

Reserve Bank of India
Guidelines for Licensing of New Banks in the Private Sector
February 22, 2013

Preamble

Over the last two decades, the Reserve Bank of India (RBI) licensed twelve banks in the private sector. This happened in two phases. Ten banks were licensed on the basis of guidelines issued in January 1993. The guidelines were revised in January 2001 based on the experience gained from the functioning of these banks, and fresh applications were invited. The applications received in response to this invitation were vetted by a High Level Advisory Committee constituted by the RBI, and two more licences were issued.

The Union Finance Minister had made an announcement in his budget speech for 2010-11 that the RBI was considering giving some additional banking licences to private sector players. Non-Banking Financial Companies could also be considered, if they meet the RBI's eligibility criteria.

In pursuance of the budget announcement, the RBI put out a Discussion Paper on its website on August 11, 2010 inviting feedback and comments.

The Discussion Paper elicited wide response from the general public, consultants, existing banks, industrial and business houses, Non-Banking Financial Companies, Micro Finance Institutions, etc. through emails and letters. There was extensive discussion in the media through analytical pieces as well as editorial opinion. The RBI also held discussions with important stakeholders. The gist of these comments and discussions was placed on the RBI's website on December 23, 2010.

The draft guidelines on 'Licensing of New Banks in the Private Sector' were framed taking into account the experience gained from the functioning of the banks licensed under the guidelines of 1993 and 2001 and the feedback and suggestions received in response to the Discussion Paper. The draft guidelines were placed on the RBI's website on August 29, 2011 for comments. The comments received on the draft guidelines have been examined. The guidelines have been finalized taking into account the important amendments in December 2012 to the Banking Regulation

Act, 1949, the suggestions/comments received on the draft guidelines and in consultation with the Government of India.

While preparing these guidelines, the Reserve Bank recognizes the need for an explicit policy on banking structure in India keeping in view the recommendations of the Narasimham Committee, Raghuram Rajan Committee and other viewpoints. Accordingly, the Reserve Bank would come out with an overall policy discussion paper on banking structure in India within two months.

2. Guidelines

(A) Eligible Promoters

- (i) Entities / groups in the private sector that are 'owned and controlled by residents' [as defined in Department of Industrial Policy and Promotion (DIPP) Press Note 2, 3 and 4 of 2009 / FEMA Regulations as amended from time to time] and entities in public sector shall be eligible to promote a bank through a wholly-owned Non-Operative Financial Holding Company (NOFHC).
- (ii) Promoters / Promoter Groups¹ with an existing non-banking financial company (NBFC) will be eligible to apply for a bank licence. If considered eligible for promoting a bank, they will have to comply with the requirements laid down in these guidelines as also the conditions specified in paragraph 2 (L) below.

(B) 'Fit and Proper' criteria

Promoters/ Promoter Groups as defined in these guidelines should be 'fit and proper' in order to be eligible to promote banks through a wholly owned NOFHC. RBI would assess the 'fit and proper' status of the applicants on the basis of following criteria:

- (a) Promoters/ Promoter Groups should have a past record of sound credentials and integrity;
- (b) Promoters/ Promoter Groups should be financially sound and have a successful track record of running their business for at least 10 years.

¹ The definitions of 'promoter' and 'promoter group' are provided in Annex I

RBI may, *inter alia*, seek feedback on applicant Groups on these or any other relevant aspects from other regulators, and enforcement and investigative agencies like Income Tax, CBI, Enforcement Directorate, etc. as deemed appropriate.

- (c) Promoter / Promoter Groups' business model and business culture should not be misaligned with the banking model and their business should not potentially put the bank and the banking system at risk on account of group activities such as those which are speculative in nature or subject to high asset price volatility.

