

**GUIDELINES TO ESTABLISH A
BANKING COMPANY IN BANGLADESH**

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According to Section 31 of the Banking Companies Act, 1991, no company shall carry out banking business in Bangladesh without obtaining a license from Bangladesh Bank. Bangladesh Bank will decide to grant licenses after considering the need and overall strategy congenial to effective monetary and financial sector policy for the country. Bangladesh Bank must be satisfied that the following terms and conditions for the establishment of a new banking company in Bangladesh have been met:

1. Status of the new commercial bank.

- 1.1 Must be a public limited company incorporated in Bangladesh.

2. Paid up capital requirement for a bank to be established:

- 2.1 The paid up capital of new commercial bank shall not be less than Taka 400.00 Crore as required under Bank Company Act 1991. The share capital will be formed with ordinary shares only.

3. Mode of payment:

- 3.1 For a banking company incorporated in Bangladesh, the capital contribution made by the sponsors and subscribers of the proposed bank shall be in a liquid, unencumbered form (such as cash or approved securities), held in a bank account that has been verified by Bangladesh Bank, and under a Bangladesh Bank lien.

4. Sponsors and share capital contribution:

Initial minimum capital Taka 400.00 crore shall be provided by sponsors of the proposed bank.

- 4.1 The bank shall issue public shares within three (3) years from the date of commencement of the banking business. Public issues shall be at least equal to sponsors' share amount.
- 4.2 The minimum shareholding stake of each sponsor shall be Taka 1.00 crore and the maximum shall be 10% of the proposed bank's total share capital. This ceiling of 10% applies to an individual, company or family member, either personally, jointly or both. "Family" is defined herewith to include spouse, father, mother, son, daughter, brother, sister of the individual or anyone dependent on that individual.
- 4.3 The ceiling of 10% may be relaxed in the case of a bank set up as a joint venture with a foreign financial institution or banking company.

- 4.4 Sponsors holding 5% or more shares shall have to sign a capital maintenance agreement (CMA) stating that they would, jointly and severally inject additional capital if the bank ever fell below any minimum capital requirement. In case of failure to inject such capital within the stipulated time, the responsibility would fall on individuals within the sponsors group to bear the entire burden of the required injection.
- 4.5 The sponsors' shares shall not be transferred within a period of three (3) years from the commencement of the business, without permission from Bangladesh Bank.
- 4.6 Sponsors' contribution to the equity capital of the proposed bank will be required to be out of net worth declared to the Tax authorities in form IT10B; contribution out of borrowings from bank or non-bank financial institution shall not be acceptable.
- 4.7 If an individual or any member of his/her family is or had been a loan defaulter with a bank/financial institution at any time during the past five years shall not be eligible to apply as a sponsor of the proposed bank.
- 4.8 An individual awaiting verdict of any undisposed lawsuit in any court/tribunal against his/her loan default status shall not be eligible to apply as a sponsor of the proposed bank.
- 4.9 A tax assessee shall not be eligible to be a sponsor if he/she has any unpaid undisputed arrear of income tax assessed for the current year or any past year.
- 4.10 A tax assessee penalized or awaiting court/tribunal verdict on any suit for offence under Chapter XXI of Income Tax Ordinance, 1984 shall not be eligible to apply as a sponsor of the proposed bank.
- 4.11 A tax assessee who has not submitted overdue tax-return for the current year or who has undisposed tax prosecution reopened under section 93 of Income Tax Ordinance, 1984 shall not be eligible to apply as a sponsor of the proposed bank.
- 4.12 Any assessee having unpaid liability for any undisputed customs duty, VAT, supplementary duty, excise duty or is awaiting verdict on any prosecution under Customs Act,1969; VAT Act,1991; Excise & Salt Act, 1944 in any court/tribunal shall not be eligible to be a sponsor of the proposed bank.

5. Fit and Proper Test for Sponsors/Directors

- 5.1 Competence, integrity and qualifications of the Sponsors of the proposed bank becoming the first Directors shall be evaluated. The evaluation

process shall include background checks on whether previous activities, including regulatory or judicial judgments, profession, raise doubts concerning their competence, sound judgment, or integrity.

