

Prudential Regulation for Banks

Selected Issues



Volume: April 2024

Banking Regulation & Policy Department
Bangladesh Bank

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Volume: April, 2024

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Preface

Prudential Regulation is an effective tool for Central Bank to guide day to day operations of commercial banks, thus helps them to be in the right track. Prudential Regulation for Banks (Selected Issues), Volume: April 2024 is basically a summarized illustration of banking policy, regulation and guidelines issued time to time through different circulars and circular letters by Banking Regulation and Policy Department of Bangladesh Bank.

This volume of ‘Prudential Regulation for Banks’ covers selected major issues related to bank formation, operation, corporate governance, HR, security issues and other related concerns issued through different circulars and circular letters from 2014 to April 2024. Major issues of the previous volume of ‘Prudential Regulation for Banks’ have also been included in this volume with necessary updates. For more elaboration and detail understanding, the readers need to go through the relevant circulars, circular letters and guidelines available in Bangladesh Bank website.

We hope this publication will be a good source of information on banking and other related issues for both new entrants and existing workforce of banks, students, researchers, internal and external authorities as well as people in general.



(Saiful Islam)

Executive Director,
Bangladesh Bank

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Chapter-I

Corporate Governance

- **Board of Directors of a Bank Company:**
 - **Formation Board of Director,**
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 - **Appointment, Vacancy and Removal of Directors**
 - **Conduct of Meetings of Board and Sub-Committees**
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- **Appointment of Managing Director/CEO**
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- **Appointment of CFO and Chief Information Technology Officer**
- **Disclosure Regarding Family Business**
- **Transactions with Bank-Related Persons**

Board of Directors of a Bank-Company

The board of directors¹ of a bank needs to be comprised of competent and professionally skilled Individuals for formulating policy guidelines and conducting business activities of the bank efficiently, as well as ensuring good governance in banks. The responsibilities of the board of directors of a bank-company are more significant than those of other companies; as banks primarily handle entrusted funds of depositors', and in this regard, safeguarding the interests of depositors is imperative.

Formation of Board of Directors:

- (a) The Board of Directors of a bank-company shall consist of shareholder directors, nominated directors on behalf of shareholder institutions, and independent directors. Where it is applicable, alternate directors may also be members of the Board.
- (b) The maximum number of directors on the Board shall be 20 (twenty). Out of these 20, the number of independent directors shall not be less than 03 (three) and incase of number of directors on the Board less than 20 (twenty), the minimum number of independent directors shall be 02 (two).
- (c) Not more than 03 (three) members of the same family can hold the position of director in any bank-company at the same time.
- (d) Apart from these 03(three) directors of the same family, a nominated director can be appointed on behalf of a maximum 02 (two) institutions or companies closely related or controlled by the said family.
- (e) Not more than 1 (one) individual can be appointed as a nominated director on behalf of a shareholder institution or company.
- (f) An individual cannot be appointed as a nominated director in the Board on behalf of another individual shareholder (with a distinct natural personality).
- (g) Pursuant to Section 15KaKa of the Banking Companies Act, 1991, from January 28, 2018no individual can hold the position of a director in any bank-company for more than 12 (twelve) consecutive years. They will not be eligible for reappointment unless expiration of 03 years time after the completion of their tenure as director.
- (h) All directors will retire at the first annual general meeting of a bank-company. Subsequently, one-third of the directors, based on seniority, will retire at each annual general meeting. In this case, the provisions described in Article 80 of schedule 1 of the Companies Act, 1994, must be followed. Retiring directors will be eligible to be re-elected for reappointment as directors.