(C) Corporate structure of the NOFHC

- (i) Promoter / Promoter Group will be permitted to set up a bank only through a wholly-owned Non-Operative Financial Holding Company (NOFHC).
- (ii) The capital structure of the wholly-owned NOFHC set up by Promoter / Promoter Groups in Private Sector shall consist of :
 - a) voting equity shares not exceeding 10 per cent of the total voting equity shares of the NOFHC held by any individual belonging to the Promoter Group, along with his relatives (as defined in Section 6 of the Companies Act 1956) and along with entities in which he and / or his relatives hold not less than 50 per cent of the voting equity shares, and
 - b) companies forming part of the Promoter Group whereof companies in which the public hold not less than 51 per cent of the voting equity shares shall hold not less than 51 per cent of the total voting equity shares of the NOFHC.
- (iii) The NOFHC shall hold the bank as well as all the other financial services entities of the Group regulated by RBI or other financial sector regulators. The objective is that the Holding Company should ring fence the regulated financial services entities of the Group, including the bank from other activities of the Group i.e., commercial, industrial and financial activities not regulated by financial sector regulators and also that the bank should be ring fenced from other regulated financial activities of the Group. Thus, only non-financial services companies / entities and non-operative financial holding company in the Group and individuals belonging to Promoter Group will be

allowed to hold shares in the NOFHC. Financial services entities whose shares are held by the NOFHC cannot be shareholders of the NOFHC.

- (iv) The general principle is that no financial services entity held by the NOFHC would be allowed to engage in any activity that a bank is permitted to undertake departmentally. In this context, it is clarified that :
- (a) RBI requires certain specialised activities, such as, insurance, mutual funds, stock broking, infrastructure debt funds, etc. to be conducted through a separate Subsidiary / Joint Venture / Associate structure;
 - (b) There are certain activities such as credit cards, primary dealers, leasing, hire purchase, factoring, etc., which a bank can conduct either from within the bank or through a separate outside structure (Subsidiary / Joint Venture / Associate).

Accordingly, the activities at (a) above and activities at (b) above which are to be carried outside the bank will have to be carried out through separate financial entities under the NOFHC.

- (v) RBI will have to be satisfied that the corporate structure does not impede the financial services entities held by the NOFHC from being ring fenced, that it would be able to supervise the bank, the NOFHC, and its Subsidiaries / Joint Ventures / Associates on a consolidated basis, and that, it will be able to obtain all required information relevant for this purpose, smoothly and promptly. However, the primary supervision of the entities held by the NOFHC will be by the sectoral regulators.
- (vi) The NOFHC shall not be permitted to set up any new financial services entity for at least three years from the date of commencement of business of the NOFHC. However, this would not preclude the bank from having a subsidiary or joint venture or associate, where it is legally required or specifically permitted by RBI.
- (vii) Only those regulated financial sector entities in which a Promoter Group has significant influence² or control will be held under the NOFHC.

² As defined in Accounting Standard 23

- (viii) The Promoter / Promoter Group entities / individuals associated with Promoter Group shall hold equity investment, in the bank and other financial entities held by it, only through the NOFHC.
- (ix) Shares of the NOFHC shall not be transferred to any entity outside the Promoter Group. Any change in shareholding (by the Promoter Group) with in the NOFHC as a result of which a shareholder acquires 5 per cent or more of the voting equity capital of the NOFHC shall be with the prior approval of RBI.

(D) Minimum voting equity capital requirements for banks and shareholding by NOFHC

- (i) The initial minimum paid-up voting equity capital for a bank shall be ₹5 billion. Any additional voting equity capital to be brought in will depend on the business plan of the Promoters.
- (ii) The NOFHC shall hold a minimum of 40 per cent of the paid-up voting equity capital of the bank which shall be locked in for a period of five years from the date of commencement of business of the bank.
- (iii) Shareholding by NOFHC in the bank in excess of 40 per cent of the total paid-up voting equity capital shall be brought down to 40 per cent within three years from the date of commencement of business of the bank.
- (iv) In the event of the bank raising further voting equity capital during the first five years from the date of commencement of business, the NOFHC should continue to hold 40 per cent of the enhanced voting equity capital of the bank for a period of five years from the date of commencement of business of the bank. Voting equity capital, other than the holding by NOFHC, could be raised through public issue or private placements.
- (v) The shareholding by NOFHC shall be brought down to 20 per cent of the paid-up voting equity capital of the bank within a period of 10 years, and to 15 per cent within 12 years from the date of commencement of business of the bank.
- (vi) The capital requirements for the regulated financial services entities held by the NOFHC shall be as prescribed by the respective sectoral regulators. The