- 5.2 The Sponsors/Directors shall qualify the Fit and Proper Test criteria (see Annexure-V) applicable for the Bank Directors in Bangladesh.
- 5.3 His/her inclusion in the Board of Directors shall not contravene any law for the time being in force in Bangladesh and in the country of his/her present permanent domicile. He/she has not evaded any legal proceedings of any country for any criminal offences or crime against humanity except for offences of minor traffic violations etc.
- 5.4 Bangladesh Bank shall evaluate proposed sponsors as to expertise and integrity (fit and proper test), and any potential for conflicts of interest. The fit and proper criteria include: (i) skills and experience in relevant financial operations commensurate with the intended activities of the bank; and (ii) no record of criminal activities or adverse regulatory judgments that make person unfit to uphold important position in a bank.

6. Management of the proposed bank

- 6.1 A Director or Advisor to any banking company other than the proposed bank shall not be a Director of the proposed bank.
- 6.2 The Member of Board of Directors shall be restricted to 13 (Thirteen).
- 6.3 Maximum number of directors from a family shall be restricted to two in case of the total shareholding of that family exceeds 5% and one director if the total shareholding is up to 5%.
- 6.4 The Chief Executive Officer (CEO) of the proposed bank shall have at least 15 (fifteen) years of experience in the banking profession.

7. Operation of the proposed bank.

- 7.1 The ratio of urban and rural bank branch has to be 1:1 or as per instruction issued by Bangladesh Bank from time to time.
- 7.2 New Bank has to ensure finance at least 5% of its total lending into agricultural sector or as per instruction issued by Bangladesh Bank from time to time.
- 7.3 Proposed bank should take part in Corporate Social Responsibility (CSR) activity. The new bank should spent 10% or more of its previous year's net income to CSR.

8. Required documents/ information/ analysis to be submitted to Bangladesh Bank

The application for approval to establish a new banking company shall be submitted to Bangladesh Bank with all the accompanying documents and information required, in the formats given in Annex I to Annex IV. Bangladesh Bank shall only consider applications that include the following:

- 8.1 A bank draft in the amount of Taka 10 (Ten) lakh in favour of Bangladesh Bank, attached to the Letter of Application, that serves as a nonrefundable application processing fee;
- 8.2 Name and address of the Applicant;
- 8.3 Name, address, telephone number of the contact person;
- 8.4 Feasibility Report on the proposed banking company (see Annex II), including an analysis of Bangladesh's macroeconomic environment, financial system, as well as a business plan for the proposed bank, financial projections and sensitivity analyses;
- 8.5 Biographical Reports (see Annexes III and IV) and proof of citizenship for each promoter/director, CEO/MD and Heads of Operation, Credit, Finance, Risk Management, Internal Control and IT of the proposed bank;
- 8.6 Proposed compensation package and other terms of contract of the CEO;
- 8.7 Minutes of the shareholders (sponsors) meeting;
- 8.8 Written agreement by the shareholders to organize the banking company;
- 8.9 Sponsors have to submit a business plan where management strategy of following sector should be elaborately defined;
 - 8.9.1 Risk factors relating to assets of proposed bank.
 - 8.9.2 Strategy for reaching unbanked area specially disadvantaged locality/ group.
 - 8.9.3 A strategy to provide financial services to enhance Bangladesh's competitiveness by reducing trade related banking fees/charges.
 - 8.9.4 A strategy to provide banking services which could promote export diversification as well as to provide financial services for non-traditional export sectors and small & medium entrepreneurs.