¹ **BRPD Circular No. 02 Dated 11 February 2024**

Qualifications and Eligibility of a Director:

To be appointed as a director in a bank-company, an individual must comply with the following qualifications and eligibility criteria:

- (a) The relevant individual must have at least 10 (ten) years of management or business or professional experience; The experience of an individual; gained before the age of 18 (eighteen), shall not be taken into consideration;
- (b) The minimum age of the relevant individual shall be 30 (thirty) years;
- (c) He/she has not been convicted of any criminal offense, neither involved in any fraud, financial crime, or any other illegal activities at present nor in the past;
- (d) There are no adverse observations/comments regarding him/her in any of the verdict published by criminal or civil court;
- (e) He/she has not been convicted for violation of any rules, regulations, policies, or laws of any regulatory authority related to the financial sector;
- (f) He/she was not associated with any company/entity whose registration/license has been revoked or the entity has been liquidated;
- (g) He/she is not a loan defaulter for any loan taken from any bank/financial institutions in his/her name or in the name of any entities related to him/her;
- (h) He/she does not hold the position of director or advisor/consultant or any other beneficial position in any other bank-company, financial institution, insurance company, or subsidiary company of those companies;
- (i) He/she does not hold the position of external auditor, legal advisor, advisor, consultant, or in any other beneficial position of the same bank-company;
- (j) He/she has not been declared insolvent by a court at any time;
- (k) He/she is not a tax defaulter personally or for his sole proprietorship or partnership firm;
- (l) In case of being employed in any position in the relevant bank company, a tenure of 5 (five) years must be passed after his/her resigning from the post;
- (m) If he/she was listed as a willful defaulter by any bank or financial institution established under the Finance Company Act, 2023, he/she shall not be eligible to become director of any bank until the expiration of 5 (five) years tenure of being removed from that list.

Appointment/ Re-appointment of Directors:

In accordance with Sub-section (04) of Section 15 of the Bank Company Act, 1991, prior approval from Bangladesh Bank is a must for all bank-companies (except specialized banks) to appoint/reappoint directors, who have been nominated in the board meeting or elected/ re-elected in the annual general meeting of the board. The date of appointment/ re-appointment shall be effective from the date of approval by Bangladesh Bank. For obtaining such prior approval, an application furnished with the prescribed documents/ papers/information must be submitted to Bangladesh Bank and signed by the chief executive/ managing director of the bank within 07 (seven) working days from the date of the relevant board meeting/annual general meeting.

Vacancy of Office of Director:

- (a) The office of director shall be vacated according to the provision specified in Section 108(1) of the Companies Act, 1994. Moreover, if any director fails to repay the advance or loan obtained from any bank or financial institution within two months of receiving notice from the Bangladesh Bank under Section 17 of the Bank Company Act, 1991, or provides false declarations/information to Bangladesh Bank at the time of appointment as a director, or if his eligibility is found to be deficient, the office of the director can be vacated or his appointment can be cancelled.
- (b) If the office of a director is vacated under Section 17 of the Bank Company Act, 1991, the individual will not be eligible to become a director of that bank company/any other bank company/financial institution within one year from the date of full repayment of the total amount due to the respective bank/financial institution. It is noteworthy that the dues have to be adjusted for the shares held by the director of that bank company. When a director receives notice under Section 17 of the Bank Company Act, 1991, he/she can't transfer his/her shares of that bank until all the debt owed to him/her by the relevant bank or financial institution is repaid. If a director, who has received notice, resigns from his office while the action of the notice is still in effect, the resignation will not be effective.
- (c) Besides, if any director of a bank company is listed as a willful defaulter, Bangladesh Bank can declare the office of director vacant in accordance with the provisions described in Section 27Kha of the Bank Company Act, 1991.

Removal and Appointment of a Director in Special Purposes:

- (a) According to Sub-section (4) of Section 15 of the Bank Company Act, 1991, prior approval from the Bangladesh Bank must be taken for removal of any director of a bank (other than specialized bank) from his office. Such removal will be effective from the date of approval granted by Bangladesh Bank.