bank shall be required to maintain a minimum capital adequacy ratio of 13 per cent of its risk weighted assets (RWA) for a minimum period of 3 years after the commencement of its operations subject to any higher percentage as may be prescribed by RBI from time to time. On a consolidated basis, the NOFHC and the entities held by it shall maintain a minimum capital adequacy of 13 per cent of its consolidated RWA for a minimum period of 3 years.

- (vii) The bank shall get its shares listed on the stock exchanges within three years of the commencement of business by the bank.

(E) Regulatory framework

(i) The bank will be governed by the provisions of the Banking Regulation Act, 1949, Reserve Bank of India Act, 1934, Foreign Exchange Management Act, 1999, Payment and Settlement Systems Act, 2007, other relevant Statutes and the Directives, Prudential regulations and other Guidelines/Instructions issued by RBI and other regulators from time to time, including the regulations of SEBI regarding public issues and other guidelines applicable to listed banking companies.

(ii) The NOFHC will be registered as a non-banking financial company (NBFC) with the RBI and will be governed by a separate set of directions issued by RBI.

(iii) The financial entities held by the NOFHC will be governed by the applicable Statutes and regulations prescribed by the respective financial sector regulators.

(F) Foreign shareholding in the bank

Notwithstanding the current FDI policy, where foreign shareholding in private sector banks is allowed up to a ceiling of 74 per cent of the paid-up voting equity capital, the aggregate non-resident shareholding from FDI, NRIs and FIIs in the new private sector banks shall not exceed 49 per cent of the paid-up voting equity capital for the first 5 years from the date of licensing of the bank. No non-resident shareholder, directly or indirectly, individually or in groups, or through subsidiary, associate or joint venture will be permitted to hold 5 per cent or more of the paid-up voting equity capital of the bank for a period of 5 years from the date of commencement of business of the bank. After the expiry of 5 years from the date of commencement of

business of the bank, the aggregate foreign shareholding would be as per the extant FDI policy.

(G) Corporate governance of NOFHC

The NOFHC should comply with the corporate governance guidelines as issued by RBI from time to time. Such guidelines may include the following:

- (i) No NOFHC shall have as a Director in its Board of Directors, any person who is a Director in any other NOFHC or a bank other than a banking company under it.
- (ii) No NOFHC shall be managed by any person-
 - (a) who is a Director in any other company not being
 - (i) a subsidiary of the NOFHC or
 - (ii) a company registered under Section 25 of the Companies Act, 1956 (1 of 1956) or
 - (b) who is engaged in any other business or vocation.
- (iii) NOFHC shall comply with such soundness standards in terms of corporate governance including 'fit and proper' criteria, as applicable to banks³ to the extent they are appropriate.
- (iv) At least 50 per cent of the Directors of NOFHC shall be totally independent of the Promoter or Promoter Group entities and their major customers and major suppliers⁴.
- (v) The Independent Directors referred to above shall have special knowledge or practical experience in respect of one or more of the following matters, namely,
 - (a) Accountancy, (b) Agriculture, rural economy and co-operation, (c) Banking, (d) Insurance, (e) Economics, (f) Finance, (g) Micro, Small and

³ Please refer to [circulars DBOD.No.BC.105/08.139.001/2003-04 dated June 25, 2004](#) on 'Fit and proper' criteria for directors of banks and [DBOD.No.BP.BC.71/21.01.01/2004-05 dated February 28, 2005](#) on Ownership and Governance in Private Sector Banks

⁴ Major customers and major suppliers of the promoter group would mean dealings with whom constitute 10 per cent or more of the annual purchases or sales or both taken together

Medium Enterprises (MSME), (h) Law; or, (i) any other matter, the special knowledge of, and practical experience in, which would, in the opinion of the Reserve Bank, be useful to NOFHC.