- 8.9.5 New bank should bring new/modern technology (e.g. mobile banking, internet banking) for providing better service to customers.
- 8.10 Draft Memorandum and Articles of Association;
- 8.11 For a corporate promoter; Board Resolution, Articles of Incorporation and By-laws, list of directors and officers, list of shareholdings, audited financial statements for the latest two years, certified copies of the Memorandum and Articles of Association;
- 8.12 Joint Venture agreement, in case of foreign equity participation.
- 8.13 In addition, the sponsors shall:
- (a) having received a Letter of Intent from Bangladesh Bank, the company shall apply to Bangladesh Bank for a formal license for commencement of banking business under Section 31` of the Bank Company Act, 1991, and for a license to open a place of business under Section 32 of said Act in the manner prescribed there under;
 - (b) register the proposed company with the Registrar of Joint Stock Companies under the Companies Act, 1994, as a public limited Company, and;
 - (c) obtain a Certificate of Incorporation subject to the approval by Bangladesh Bank of the draft Memorandum and Articles of Association;
 - (d) after obtaining the license from Bangladesh Bank, the company shall apply to Bangladesh Bank for its scheduling under Article 37 of the Bangladesh Bank Order, 1972.

ANNEX I

LETTER OF APPLICATION

Date:

General Manager
Banking Regulation and Policy Department
Bangladesh Bank
Head Office
Dhaka

Subject: Application to establish a Banking Company in Bangladesh.

Dear Sir:

In accordance with Section 31 of the Bank Company Act, 1991, we would like to apply to establish a Banking Company in the style of <Name of the proposed bank> in Bangladesh. As required, the documents requested by Bangladesh Bank are enclosed herewith.

We look forward to receiving your approval for the establishment of the proposed institution at your earliest convenience.

Sincerely yours,

Signature:

Name:

Proposed designation:

Address:

Telephone number:

email:

Encl: documents/information pertaining to the application

ANNEX II

Letter of Application shall accompany the A Feasibility Report and shall include the following:

1. Macroeconomic Background/Environment in Bangladesh
 - (i) GDP – Growth and Structure
 - (ii) Saving & Investment – Situation
 - (iii) Industrial Situation
 - (iv) Fiscal Situation
 - (v) Foreign Trade Situation
 - (vi) Financial and Monetary Development
2. Financial System and Structure
 - (i) Banking and Financial Institutions
 - (ii) Composition of Deposits, Credit & Investment and their growth
 - (iii) Credit/Deposit Ratio (at the National Level and the proposed area of operation)
 - (iv) Investment/Deposit Ratio (at the National Level and the proposed area of operation)
 - (v) Interest Rate Structure and Spreads
 - (vi) Volume of Off-Balance Sheet Activities
 - (vii) Available Financial Instruments and the Need for Financial Innovation
 - (viii) Profitability Analysis
 - (ix) Shortcomings of the present system and scope for improvement
 - (x) Justification for establishing a new bank
3. Business Plan of the Applicant Bank supported by study.
 - (i) Fundamental strategy of the proposed new bank to survive and grow
 - (ii) Schemes related to new financial instruments (if any) proposed

- (iii) Branch Expansion Policy
 - (iv) Organization Structure, Management Skills & MIS
 - (v) Technology Transfer
 - (vi) Areas of Operations
4. Business Projection, Economic Justification and Financial Analysis
- (i) Capital Structure
 - (ii) Details of Fixed Asset Expenditures
 - (iii) Details of Operating Expenses
 - (iv) Details of Staff Expenses
 - (v) Details of Preliminary Expenses
 - (vi) Market Share of Deposits, Credit & Investment
 - (vii) Basis of Interest Income, Other Income, Income from Off-Balance Sheet Activities, Interest Expenses & Loan Loss Provisioning
 - (viii) Strategy of foreign exchange (i.e., treasury) business transactions and the projected income
 - (ix) Projected Annual Balance Sheet, Profit & Loss Account and Cash Flow Statement for at least 3 years
 - (x) Statement of capital growth plan and fulfillment of Capital Adequacy Requirement
 - (xi) Strategy for dealing with risks encountered (e.g., credit risk, market risk, operational risk etc.)
5. SWOT (Strengths/Weaknesses/Opportunities/Threats) Analysis of the Applicant
6. Strategy for survival and growth in the long run
7. Sensitivity Analysis with interpretation:
- (i) Financial position if the Market Share of deposits & credits of the proposed bank is reduced by 10 percent at the national level, district level or proposed area of operation.
 - (ii) Financial position if the Growth Rate of deposits & credits of the proposed bank is reduced by 10 percent at the national level, district level or proposed area of operation.

