

**DETAILED CRITERIA FOR SETTING UP OF ISLAMIC BANKING
SUBSIDIARIES BY EXISTING COMMERCIAL BANKS**

In order to promote Islamic banking in Pakistan, inter alia, a new clause (aa) has been now inserted in sub-section (1) of section 23 of the Banking Companies Ordinance, 1962, in terms of Banking Companies (Amendment) Ordinance, 2002 notified in the Gazette of Pakistan dated November 4, 2002, as follows:

“(aa) the carrying on of banking business strictly in conformity with the Injunctions of Islam as laid down in the Holy Quran and Sunnah”.

2. The existing scheduled commercial banks are therefore now also allowed to open subsidiaries for Islamic Banking operations. The banks interested in establishing a subsidiary for Islamic banking (“subsidiary”) may apply to the Director, Islamic Banking Department, State Bank of Pakistan, Post Box No. 4456, I.I. Chundrigar Road, Karachi. Applications may be made giving details with supporting documents, forms for which can be obtained from the State Bank. Applications, which are not complete in all respects, shall not be considered.

3. The following shall be the broad criteria for setting up of a subsidiary, of the existing scheduled commercial banks, for Islamic banking:-

- i) The proposed subsidiary would be a Public Limited Company and would be listed on the Stock Exchange. A maximum of 49% of shares shall be offered to the general public.
- ii) The subsidiary may be granted a license under section 27 of the Banking Companies Ordinance, 1962 to conduct the banking business strictly in accordance with Sharia and would be considered as a Scheduled Islamic Commercial Bank.
- iii) All financial transactions of the subsidiary will be in accordance with the injunctions of “SHARIA”.
- iv) The application shall indicate the modes of finance proposed to be used for raising resources and extending financial facilities.
- v) The applicant(s) will also indicate expertise and other facilities available with them for ensuring compliance of their banking business with Sharia.
- vi) To be able to commence business, the subsidiary shall have a minimum paid up capital of Rs 1,000 million and also shall at all times maintain minimum capital adequacy Ratio of 8% based on risk weighted assets.
- vii) At least 51% of the total paid up capital shall be subscribed by the banking company(ies).
- viii) Banks meeting the Capital Adequacy guidelines issued by State Bank and having CAMELS rating of 1, 2 and 3 during the last three years ON-SITE inspection shall be eligible for opening the subsidiary.
- ix) Banking company(ies) shall not dispose of their shares in any manner whatsoever for a minimum period of 3 years and thereafter only with the specific written approval of the State Bank.
- x) Application shall stand disqualified if any of the sponsors and/or Directors, their spouses or firms:-
 - a) has been convicted by a Court of law in Pakistan or abroad for a criminal offence.
 - b) has been associated with any illegal activity especially banking business, deposit taking, financial dealings and other business;
 - c) has failed to meet his or her obligations to banks and other financial institutions. They shall furnish names of the banks/DFIs alongwith the names of the branches with which they have had dealings. Bank reports are also required to be submitted;
 - d) has defaulted in payment of taxes. They shall indicate their National Tax Numbers;
 - e) is or has been associated as Director/Chief Executive with the Corporate Bodies whose corporate and tax record including customs duties, central excise and sales tax has been

unsatisfactory. They shall name the corporate bodies, their bankers and disclose their tax numbers and dividend record. Those not so associated with Corporate Bodies would be required to indicate their occupation/profession/trade and highlight their achievements;

- f) in the opinion of the sanctioning authority enjoys adverse reputation regarding integrity and performance.
- xi) Every Director of the subsidiary shall meet the Fit and Proper Test prescribed by SBP and would require prior clearance from State Bank of Pakistan.
- xii) One person cannot be a Director in more than one bank/financial institution.
- xiii) Not more than 25% of the Directors shall be from the same family as defined in Section 5(ff) of the Banking Companies Ordinance.
- xiv) The Chief Executive would be a professional fulfilling the conditions stipulated in the Fit and Proper Test issued by State Bank and shall require prior clearance of State Bank of Pakistan.

4. The applicant(s) will also submit the following documents along with the request:-

- i) Feasibility Study for setting up of Subsidiary including Organization structure and the name of the proposed Chief Executive.
- ii) Short Term and Long term Business Plan.
- iii) Risk management guidelines, plans for Internal control system and delegated approval authorities
- iv) Working system and procedures for business operations
- v) List of companies / firms and their bankers in which the banking company(ies), sponsor directors and their family members as defined in Section 5(ff) of Banking Companies Ordinance, are interested as Directors, Chief Executive, Partner, Proprietor, or major shareholders holding 5% or more shares
- vi) Certificate that a Shariah Advisor has been appointed in the light of SBP Shariah Board's "Fit and Proper Criteria" and the approval of SBP. However, Islamic Banking Subsidiaries are free to appoint a Shariah Committee at their own discretion and not as part of SBP regulation.

5. The subsidiary, which may be permitted to be established, shall be subject to the prevalent banking and other laws, rules and directives issued by SBP from time to time.

6. The subsidiary must commence operation within six months of the grant of permission.

7. The applicant(s) shall deposit Rs. 1 million (Rupees One million only) along with the application as processing fee. The fee so deposited shall be non-refundable.

8. Incomplete application shall be returned and processing fee retained. Re-submission would attract fresh fee.