- (vi) NOFHC shall be managed professionally with adequate corporate governance standards.
- (vii) Ownership and management shall be separate and distinct in the NOFHC, the bank and entities regulated by RBI.
- (viii) The source of funds for Promoters' and Promoter Groups' equity in the NOFHC shall be transparent and verifiable.
- (ix) NOFHC shall ensure that there is a policy in place for ascertaining the 'fit and proper' criteria for appointment of Directors of the NOFHC.
- (x) NOFHC shall undertake a process of due diligence to determine the suitability of the person for appointment and/or continuing to hold appointment as a Director on its Board based on qualification, expertise, track record, integrity and other 'fit and proper' criteria.
- (xi) NOFHC shall obtain from every Director, a Deed of Covenant and a declaration and undertaking in its favour, as may be specified by RBI.
- (xii) NOFHC shall obtain an annual declaration from its Directors that the information provided has not undergone change and where there is any change, obtain requisite details from them forthwith.
- (xiii) NOFHC shall have a Nomination Committee to perform due diligence in respect of its Directors.
- (xiv) Nomination Committee shall scrutinize Deed of Covenant and declaration and undertaking submitted by each of its Directors and on a continuing basis perform due diligence in respect of each of its Directors and the NOFHC shall report to the Reserve Bank if any of its directors fails to fulfill the 'fit and proper' criteria as specified by Reserve Bank from time to time.
- (xv) NOFHC shall have a Remuneration Committee of the Board to decide on the compensation payable to the key management executives of NOFHC.

(H) Prudential Norms for the NOFHC

The prudential norms will be applied to NOFHC both on stand-alone as well as on a consolidated basis. Some of the major prudential norms are as under:

(i) NOFHC on a stand-alone basis

- (a) Prudential norms for classification, valuation and operation of investment portfolio⁵.
- (b) Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances⁶.
- (c) The NOFHC for the purpose of its liquidity management can make investments in bank deposits, money market instruments, government securities and actively traded bonds and debentures.
- (d) The NOFHC shall create a reserve fund and shall, out of the balance of profit each year as disclosed in the profit and loss account and before any dividend is declared, transfer to the reserve fund a sum equivalent to not less than 25 per cent of such profit.
- (e) Any dividend proposed to be paid by the NOFHC to its shareholders shall be payable only out of the profits and further subject to meeting the following conditions:
 - Compliance with all prudential norms prescribed for the NOFHC both on stand-alone as well as consolidated level.
 - There are no serious observations by any of the regulators / supervisors of the NOFHC as well as of entities held under it.
 - The financial statements of the NOFHC both on stand-alone and consolidated level shall be free of any qualifications by the statutory auditors, which have an adverse bearing on the profit during that year. In case of any qualification to that effect, the net profit should be suitably adjusted while computing the dividend payout ratio.

⁵ Please refer to current [Master Circular DBOD No. BP. BC.13/21.04.141/2012-13 dated July 2, 2012](#)

⁶ Please refer to current [Master Circular DBOD.No.BP.BC.9/21.04.048/2012-13 dated July 2, 2012](#)

- (f) The NOFHC shall closely monitor its liquidity position and interest rate risk. For this purpose, the NOFHC shall prepare a structural liquidity statement (STL) and interest rate sensitivity statement (IRS)⁷.
- (g) The NOFHC may have a leverage up to 1.25 times of its paid-up equity capital and free reserves. The actual leverage assumed within this limit should be based on the ability of the NOFHC to service its borrowings from its dividend income.