- (b) If any director or chairman of a bank company is involved in malpractices detrimental to the interests of depositors or misuses bank's funds through related party transaction/ money laundering or is involved in terrorist financing/acts against public interest, Bangladesh Bank may remove him/her under Section 46 of the Bank Company Act, 1991, or dissolve the board of under Section 47 of the Bank Company Act, 1991.
- (c) Bangladesh Bank, under Section 45 of the Bank Company Act, 1991, may remove any director of the bank company with specific reasons stated, aimed at preventing actions detrimental to the interests of depositors or in the interests of the bank company or the public interest.
- (d) Bangladesh Bank may appoint any person as a director of any bank company considering his/her qualification and eligibility for appointment as director or construct a new board/reconstruct a board in accordance with the power conferred in Section 45 of the Bank Company Act, 1991, for the protection of the interests of the bank company or depositors, for specific/special reasons, or for the public interest.

Conduct of Meetings of Board and Sub-Committees:

- (a) The Board of Directors of the bank shall convene meeting once in each month or more than once if necessary;
- (b) The quorum for the meetings of the bank's Board of Directors shall be determined according to the bank's articles of association or memorandum of association.
- (c) For active participation and contribution of members in the Board meeting, delivery of the detailed memorandum (to be presented in the meeting) to each member at least 02 (two) days prior to the meeting must be ensured.
- (d) Any issue; not incorporated in the agenda, must not be considered by the board.
- (e) Note of dissent on any matter issued in the meeting, must be recorded in the meeting minutes.
- (f) Apart from the Board of Directors, managing director and the company secretary of the bank can be present at the board meeting.
- (g) In special circumstances, upon invitation from the board or its sub-committees, any bank employee may be present at the meeting only while issues relevant to him/her are being presented (not for the entire duration).
- (h) No external person, under any circumstances, can attend meetings of the board or its sub-committees.
- (i) Meetings of the Board of Directors, executive committees, audit committees, and risk management committees of the bank have to be held in the head office/ in the city of the

headquarter. However, if there is a special need to conduct a meeting outside the head office city/Dhaka, the application must be submitted to the Bangladesh Bank at least seven working days before the meeting for prior approval, mentioning the reasons behind it, the number/list of participants and the estimated expense. Any excessive expense other than the necessary expense for holding meetings outside the head office city/Dhaka must be avoided.

Directors' Honorarium and Benefits:

- (a) The maximum amount of honorarium for the directors attending the Board meeting/sub-Committee meeting shall be 10,000 (ten thousand) taka.
- (b) Independent directors shall receive a fixed honorarium of 50,000 (fifty thousand) taka (subject to applicable tax deductions) per month, in addition to the honorarium described above.
- (c) The number of meetings of the board and other committees of the Bank Company shall be kept limited. However, regardless of the number of meetings of the Board and other committees of Bank Company held in any month, directors shall be entitled to such honorarium for attending a maximum of 02 (two) meetings of the Board of Directors, 04 (four) meetings of the Executive Committee, 01 (one) meeting of the Audit Committee, and 01 (one) meeting of the Risk Management Committee.
- (d) The related instruction and guidelines of NBR should be followed and complied for tax deduction on the honorarium of directors for attending meeting and other committees' meetings of the bank.
- (e) Directors shall be eligible for hotel accommodation expenses for a maximum 02 (two) days and travel expenses while coming to the head office from any other location within the country to attend meetings of the board/sub-Committee.
- (f) Where foreign nationals hold directorship positions (other than non-resident Bangladeshis or dual citizens), they shall be eligible for hotel accommodation bills for a maximum 03 (three) days and two way airfare as traveling expense.
- (g) Non-resident Bangladeshi directors are allowed to attend maximum of 04 (four) meetings of the Board of Directors per year. They will be eligible for hotel accommodation bills for a maximum of 03 (three) days and two way airfare as traveling expenses.

