

GUIDELINES AND CRITERIA FOR SETTING UP OF A COMMERCIAL BANK.

INTRODUCTION

1. State Bank of Pakistan (the central bank of the country) is the sole supervisory and regulatory authority of commercial banks, Islamic Commercial Bank, Development Financial Institutions (DFIs), Micro Finance Banks and exchange companies in Pakistan. The authorization/issuance of a commercial banking licence has been vested in State Bank of Pakistan (SBP) under Section 27 of the Banking Companies Ordinance, 1962. In line with Basle Core Principle No. 3 a detailed guidelines and criteria for setting up of a commercial bank in Pakistan, both by local as well as foreign institutions/entities/strategic investors are given in the following paras for the ease of different stake holders and general public. The guidelines on setting up of [Islamic Commercial Bank](#), [Micro Finance Bank](#) and [exchange company](#) have been given separately.

2. It may be added that powers of authorization/issuance of licence to other than banks, i.e. non banking finance companies (NBFCs) and insurance companies, have been vested in [Securities and Exchange Commission of Pakistan](#), which is also their supervisory and regulatory authority.

GENERAL GUIDELINES

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

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

- i) The proposed bank should be a public limited company and listed on the stock exchange(s) in Pakistan. In case it is not listed at the time of commencement of its business, the listing should be completed within a maximum period of two years from the date of commencement of business.
- ii) A minimum of 50% shares have to be offered to general public.
- iii) To be able to commence business of banking, the bank should have a minimum paid up capital (free of losses) of Rs 2,000 million or any other amount as prescribed by SBP from time to time.

- iv) The bank shall at all times maintain a [minimum capital adequacy ratio](#) of 8% or any other percentage as specified by the SBP from time to time.
- v) Atleast 20% of the total paid up capital shall have to be subscribed personally by the sponsor directors.
- vi) The number of sponsor directors shall not be less than seven.
- vii) Sponsor directors shall not dispose off their shares in any manner whatsoever for a minimum period of three years and thereafter only with the specific written approval of the SBP.
- viii) The dividend on foreign shareholding can be remitted freely abroad as per prevailing [Foreign Exchange Rules](#).
- ix) The following categories are allowed to conduct banking business in branch mode as well as a wholly owned locally incorporated subsidiary: -
 - a) Banks from countries belonging to regional groups and associations of which Pakistan is a member.
 - b) Foreign banks having a global tier-1 paid up capital of US\$5 billion or more.
- x) Apart from the category mentioned at (ix) above, a foreign corporate entity/body desirous of conducting banking business in Pakistan must incorporate a locally incorporated company with a maximum of 49% share holding by the foreign strategic investor/entity/financial institution.
- xi) The board of directors and chief executive should meet the prescribed [fit and proper test](#).
- xii) The bank shall not provide any accommodation, fund based or otherwise, to its directors, chief executives and major shareholders, including their spouses, parents and children, or to the firms and companies in which they are interested as partners, directors or major share holders. Major share holding in this context would mean any person holding 5% or more of the paid up share capital of the bank.
- xiii) [A group, as defined in Prudential Regulation](#), shall not be eligible to own more than one commercial bank.
- xiv) The opening of upto 10 branches immediately after the commencement of business till 31st December of the Calendar year in which bank has commenced business may be considered on merit and as per the choice of sponsors

subject to provisions of branch licencing policy. The opening of subsequent branches during a calendar year shall be subject to annual branch expansion plan in accordance with the branch licencing policy enforced.

FIT AND PROPER CRITERIA FOR SPONSOR DIRECTORS

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

- i) The sponsor director(s) should not be a director in another commercial bank in Pakistan i.e. he/she is not on the board of directors of another commercial bank in Pakistan.
- ii) The sponsor director(s) has declared personal net worth which should not be less than the amount to be subscribed by him individually.
- iii) No sponsor director shall subscribe more than 5% of the total paid up capital of the bank. Special permission has to be obtained separately from SBP with proper justification for holding more than 5% of the total paid up capital.
- iv) Not more than 25% of the sponsor directors shall be from the same family as defined in [Section 5\(ff\) of the Banking Companies Ordinance, 1962](#).
- v) The sponsor director shall stand disqualified if he/she:
 - a) has been convicted on account of any criminal or financial irregularity whatsoever;
 - b) has been associated with any illegal activity concerning banking business, deposit taking, financial dealing and other business;
 - c) has failed in re-payment of obligation(s) to a bank(s) or financial institution(s);
 - d) has defaulted in payment of Government taxes and duties etc;
 - e) has been/is associated as director and/or chief executive with the corporate bodies whose corporate and tax record, including custom duties, central excise and sales tax has been unsatisfactory;
 - f) in the opinion of the sanctioning authority, have adverse reputation regarding integrity and performance;
 - g) is associated with the business of brokerage, stock exchange, money changing etc. as stipulated in BPD Circular No.13 of 2004.