- (iii) Financial position if the Interest Rate Spread (weighted or un-weighted) of the proposed bank is limited to: 5 percent;
 - 4 percent;
 - 3 percent;
 - 2 percent;
 - 1 percent.

8. Full particulars of the person(s)/firms who/which prepared the Feasibility Report shall have to be furnished.

ANNEX III
BIOGRAPHICAL REPORT ON SPONSORS/ DIRECTORS

1. Full Name:

2. Date of Birth:

3. Place of Birth:

4. Citizenship:

Passport Number:

Date and Place of Issue:

5. Full Address:

(a) Permanent:

Telephone Number:

(b) Present, if different from the Permanent:

Telephone Number:

6. Marital Status:

If married, Spouse's Name:

Occupation:

Spouse's Passport Number:

Date and Place of Issue:

Near Relations (parents, children, brother, sister) and Dependents:

Name (First, Middle, Last)	Relationship	Age

7.

Education	Name & Address of Institution	Dates of Attendance	Major Area of Study	Degree Awarded & Date
High School				
Undergraduate				
Graduate				
Professional or Technical				
Training /Seminar				

8. Present Occupation:

Organization Name:

Business Address:

Nature of Business:

Job Title:

Telephone Number:

9. Business Record (pertaining to the preceding 10 years)
Use additional sheets, if necessary.

Name & Address of Organization	Dates of Engagement	Position Held	Responsibilities

10. Describe each enterprise, including the name, address, type of enterprise [public (listed or not), private] your percentage of ownership and the type of business of each enterprise or other entity which you own or control. (Control means ownership of 10% or more of the stock or ability to effectively control the management of the enterprise or other entity).

List names, addresses and percentage of control and/or ownership of other incorporators, partners and directors of the entity or enterprise referred to above.

11.

Do you perform any services for or have any business connections with any institution which is subject to the supervision of Bangladesh Bank, or any other authority of the government of Bangladesh?	Yes ()	No ()
If "Yes," indicate the name of the institution, address and nature of your work.		

12.

Have you had, or do you now have, any financial interest, direct or indirect, in any institution/bank under the supervision of any Government authority?	Yes ()	No ()
If "Yes," give the name of the institution, address and nature of the financial interest.		

13.

Being a sponsor of a proposed bank, how and from what sources will you pay for your proposed amount of share capital?	Yes	No
(a) Own cash	()	()
(a) Other sources If "Yes," give details	()	()

14. Tax Identification Number (TIN):

(Attach most recent returns and/or Tax Clearance Certificates, and certified IT10B Forms).

15. Are you disqualified from election or nomination or from occupying the office of Bank Director owing to the following circumstances?

- (1) You have less than 10 years of professional experience,
- (2) You are insane or mentally unsound,
- (3) You are insolvent and adjudicated bankrupt,
- (4) You have been convicted by a court in any criminal offense or have been involved in any fraud/forgery, financial crime or other illegal activities,
- (5) You are a Director of any other banking company,
- (6) You are a partner in any contract with a banking company in the capacity of legal advisor, advisor, consultant, etc.

16. Answer to any of the questions below if they apply to you as an individual, or a partner, director or officer of an enterprise.

Except for minor traffic violations:

(a) Are any arrests, indictments, criminal information or other Criminal proceedings now pending against you?	Yes ()	No ()
(b) Were you ever convicted for any violation of the law?	()	()
(c) Have you or has any partnership of which you were a Principal officer or major stockholder ever been judged Bankrupt?	()	()

(d) Has any business in which you were a director, officer, partner or major shareholder (5% or more of the voting shares) defaulted on its servicing obligations (principal and/or interest) on outstanding debt or been involved in unacceptable foreign exchange transactions?	()	()
(e) Has any enterprise in which you were a partner, director, or officer been the subject of criminal indictment or other criminal proceedings?	()	()

17. As a sponsor of this proposed bank, I agree to hold at least Taka 1.00 crore (or its equivalent) or an amount not exceeding 10% share of the equity capital to be issued by the proposed bank.

The undersigned affirms that the statements made and answers given herein are accurate and complete and hereby authorizes the Bangladesh Bank to make any inquiry it deems appropriate in connection with processing this questionnaire. False statements in this questionnaire will be sufficient cause for denial of a license to establish banking operations in Bangladesh.

Signature of Sponsor/ Director:

Name:

Date:

Place:

Witnesses:

Signature

Name:

Address:

Signature

Name:

Address:

ANNEX IV

BIOGRAPHICAL REPORT ON CEO/PRINCIPAL OFFICERS

1. Full Name:

2. Date of Birth:

3. Place of Birth:

4. Citizenship:

Passport Number:

Date and Place of Issue:

Right-to-work in Bangladesh Yes () No ()

Visa Type:

Expiration Date:

5. Full Address:

(a) Permanent:

Telephone Number:

(b) Present, if different from the Permanent:

Telephone Number:

6. Marital Status:

If married, Spouse's Name:

Occupation:

7.

Education	Name & Address of Institution	Dates of Attendance	Major Area of Study	Degree Awarded & Date
High School				
Undergraduate				
Graduate				
Professional or Technical				
Training /Seminar				

8. Present Occupation:

Organization Name:

Business Address:

Nature of Business:

Job Title:

Telephone Number:

9. Service Record (pertaining to the 15 years' experience in the banking profession). Please enclose supporting documents. Use additional sheets, if necessary, and account for all gaps in employment.

Name & Address of Organization	Dates of Engagement	Position Held	Responsibilities

10.

Do you perform any services for or have any business connections with any institution which is subject to the supervision of Bangladesh Bank, or any other authority of the government of Bangladesh?	Yes ()	No ()
If "Yes," indicate the name of the institution, address and nature of your work.		

11.

Have you had, or do you now have, any financial interest, direct or indirect, in any institution/bank under the supervision of any Government authority?	Yes ()	No ()
If "Yes," give the name of the institution, address and nature of the financial interest.		

12. Tax Identification Number (TIN) :

(Attach most recent returns and/or Tax Clearance Certificates, and certified IT10B Forms).

13. Are you disqualified for the post of CEO owing to the following circumstances?

- (1) You have less than 15 years of professional experience.
- (2) You are insane or mentally unsound,
- (3) You are insolvent and adjudicated bankrupt,
- (4) You have been convicted by a court in any criminal offense or have been involved in any fraud/forgery, financial crime or other illegal activities.
- (5) You are a Director of any banking company.
- (6) You are a partner in any contract with a banking company in the capacity of legal advisor, advisor, consultant, etc.

14. Answer to any of the questions below if they apply to you as an individual, or a partner, director or officer of an enterprise.

Except for minor traffic violations:

(1) Are any arrests, indictments, criminal information or other Criminal proceedings now pending against you?	Yes ()	No ()
(2) Were you ever convicted for any violation of the law?	()	()

The undersigned affirms that the statements made and answers given herein are accurate and complete and hereby authorizes the Bangladesh Bank to make any inquiry it deems appropriate in connection with processing this questionnaire. False statements in this questionnaire will be sufficient cause for denial of a license to establish banking operations in Bangladesh.

Signature of the CEO/Principal Officer

Name:

Date:

Place:

Witnesses:

Signature

Name:

Address:

Signature

Name:

Address:

ANNEX V

CONSTITUTION OF THE BOARD OF DIRECTORS AND FIT AND PROPER TEST FOR APPOINTMENT OF BANK DIRECTORS

Responsibilities of running the affairs of a bank-company, like other companies, are entrusted to its board of directors. The responsibilities of the board of directors of a bank-company are more important than those of other companies; because in case of a bank-company it is essential to earn and maintain confidence of the depositors as its business is mainly run with the depositors' money. The board of directors shall also have to strive to protect interests of its depositors as well as of the shareholders. It is imperative to constitute the board of directors with competent and professionally skilled persons and limit the number of directors with a view to formulating policy-guidelines and supervising business activities of the bank efficiently as well as ensuring good and corporate governance in the bank management.

Bangladesh Bank deems it necessary to issue directives for compliance of the bank-company regarding constitution of the board of directors and fit and proper test for appointment of directors in the interest of depositors and for securing proper management of the bank-companies. Therefore, in exercise of the powers conferred by section 45(1) of the BankCompaniesAct,1991, the following restrictions have been imposed regarding constitution of the board of directors and fit and proper test criteria for consideration and compliance of the appointing authority (viz.-general meeting, board of directors etc.) of the private banks regarding appointment or reappointment and filling up of casual vacancy of the offices of bank directors:

1. Constitution of the Board of Directors:-
 - a) The board of directors of the bank-companies shall be constituted of maximum 13 (thirteen) directors. However, the directors of the banks, where the number of directors.
 - b) This restriction shall apply to appointment/reappointment of the directors against retirement or filling casual vacancy subject to section 15 Ka Ka of the Bank Company Act, 1991. Maximum number of directors from a family shall be restricted to two incase of the total shareholding of that family exceeds 5% and one director if the total shareholding is up to 5%. For this purpose family members shall include spouse, parents, children, brothers and sisters of the director and other persons dependent on him/her.
2. Fit and Proper Test:-
 - a) The concerned person must have management/business or professional experience for at least 10 (ten) years;
 - b) (S)he has not been convicted in any criminal offence or involved in any

- fraud/forgery, financial crime or other illegal activities;
- c) (S)he has not been subject to any adverse findings in any legal proceedings,
 - d) (S)he has not been convicted in regard to contravention of rules, regulations or disciplines of the regulatory authorities relating to financial sector;
 - e) (S)he has not been involved with a company/firm whose registration/ license has been revoked or cancelled or which has gone into liquidation;
 - f) Loans taken by him/her or allied concern from any bank or financial institution have not become defaulted;
 - g) (S)he has not been adjudicated a bankrupt by a court;
 - h) (S)he must be loyal to the decisions of the board of directors. However, in case of note of dissent, (s)he may record it in the minutes of the board meeting and/or bring it to the notice of Bangladesh Bank considering its merit.
3. A person, proposed as a candidate for the office of director, shall furnish along with the consent letter for the purpose of section 93 of the Companies Act, 1994 a declaration as per the attached format that (s)he is not disqualified to become a bank director in accordance with the above mentioned fit and proper test.
4. The declaration shall have to be signed by the concerned person (candidate) and if elected it shall have to be forwarded to Bangladesh Bank by the Chairman of the board of directors.
5. The above-mentioned restrictions for qualifications of bank directors shall be in addition to any related laws/regulations for the time being in force.

Declaration

I do hereby declare that I am eligible to become a director of bank-company as per the fit and proper test criteria mentioned in the **Guidelines to Establish a Banking Company in Bangladesh**. I further declare that-

- a) I have not been convicted in any criminal offence or involved in any fraud/forgery, financial crime or other illegal activities;
- b) There is no adverse opinion/findings regarding me in any legal proceedings,
- c) I have not been convicted in regard to contravention of rules, regulations and disciplines of the regulatory authorities relating to financial sector;
- d) I have not been involved with a company/firm whose registration/license has been revoked or cancelled or which has gone into liquidation;
- e) There are no loans taken by me or my allied concern from any bank or financial institution that have become defaulted;
- f) I have not been adjudicated a bankrupt by a court;
- g) My spouse, parents, children, brothers and sisters or any other person dependent on me is not a director of this bank.

Dated:

Signature:

()

Countersigned:

()

Chairman, Board of Directors
..... Bank Ltd.