Responsibilities, Authorities and Duties of the Board of Directors:

To ensure good governance in bank management, it is essential to have a specific demarcation of responsibilities and authorities among the board of directors and management committee over

the bank's affairs. In Sections 15Kha and 15Ga of the Bank Company Act, 1991, the board of directors is entrusted with adopting and implementing policies, risk management, internal audit and control, and ensuring their implementation.

a. Work-planning and Strategic Management:

- The board will determine the objectives and goals of the bank and adopt strategies and work-plans on an annual basis to achieve these goals. It shall review the progress of the implementation of the work-plans on a quarterly basis.
- The board shall have its analytical review incorporated in the Annual Report on the success/failure in achieving predetermined business and other targets as set out in its annual work-plan and shall apprise the shareholders about its recommendations on future plans and strategies. It shall set the Key Performance Indicators (KPIs) for the CEO & officers in the immediate two tiers below the CEO, and have it evaluated from time to time.

b. Credit and Risk Management:

- The policies, strategies, etc. with respect to the appraisal of loan/investment proposals, sanction, disbursement, recovery, reschedule, and write-off thereof shall be formulated with the board's approval under the purview of the existing laws, rules, and regulations. The board shall specifically delegate the authority of loan/investment approval to the CEO and his subordinate executives as much as possible.
- The board shall frame policies for risk management. It will inspect on a quarterly basis whether these policies are properly implemented; review the concerned report of the risk management committee, and ensure compilation in the minutes of the board meeting. The board shall monitor whether the key risk management guidelines of Bangladesh Bank are being properly complied with.

c. Internal Control Management:

The board will establish such an internal control system so that the internal audit process can be conducted independently of management. It shall review the reports submitted by its audit committee at quarterly rests regarding compliance with recommendations made in internal and external audit reports and the Bangladesh Bank inspection reports.

d. Human Resource Management and Development:

- Policies related to recruitment, promotion, transfer, disciplinary and punitive measures, incentives, human resources development, etc. and service rules shall be formulated and approved by the board. No member of the board of directors shall be included in the selection committees for recruitment and promotion at different

levels. Recruitment, promotion, transfer, disciplinary, and punitive measures of the officers' immediate two tiers below the CEO of the banks (except state-owned banks) shall rest upon the board. In case of state-owned bank these will be governed by the prevailing approved policies of the Financial Institutions Division of the Ministry of Finance periodically.

- The board shall put its special attention on training, adoption of modern electronic & information technologies and the introduction of effective Management Information System (MIS) for skill development of bank employees/staff and shall incorporate these programs into its annual work plan.
- The board will establish a Policy of integrity, ethics and code of conduct for officials and employees at all levels, which all employees will adhere to properly.

e. Financial Management:

- The annual budget and the statutory financial statements shall be finalized with the approval of the board. It shall quarterly review the positions in respect of the bank's income, expenditure, liquidity position, overdue/non-performing loans, capital base and adequacy, maintenance of loan loss provision, and steps taken for recovery of defaulted loans, including legal measures.
- The board shall frame the policies for bank's purchase and procurement activities adhering to the laws and regulations prevalent in the country and shall accordingly approve the distribution of power for making such expenditures.
- The board will periodically review the whether an Asset-Liability Committee (ALCO) has been formed and whether it is working as per Bangladesh Bank guidelines.

f. Appointment of Managing Director/CEO:

The Board of Directors will appoint a suitable CEO/Managing Director with the prior approval of Bangladesh Bank in line with prevailing instructions time to time.

g. Other Duties and Responsibilities of the Board:

The board should follow and comply with all other duties and responsibilities assigned by BB.

Responsibilities of the Chairman and Directors:

- (a) The chairman will be elected from the members of the board for a period of 2 (two) years. Considering his tenure as director, he will be eligible for re-election as chairman.

- (b) As the chairman of the board of directors or chairman of any committee formed by the board or any director does not individually or personally possess the jurisdiction to apply policy making or executive authority, he/she shall not participate in or interfere in the administrative or operational and routine affairs of the bank.
- (c) The chairman may be offered an office-room, a personal secretary/assistant, one peon/MLSS, one telephone at the office, one mobile phone to use inside the country, and a vehicle in the business-interest of the bank, subject to the approval of the board.