(ii) NOFHC on a consolidated basis

- (a) NOFHC shall maintain capital adequacy and other requirements on a consolidated basis based on the prudential guidelines on Capital Adequacy and Market Discipline – New Capital Adequacy Framework (NCAF) issued under Basel II framework and Guidelines on Implementation of Basel III Capital Regulations in India⁸, when implemented.
- (b) The NOFHC shall prepare consolidated financial statements and other consolidated prudential reports in terms of the Guidelines for ‘consolidated accounting and other quantitative methods to facilitate consolidated supervision’ contained in [circular DBOD.No.BP.BC.72 /21.04.018/2001-02 dated February 25, 2003](#)⁹ and in terms of Scope of Prudential Consolidation indicated under Basel III Capital Regulations¹⁰.
- (c) The consolidated NOFHC shall adhere to the instructions on disclosure in Financial Statements - Notes to Accounts¹¹.
- (d) The consolidated NOFHC shall prepare a structural liquidity statement (STL), interest rate sensitivity statement (IRS)¹².

⁷ Please refer to [circulares DBOD.BP.No.56/21.04.098/ 2012-13 dated November 7, 2012](#) on ‘Liquidity Risk Management by Banks’ and [DBOD.BP.BC.59/21.04.098/2010-11 dated November 4, 2010](#) on ‘Banks’ Asset Liability Management Framework – Interest Rate Risk’

⁸ Please refer to the current [master circular DBOD.No.BP.BC.16/21.06.001/2012-13 dated July 2, 2012](#) and [circular DBOD.No.BP.BC.98 /21.06.201/2011-12 dated May 2, 2012](#) as applicable

⁹ The guidelines are under review

¹⁰ Please refer to paragraphs 3.1 & 3.2 of Section B of Annex 1 of circular DBOD.No.BP.BC.98 /21.06.201/2011-12 dated May 2, 2012

¹¹ Please refer to the current [master circular DBOD.BP.BC No.14/21.04.018/2012-13 dated July 2, 2012](#)

¹² Please refer to [circulares DBOD.BP.No.56/21.04.098/ 2012-13 dated November 7, 2012](#) on Liquidity Risk Management by Banks and [DBOD.BP.BC.59/21.04.098/2010-11 dated November 4, 2010](#) on Bank’s Asset Liability Management Framework – Interest Rate Risk

(I) Exposure norms

(i) Exposure norms for stand-alone NOFHC

- (a) NOFHC shall not have any credit and investment (including investment in equity / debt capital instrument¹³) exposure to any entity belonging to the Promoter Group except those held under it.
- (b) NOFHC shall not have any equity, debt capital and credit exposure to any entity outside the Group including other NOFHCs or other banks, financial and non-financial entities.
- (c) NOFHC's exposure for the purpose of its liquidity management [please refer to paragraph 2 (H) (i) (c)] to non-Group entities will be within the extant exposure limits¹⁴.

(ii) Exposure norms for consolidated NOFHC

- (a) The consolidated NOFHC shall adhere to all the exposure norms¹⁵ on the consolidated basis such as single and group borrower exposure limits, capital market exposure limit etc, as applicable to bank groups.
- (b) The consolidated NOFHC's investments in the capital instruments issued by banking, financial and insurance entities outside its Group together with the unconsolidated¹⁶ financial and insurance entities within the Group should not exceed 10 per cent of its consolidated capital funds.

(iii) Exposure norms for the bank

- (a) The bank cannot take any credit and investments (including investments in the equity/debt capital instruments) exposure on the Promoters / Promoter Group entities or individuals associated with the Promoter Group or the NOFHC.
- (b) The bank shall not invest in the equity / debt capital instruments of any financial entities under the NOFHC.

¹³ 'Debt capital instruments' mean the debt instruments which have been treated as capital of the issuing entity, for the purpose of capital adequacy, by RBI

¹⁴ Please refer to the current [master circular DBOD. No.Dir.BC.3/13.03.00/2012-13 dated July 2, 2012](#)

¹⁵ Please refer to the circular DBOD.No.BP.BC.72/21.04.018/2001-02 dated February 25, 2003 and the current master circular DBOD. No.Dir.BC.3/13.03.00/2012-13 dated July 2, 2012

¹⁶ Unconsolidated means entities which are outside of the scope of regulatory consolidation