INFORMATION/ DOCUMENTS REQUIRED FOR PROCESSING OF APPLICATION.

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

- i) Feasibility study for setting up of a bank, including organizational structure.
- ii) Name of each sponsor director and chief executive along with attested copies of Computerized National Identity Card. In case of foreign sponsors, their national identification card and copy of passport duly authenticated by the Embassy of Pakistan in that country.
- iii) Short term and long term business plan.
- iv) The amount proposed to be subscribed by each sponsor director is required to be indicated separately to consider his interest in the bank.
- v) List of companies/firms and their bankers in which sponsor directors and their family members are interested as directors, chief executive, partners, proprietors or major shareholder holding 5% or more shares.
- vi) Personal net worth of each sponsor director, duly supported with the certified copies of income tax and wealth tax statements, filed during the last three years.
- vii) Balance sheets and accounts of the companies in which sponsor directors and their family members have interest and hold 5% or more shares.
- viii) Previous experience in banking or other business.
- ix) In case of foreign bank/entity/investor or sponsor director resident of countries where filing of wealth statement is not a requirement of law, two certificates of personal net worth and general reputation issued by international banks of repute should be submitted. This facility will also be available for Pakistanis who have recently returned to Pakistan after a stay of more than 10 years abroad. The foreign bank shall also submit the following:-
 - a) A letter from their home country supervisors indicating permission to conduct banking business in Pakistan.
 - b) Credit rating by an international credit rating agency.
 - c) Global tier I&II capital in US\$ and capital adequacy ratio.
 - d) Ranking of bank by total assets and tier II capital in home country and globally.
 - e) Number of domestic and international branches.
 - f) Name of countries in which bank has presence as representative office, subsidiary and/or branches along with their number.
 - g) Details of supervisory arrangements in home country.

- x) Last three years balance sheets/accounts of all those concerns in which sponsor directors have controlling interest.
- xi) Certified copies of Memorandum and Articles of Association of the banking company.
- xii) The applicant (sponsor) shall furnish the name of the banks and financial institutions, along with account number and name of branches, with which they have been dealing, along with the credit reports from these banks in a separate confidential envelope.

OTHER DOCUMENTS/INFORMATION

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

- a) Name of chief executive and other key executives as indicated in [BPD Circular No. 13 of 2004](#), [BPD Circular No. 11 of 2003](#) and [other circulars/circular letters on fit and proper test](#).
- b) Risk management guidelines.
- c) Plans for internal control system and scale of authority.
- d) Working system and procedure for business operations.

ESTIMATED TIME FOR PROCESSING OF APPLICATION

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

VALIDITY OF THE LICENCE.

9. The licence for establishment of a commercial bank, once issued by SBP under [Section 27, of Banking Companies Ordinance, 1962](#) shall be valid for a period of six months from the date of its issuance. The licence shall automatically stand cancelled/withdrawn without any notice, in case commencement of banking business has not started within six months from the date of issue of licence. SBP may, however, consider a request received in writing for an extension in commencement of business on merit supported by valid reasons.

APPLICATION PROCESSING FEE

10. The applicant shall deposit a sum of Rs 1,000,000 (Rupees one million) or equivalent in US dollars along with the application as processing fee. The fee deposited shall be non-refundable. Incomplete applications shall neither be entertained nor returned. The processing

fee in such cases shall also be non-refundable. The fee may be deposited through demand draft or pay order.

CONSULTATION WITH HOME SUPERVISOR

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

Joint Director, (Licencing and Corporation Governance Division),
Banking Policy Department,
State Bank of Pakistan,
I.I. Chundrigar Road,
Karachi.
Ph: 92-21- 9212504
92-21-111-727-111
Fax No: 92-21-9212438, 9212506
www.sbp.org.pk (click on to "Help Desk BPD")

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