Independent Directors:

Provision of appointing Independent Director, as the representative of depositors in the board of directors, is essential for attaining trust of the depositors as well as protecting their common interest. Bangladesh Bank issued a clear directive² in 2024 regarding appointment of independent director. As per Bank Company Act 1991 (amended up to 2023)³ an independent director will be such a person who is different from the director/ share holder of a bank company having no affiliation/ personal interest with the bank or its related parties in the past/ present or even in the future. A board of directors of maximum twenty (20) members must have minimum three (03) independent directors. On the other hand, the number of independent directors will be minimum two (02) for the board of directors having less than twenty (20) members. The additional qualification of independent director is as follows:

- (a) To be appointed as an independent director, the relevant individual must have a minimum of 10 (Ten) years' experience in management/business/professional.
- (b) For carrying out the duties as an independent director, the relevant individual must be at least 45 (forty-five) years old and a maximum of 75 (seventy-five) years of age.
- (c) He/she must hold a graduate/postgraduate degree in Economics, Banking, Finance, Business Administration, Law, Accounting, or Cost Accounting from any recognized university. For the appointment of independent directors in newly established digital banks, higher education on Information Technology shall be considered an additional qualification.
- (d) Experienced teachers of the Faculty of Business Studies or Business Administration, Management, Law, and Information Technology of government or private or autonomous universities, individuals engaged in legal professions, individuals with professional degrees in accounting, experienced bankers and officials from the Ministry of Commerce, the Finance Division and Financial Institutions Division of the Ministry of Finance, the Ministry of Industry, and the Law Ministry will be given priority.

² BRPD Circular No. 03 Dated 14 February 2024

³ Sub-section (09) of section 15 of Bank Company Act 1991 (amended up to 2023)

- (e) No individual who is/was/will be involved in any actual or apparent interest in any bank or bank-related person in the past, present, or future shall be eligible to be an independent director of that bank.
- (f) No family members of the individual nominated to be appointed as independent director shall hold shares in the respective bank company or be appointed to any profitable position in the said bank company.
- (g) An individual nominated as an independent director cannot serve as a director on behalf of any other bank company, financial institution established under the Finance Company Act, 2023, insurance company, or any subsidiary company of such companies. Furthermore, nominated independent directors cannot serve as directors on behalf of a company or institution that exercises control, joint control, or significant influence over the bank, financial institution, or insurance company.
- (h) The nominated independent director has not been involved in any illegal activities in banking or during his/her own profession.
- (i) The nominated independent director has not ceased payment to any creditor, has not been exempted from collection of dues through a compromise with the creditor, or is not a loan defaulter.
- (j) A nominated independent director cannot be a tax defaulter.

Roles, Responsibilities and Accountabilities of the Independent Director:

- (a) He/she will ensure proper compliance with the Bank Company Act, 1991, and other acts, rules and regulations relevant to the management of the bank.
- (b) He/she will appropriately inform Bangladesh Bank of any information regarding violation of the Bank Company Act, 1991, or any other Act/regulation by the board of directors.
- (c) He/she will participate in board meetings and provide thoughtful opinions on the memorandum presented at board meetings. If any memorandum is presented by the independent director, it must be considered important by the board.
- (d) If he/she is included in any sub-committees of the board he/she will properly fulfill the roles, responsibilities, and directives of those committees' as member.
- (e) If the opinion of the independent director is not given appropriate importance by the board or its sub-committees, or if any inappropriate practice is observed in banking operations, he/she will inform the Banking Regulation and Policy Department, including the Department of Offsite Supervision of the Bangladesh Bank, in writing.
- (f) If any complaint is substantiated against the independent director or if adverse opinions regarding negligence in his/her duties are found in any inspection conducted by the Bangladesh Bank, action will be taken against him/her in accordance with the Bank Company Act, 1991.

- (g) The Chairman/President of the Audit Committee must be elected from the independent directors. The term of the Chairman/President of the Audit Committee shall be three (3) years. An independent director cannot hold the position of Chairman/President of the Audit Committee consecutively for two terms.
- (h) He/she shall always strive for the protection of the interests of depositors and ordinary shareholders (excluding directors) on the board.

Term and Removal of Independent Directors:

- (a) Independent directors shall generally be appointed for a term of 3 (three) years, and after completion of the term, he/she may be elected to be re-appointed for the next term in accordance with Section 15 of the Bank Company Act, 1991.
- (b) The Board of Directors may request to the Bangladesh Bank for the removal of the relevant independent director by mentioning specific reasons.
- (c) Independent director may resign from the position by giving 7 (seven) days' notice.
- (d) Bangladesh Bank may remove any independent director by mentioning specific reasons.

Alternative Director:

If any director of a bank company remains abroad for consecutive 3 (three) months, an alternative director may be appointed in compliance with Section 101 of the Companies Act, 1994, for once in a year for the tenure of maximum 3 (three) months. The provisions regarding the qualification and eligibility for the appointment of directors will be applicable for the appointment of an alternative director too. Any loan defaulter or any person who is not eligible to become a director under the Bank Company Act, the Company Act or any other law or regulation or rules will not be appointed as an alternate director. Since, an alternate director is appointed for a temporary period; he/she cannot be included in any sub-committee constituted of the Board. During his tenure of alternate directorship, he/she or his/her affiliated organization will not get any kind of loan facilities or enhancement of limit or extension of time period or any kind of exemption of interest calculation or interest waiver of previous loan from his bank.

Board Committees:

Each bank company's board of directors can form 1 (one) executive committee, 1 (one) audit committee and 1 (one) risk management committee with its members. Apart from these three committees, no permanent or temporary committee or sub-committee can be formed by the board.

a) Executive committee:

Executive committee should be formed with the members of the board for the purpose of continuing the urgent and daily/routine works in between the intervals of board meetings.

- **Organizational Structure:**

- i) The members of the committee will be nominated by the board of directors from themselves;
- ii) The executive committee will consist of a maximum 07 (seven) members.
- iii) One chairman/president of the committee shall be elected from the members for a period of 3 (three) years.
- iv) Members may be appointed for a period of 3 (three) years.
- v) Chairman of the Board of Directors may also serve as the chairman/president of executive committee;
- vi) Not more than one member of the same family can be included in the executive committee.
- vii) Company secretary of the bank will be the secretary of the executive committee.

- **Qualifications of the Members:**

- i) Integrity, dedication, and the opportunity to spend time for the functioning of the committee must be considered while nominating a director to the committee.
- ii) Individuals who are capable of contributing effectively and efficiently to the committee's functions should be appointed as members.
- iii) Committee members must have a thorough understanding of the Bank Company Act, 1991, other Acts and regulations related to banking operations, banking business, management of banks, various risk factors, and the duties & responsibilities of members of the committee. In case of digital bank, at least one person with expertise in ICT matters must be included as a committee member.

- **Roles and Responsibilities of the Executive Committee:**

- i) As instructed by the Board of directors, the executive committee can decide or can act in those cases that are not specifically assigned on full board through the Bank Company Act, 1991 and other laws and regulations.
- ii) The executive committee can take all necessary decisions or approve cases within the power delegated by the board of directors.
- iii) All decisions taken by the executive committee should be ratified at the next board meeting.

- **Meetings of the Executive Committee:**

- i) The committee may invite the Chief Executive Officer, Head of Internal Audit, or any other Officer to its meetings, if it deems necessary.
- ii) To ensure active participation and contribution by the members at every meeting, a detailed memorandum should be distributed to committee members at least 2 (two) days prior to each meeting.