- (c) The bank's credit and investment (other than equity / debt capital instruments) exposure to financial entities under the NOFHC will be subject to Intra-Group Transactions & Exposures (ITEs) norms¹⁷.
- (d) The bank cannot invest in the equity of other NOFHCs.
- (e) The bank's investments in equity / debt capital instruments of other banks / financial institutions including other NOFHCs¹⁸ should be guided by the extant cross holding norms¹⁹.
- (f) The bank's permissible exposures will be as per extant exposure norms²⁰.
- (g) Investment in equity by the bank in the entities engaged in financial and non-financial activities, outside the Promoter Group would be subject to a limit of 10 per cent of the investee entity's paid-up share capital or 10 per cent of the bank's paid-up share capital and reserves, whichever is less, and the aggregate of all such investments should not exceed 20 per cent of the bank's paid-up share capital and reserves.

(iv) Exposure norms for the financial entities (other than bank) held by the NOFHC

There is a need for the financial entities held by the NOFHC to follow certain overarching principles in order to avoid round tripping of funds and to avoid circular movement of funds in the banking group, such as :

- (a) The financial entities held by NOFHC shall not have any credit and investments (including investments in the equity/debt capital instruments) exposure to the Promoters / Promoter Group entities or individuals associated with the Promoter Group or the NOFHC.
- (b) The financial entities held by NOFHC shall not make investment in the equity / debt capital instruments amongst themselves.
- (c) The entities held by the NOFHC cannot invest in equity instruments of other NOFHCs.

(J) Business Plan for the bank

¹⁷ Draft guidelines dated August 14, 2012

¹⁸ As indicated in paragraph 2 (I) (iii) (d) above, a bank cannot, invest in the equity of other NOFHCs

¹⁹ Please refer to the [circular DBOD.BP.BC.No.3/21.01.002/2004-05 dated July 6, 2004](#)

²⁰ Please refer to the current master circular DBOD. No.Dir.BC.3/13.03.00/2012-13 dated July 2, 2012

- (a) Applicants for new bank licences will be required to furnish their business plans for the banks along with their applications. The business plan will have to address how the bank proposes to achieve financial inclusion.
- (b) The business plan submitted by the applicant should be realistic and viable. In case of deviation from the stated business plan after issue of licence, RBI may consider restricting the bank's expansion, effecting change in management and imposing other penal measures as may be necessary.

(K) Other conditions for the bank

- (i) The Board of the bank should have a majority of independent Directors.
- (ii) Any acquisition of shares which will take the aggregate holding of an individual / entity / group to the equivalent of 5 per cent or more of the paid-up voting equity capital of the bank, will require prior approval of RBI.
- (iii) No single entity or group of related entities, other than the NOFHC, shall have shareholding or control, directly or indirectly, in excess of 10 per cent of the paid-up voting equity capital of the bank.
- (iv) Without prejudice to the requirements under paragraph 2 (I) (iii) (a), the bank shall maintain arm's length relationship with Promoter / Promoter Group entities, and the major suppliers and major customers of these entities.
- (v) In taking a view on whether an entity belongs to a particular Promoter Group or not or whether the entities are linked / related to the Promoter Group, RBI will be guided by the provisions of the Banking Regulation Act, 1949, Accounting Standards and other related factors. The decision of the RBI in the matter will be final.
- (vi) The bank shall comply with the priority sector lending targets and sub-targets as applicable to the existing domestic banks. For this purpose, the bank should build its priority sector lending portfolio from the commencement of its operations.
- (vii) The bank shall open at least 25 per cent of its branches in unbanked rural centres (population up to 9,999 as per the latest census) to avoid over concentration of their branches in metropolitan areas and cities which are already having adequate banking presence.

- (viii) The bank should operate on Core Banking Solutions (CBS) from the beginning with all modern infrastructural facilities.
- (ix) The bank should have a high powered Customer Grievances Cell to handle customer complaints.
- (x) Banks promoted by Groups having 40 per cent or more assets / income from non-financial business will require RBI's prior approval for raising paid-up voting equity capital beyond ₹10 billion for every block of ₹5 billion. RBI while examining such proposals would primarily look into whether the corporate governance standards are adequate, whether information from Promoter Group has been forthcoming to facilitate consolidated supervision and whether the Board members remain 'fit and proper'.
- (xi) The compliance of terms and conditions laid down by RBI is an essential condition of grant of licence. Any non-compliance will attract penal measures including cancellation of licence of the bank.

