponsor shall personally discharge any and all outstanding non-bank deposit liabilities in accordance with instructions received from the State Bank of Pakistan.
- c) Sponsor shall ensure that the Proposed Digital Bank complies with all the terms and conditions of any license granted to the Proposed Digital Bank by the State Bank of Pakistan and all other applicable legal and regulatory requirements.
- d) Sponsors shall submit an enforceable and executable bank guarantee at the time of seeking SBP's approval for commencement of pilot operations, issued by a reputable bank covering a reasonable period as advised by SBP and in accordance with the phased MCR. The bank guarantee shall be invoked upon non-fulfilment of MCR related commitments/plan.
- e) Sponsor undertakes and confirms that the name of the Sponsor or any person associated with the Sponsor has not been placed on the United Nations Security Council Consolidated List or any other list of banned, proscribed or blacklisted individuals or other entities maintained by the Government of Pakistan or by any foreign government.
- f) Sponsor confirms that the undertakings stated herein shall constitute perpetual, irrevocable and enforceable obligations against the Sponsor, and the Sponsor will not be relieved from these obligations or any part thereof for any reason whatsoever without the prior written consent of the State Bank of Pakistan.

IN THE WITNESS THEREOF these presents have signed the day hereinbefore written by the Sponsor.

Date:

Place:

Witness No. 1:

Name:

Address:

CNIC/Passport Number:

Witness No. 2:

Name:

Address:

CNIC/Passport Number: