



THE LEGAL CIRCLE

High Tower (9th Floor), 9 Mohakhali C/A, Dhaka-1212, Bangladesh

FAQ ON DIGITAL BANK GUIDELINES

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The central bank of Bangladesh, the Bangladesh Bank issued the 'Guidelines to Establish Digital Bank' (the "**Digital Bank Guidelines**") on 15th June 2023. The Guidelines is issued in pursuance of the Government's 'Smart Bangladesh' initiative and with the goal to create a cashless Bangladesh.

The Digital Bank Guidelines is a compilation of instructions that are to be followed by all applicants/promoters/sponsors/shareholders who wish to establish a digital bank in Bangladesh.

The Digital Bank Guidelines should be read together with the Bangladesh Bank Companies Act, 1991, other guidelines/circulars/directives/prudential regulations of the central bank and must comply with the provisions of the Bangladesh Payment and Settlement Systems Regulations, 2014 and The Bankers Book Evidence Act, 2021.

1. What are the: (a) minimum capital, (b) shareholding and (c) registration requirements for establishing a Digital Bank?

(a) The present requirement per the Guidelines is for the digital bank to commence with paid-up capital of at least BDT 125 Crore (BDT 125,00,00,000) equivalent to approx. USD 11.5 million². This paid-up capital shall be comprised of ordinary shares only. The pay-in amount shall be held in a local bank account in cash and must be unencumbered.

(b) Each sponsor must hold at least BDT 50 Lacs (BDT 50,00,000) worth of ordinary shares, i.e. equivalent to approx. USD 50,000 per sponsor³. Shares of sponsors will be subject to lock-in for a period of 5 (five) years from the commencement of business, unless otherwise allowed by Bangladesh Bank through granting of prior permission.

(c) A digital bank shall be a public limited company licensed under section 31 of the Bank Companies Act, 1991.

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² At the Bangladesh Bank published exchange rate of 1 USD = 108.70 BDT as on 3rd July 2023, the amount stands at USD 11,499,540 million.

³ At the Bangladesh Bank published exchange rate of 1 USD = 108.70 BDT as on 3rd July 2023, the amount stands at USD 45,99,816.01.



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2. What is the licence fee for a licensed digital bank?

A non-refundable application processing fee of BDT 5 Lacs (BDT 5,00,000) must be paid to Bangladesh Bank at the application stage. Note that the licence fee has not been mentioned in the Digital Bank Guidelines.

3. What will the scope of digital banking business cover? Are digital assets included?

- Digital banks will be able to use the services of agents of conventional banks or mobile financial service (MFS) providers;
- No over-the-counter services can be offered;
- Digital banks cannot offer trade and guarantee services;
- Subject to the above restrictions, digital banks can provide authorised dealer (“AD”) services subject to obtaining an AD licence.

4. Can a licensed digital bank leverage digital technologies?

Yes. Digital banks can offer efficient, low-cost and innovative financial products and services through an end-to-end tech-based digital ecosystem using artificial intelligence (AI), machine learning, block chain and other advanced technologies to serve its customers.

5. How will the central bank assess shareholders?

Sponsors and directors must qualify in the Fit and Proper Test (FPT) criteria. The central bank in evaluating FPT may consider financial performance of sponsors’ businesses where sponsors exercise control. ‘Control’ means holding a minimum of 50% ownership of a business.

Other corporations/companies can be promoters in digital banks.

6. Is foreign shareholding allowed?

There is no bar in the Digital Bank Guidelines to foreign shareholding. However this point is not explicitly dealt with in the guidelines.



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7. What standards of corporate governance are to be followed by digital banks?

Digital banks shall be subject to the same standards on corporate governance that are applicable for conventional banks. The Digital Bank Guidelines uses the words “amongst others” in discussing corporate governance standards for digital banks. It can be assumed that further corporate governance instructions may be issued by the central bank going forward.

8. Any other factors of note?

Interested applicants may wish to note the following stipulations in the Digital Bank Guidelines:

- I. The digital bank must go for initial public offering (IPO) within 5 (five) years from the date of the licence being issued by Bangladesh Bank. The IPO size should not be less than the sponsor’s initial paid-up capital.
- II. Substantial shareholders⁴ have to put in place a capital maintenance agreement (CMA) agreeing to jointly and severally inject additional capital if capital of the digital bank falls below the minimum paid up capital requirement.
- III. Sponsor contribution to capital cannot be from loans.
- IV. Digital banks’ cloud services must be located within the territory of Bangladesh.

⁴ The term carries the same meaning as defined in the Bank Companies Act, 1991.