(L) Additional conditions for NBFCs promoting / converting into a bank

The Promoters / Promoter Groups with an existing NBFC, if considered eligible for a bank licence, will have three options:

- (a) Promote a bank, if some or all the activities undertaken by the NBFC are not permitted to be undertaken by banks departmentally. In such cases, the activities undertaken by the NBFC which banks are allowed to undertake departmentally, will have to be transferred to the new bank, or
- (b) Convert the NBFC into a bank, if all the activities undertaken by it are allowed to be undertaken by a bank departmentally. In such a case, the NBFC shall have a minimum networth of ₹5 billion, or
- (c) Convert the NBFC into a bank and divest the activities which banks are not allowed to undertake departmentally. In such a case, the bank shall have a minimum networth of ₹5 billion.

Under the above options, the Promoters will have to set up a NOFHC. The NOFHC and the bank set up under it should comply with all the requirements laid down in the guidelines. RBI will consider allowing the bank to take over and convert the existing NBFC branches into bank branches only in the Tier 2 to 6 centres. Existing branches

of the NBFC in Tier 1 centres may be allowed to convert into bank branches only with the prior approval of RBI and subject to the existing rules / methodology applicable to domestic banks regarding opening of branches in these centres and also subject to maintaining 25 per cent of the bank branches in unbanked rural centres (population up to 9,999 as per the latest census) required of all banks as specified in 2 K (vii) above.

3. Procedure for application

- (i) In terms of Rule 11 of the Banking Regulation (Companies) Rules, 1949 applications shall be submitted in the prescribed form (Form III). In addition, the applicants should furnish the requisite information as per the Annex II.
- (ii) Applications for setting up banks in the private sector, along with other details as mentioned above, should reach the following address on or before July 1, 2013.

The Chief General Manager-in-Charge,
Department of Banking Operations and Development,
Reserve Bank of India, Central Office,
12th Floor, Central Office Building,
Shahid Bhagat Singh Road,
Mumbai-400001

4. Procedure for RBI decisions

- (i) In view of the increasing emphasis on stringent prudential norms, transparency, disclosure requirements and modern technology, banks need to have strength and efficiency to work profitably in a highly competitive environment.
- (ii) Banking being a highly leveraged business, licences shall be issued on a very selective basis to those who conform to the above requirements, who have an impeccable track record and who are likely to conform to the best international and domestic standards of customer service and efficiency. Therefore, it may not be possible for RBI to issue licences to all the applicants meeting the eligibility criteria prescribed above.

- (iii) At the first stage, the applications will be screened by RBI to ensure *prima facie* eligibility of the applicants. RBI may apply additional criteria to determine the suitability of applications, in addition to the 'fit and proper' criteria prescribed at paragraph 2(B). Thereafter, the applications will be referred to a High Level Advisory Committee to be set up by RBI.
- (iv) The High Level Advisory Committee will comprise eminent persons with experience in banking, financial sector and other relevant areas. The constitution of the committee will be announced shortly.
- (v) The High Level Advisory Committee will set up its own procedures for screening the applications. The Committee will reserve the right to call for more information as well as have discussions with any applicant/s and seek clarification on any issue as may be required by it. The Committee will submit its recommendations to RBI for consideration. The decision to issue an in-principle approval for setting up of a bank will be taken by RBI. RBI's decision in this regard will be final.
- (vi) The validity of the in-principle approval issued by RBI will be one year from the date of granting in-principle approval and would thereafter lapse automatically. Therefore, the bank will have to be set up within one year of granting the in-principle approval.
- (vii) After issue of the in-principle approval for setting up of a bank, if any adverse features are noticed subsequently regarding the Promoters or the companies/entities with which the Promoters are associated and the group in which they have interest, the RBI may impose additional conditions and if warranted, it may withdraw the in-principle approval.
- (viii) In order to ensure transparency, the names of the applicants for bank licences will be placed on the RBI website after the last date of receipt of the applications.