- iii) All recommendations/observations of the committee should be incorporated in the minutes.
- iv) If any note of dissent is issued on any matter, it must be recorded in the minutes of the meeting.

b) Audit Committee:

The board will approve the objectives, strategies and overall business plans of the bank and the audit committee will assist the board in fulfilling its oversight responsibilities. The committee will inspect/review the inspection process of financial reporting, internal control system, the audit process and the bank's operations being conducted within the existing Acts and laws & regulations imposed by the regulatory authorities and its own code of business conduct.

- **Organizational Structure:**

- i) The audit committee will comprise of a maximum 05 (five) members, among whom at least 2 (two) independent directors will be included.
- ii) One chairman/president of the audit committee will be elected from the independent directors.
- iii) The tenure of the chairman/president of the audit committee will be 3 (three) years. An independent director cannot serve consecutively for two terms as the chairman/president of the audit committee.
- iv) No member of the executive committee can be included as a member of the audit committee.
- v) Members may be appointed for a period of 03 (three) years;
- vi) Company secretary of the bank will be the secretary of the audit committee.

- **Qualifications of the Members:**

- i) Individuals who are capable of contributing effectively and efficiently to the committee's functions should be appointed as members.
- ii) Committee members must have a thorough understanding of the Bank Company Act, 1991, relevant other Acts and regulations related to banking operations, auditing, banking business, management of banks, various risk factors, and the duties & responsibilities of members of the committee.
- iii) Individuals with practical experience in the field of banking operations, especially those with educational qualifications in Accounting, Cost Accounting, Finance, Banking, Management, and Economics, should be given priority in forming the committee. In the case of a digital bank, at least one person with expertise in ICT matters must be nominated as a committee member.

- **Roles and Responsibilities of the Audit Committee:**

- **Internal Control:**

- i. The Audit Committee will evaluate whether management has been able to set the appropriate compliance culture, whether clear directives have been given to the bank's officials/employees regarding their roles and responsibilities and whether there is full compliance and control over their work;
- ii. The Audit Committee will review whether the recommendations made periodically by internal and external auditors on internal control strategies/framework, have been implemented by the management and provide necessary guidance;
- iii. The Audit Committee will regularly update the board about irregularity, fraud, forgery, and weaknesses in internal control detected by internal and external auditors and inspecting team of the regulatory authority or the corrective actions taken regarding similar issues detected by them.

- **Financial Reporting:**

- i. The audit committee will check whether the financial statements reflect the comprehensive and concrete information and determine whether the country's prevailing rules & regulations and accounting standards, as well as the relevant accounting standards prescribed by the Bangladesh Bank in this regard, have been followed in preparing the financial statements.
- ii. The audit committee will discuss with the inspection team of the Bangladesh Bank, the external auditors and management to review the financial statements before its finalization.

- **Internal Audit:**

- i. The audit committee will ensure whether internal audit working independently from the management.
- ii. The audit committee will review the activities of the internal audit and the organizational structure.
- iii. The Audit Committee will assess the efficiency and effectiveness of internal audit function and recommend necessary measures accordingly;
- iv. The Audit Committee will also verify whether the findings/recommendations made by the internal auditors regarding regularizing irregularities detected by them, management of the bank's operations etc. are being properly addressed by the bank management and provide necessary guidance.

▪ **External Audit:**

- i. The Audit Committee will review audit activities conducted by the external auditors and their audit reports;
- ii. The Audit Committee will also verify whether the findings/recommendations of the external auditors on regularizing irregularities, fraud and forgeries detected by them and the management of the bank's operations are being properly considered by the management authorities or not.
- iii. The Audit committee will recommend regarding the appointment of the external auditors from the list of external auditors announced by the Bangladesh Bank from time to time.

▪ **Compliance with existing laws and Regulations:**

The Audit Committee will review whether banking laws, rules & regulations, policies and guidelines issued by regulatory authorities (Central Bank and other institutions), and internal policies approved by the Board are being properly complied with.