Definitions

I. Promoter

Promoter means, the person who together with his relatives (as defined in Section 6 of the Companies Act, 1956), by virtue of his ownership of voting equity shares, is in effective control of the NOFHC, and includes, wherever applicable, all entities which form part of the Promoter Group.

II. Promoter Group

“Promoter Group” includes:

- (i) the promoter;
- (ii) relatives of the promoter as defined in Section 6 of Companies Act 1956; and
- (iii) in case promoter is a body corporate:
 - (A) a subsidiary or holding company of such body corporate;
 - (B) any body corporate in which the promoter holds ten per cent or more of the equity share capital or which holds ten per cent or more of the equity share capital of the promoter;
 - (C) any body corporate in which a group of individuals or companies or combinations thereof which hold twenty per cent or more of the equity share capital in that body corporate also holds twenty per cent or more of the equity share capital of the promoter;
 - (D) Joint venture (as defined in terms of AS 23) with the promoter;
 - (E) Associate (as defined in terms of AS 27) of the promoter;
 - (F) Related party (as defined in terms of AS 18) of the promoter; and
- (iv) in case the promoter is an individual:
 - (A) any body corporate in which ten per cent or more of the equity share capital is held by the promoter or a relative of the promoter or a firm or Hindu Undivided Family in which the promoter or any one or more of his immediate relative is a member;
 - (B) any body corporate in which a body corporate as provided in (A) above holds ten per cent or more, of the equity share capital;
 - (C) any Hindu Undivided Family or firm in which the aggregate shareholding of the promoter and his immediate relatives is equal to or more than ten per cent of the total; and
- (v) all persons whose shareholding is aggregated for the purpose of disclosing in the prospectus²¹ under the heading "shareholding of the promoter group";
- (vi) Entities sharing a common brand name with entities discussed in A, B, C, D, E, F where the promoter is a body corporate and A, B, C where the promoter is an individual;

Provided that a financial institution, scheduled bank, foreign institutional investor or mutual fund shall not be deemed to be promoter group merely by virtue of the fact that ten per cent or more of the equity share capital of the promoter is held by such institution.

²¹ As per SEBI (Issue of Capital & Disclosure Requirements) Regulations, 2009

Additional information to be furnished by the Promoters

1. Project Report

A project report covering business potential and viability of the proposed bank, the business plan, the product lines, proposed regional spread, level of information technology capability, and any other information that they consider relevant. The project report should give as much concrete details as feasible, based on adequate ground level information and avoid unrealistic or unduly ambitious projections. The business plan should address how the bank proposes to achieve financial inclusion.

2. Pattern of shareholdings and management

As the Promoters/ Promoter Groups are required to set up a bank through a wholly-owned Non-Operative Financial Holding Company (NOFHC), the applicants should furnish detailed information about the persons/entities, who would subscribe to the voting equity capital (shareholding pattern) of the proposed NOFHC and the bank, including foreign equity participation in the proposed bank.

Where the applicant belongs to an existing group, the details of ownership, management and corporate structure of all the entities in the group should be furnished, including an organogram showing shareholding and management.

3. Financial statements and credit information

Applications should also be supported by detailed information on the background of Promoters, their expertise, track record of business and financial worth, Memorandum and Articles of Association and latest financial statements of the Promoter entities for the past ten years, income tax returns for last three years, details of Promoters' direct and indirect interests in various entities/companies/industries, details of credit/other facilities availed by the Promoters/ Promoter entity(ies)/ other group entity(ies) alongwith details of the bank's/ financial institution's branches where such facilities were / are availed.

4. Any other information

The Promoters may furnish any other relevant information and documents supporting the applications. Further, the RBI may call for any other additional information, as may be required, in due course.