▪ **Other Responsibilities:**

- i. The Audit Committee will submit compliance report to the board on quarterly basis on regularization of the irregularity, fraud and forgeries detected by the internal and external auditors and inspection team of the Bangladesh Bank and directions described in any observation;
- ii. External and internal auditors will submit their related assessment report, if the committee solicit;
- iii. The committee will evaluate any matter as desired lawfully by the Board of Directors and submit a report/recommendation on it.

• **Meetings of the Audit Committee:**

- i. The audit committee should hold at least 4 meetings in a year and it can sit any time as it may deems necessary;
- ii. The committee may invite the Chief Executive Officer of the bank, the officer in charge of internal audit, or any other official to its meetings, if it deems necessary;
- iii. To ensure active participation and contribution by the members at every meeting, a detailed memorandum should be distributed to committee members at least 2 (two) days prior to each meeting.
- iv. All recommendations/observations of the committee should be noted in minutes.

c) Risk Management Committee:

A risk management committee will be formed to play an effective role in mitigating impending risks arising out from strategies and work plans formulated by the Board of Directors of the bank company and to carry out the related roles and responsibilities effectively/efficiently. The Risk Management Committee will scrutinize whether risk management measures are taken and applied against the identified and assessed risk factors, whether adequate capital and accurate provision are maintained against them and therefore, will provide necessary directions for risk reduction.

- **Organizational Structure:**

- i. The members of the committee will be nominated by the board of directors from themselves;
- ii. The risk management committee will comprise of maximum 05 (five) members.
- iii. Chairman/president of the committee will be elected from the members for period of 03 (three) years.
- iv. Members may be appointed for a period of 03 (three) years;
- v. Company secretary of the bank will be the secretary of the risk management committee.

- **Qualifications of the Members:**

- i. Integrity, competence, dedication, and opportunity to spare time for the functionality of the committee must be considered while nominating a director of the committee;
- ii. Individuals who are capable of contributing effectively and efficiently to the committee's functions should be appointed as members.
- iii. Committee members must have a thorough understanding of Bank Company Act, 1991, other Acts, rules and regulations relevant to the banking operations, banking business, management of banks, various risk factors, and the duties & responsibilities as member of the committee. In case of digital bank, at least one person with expertise in ICT matters must be nominated as a committee member.

- **Roles and Responsibilities of the Risk Management Committee:**

- **Risk Identification & Control Mechanisms:**

The responsibility of the Risk Management Committee is to ensure adoption and implementation of appropriate mechanisms for identification of risks associated with the bank's operations and its control. The Risk Management Committee will review and revise the bank's risk management policy and procedures if necessary.

▪ **Preparation of Organizational Structure:**

The responsibility of the Risk Management Committee is to ensure an adequate organizational structure for controlling risk within the bank.

▪ **Review and Approval of Risk Management Policy:**

The Risk Management Committee will review the bank's risk management policies and guidelines at least once a year; it will propose amendments if necessary and present them to the Board of Directors for final approval.

▪ **Storage of Data & Reporting System:**

The Risk Management Committee will approve the data storage and reporting system developed by the bank management by scrutinizing them, and will ensure that these systems are being properly implemented.

▪ **Monitoring the Implementation of Comprehensive Risk Management Policy:**

The Risk Management Committee will monitor whether the Comprehensive Risk Management Policy of the bank is being properly implemented. It will ascertain whether necessary steps have been taken to mitigate various risks, including credit risk, market risk, and operational risk.

▪ **Other Responsibilities:**

- i. The decisions and recommendations of the committee shall be presented to the Board of Directors in summarized form on quarterly basis.
- ii. The Risk Management Committee shall comply with instructions issued from time to time by the controlling authority regarding various risk-related matters in banking operations;

• **Meetings of the Risk Management Committee:**

- i. The committee shall convene meetings at least 4 (four) times a year and may arrange meetings at any time as necessary.
- ii. The committee may invite the Chief Executive Officer, Chief Risk Officer or any other Officer to its meetings if it deems necessary.
- iii. To ensure active participation and contribution by the members at every meeting, a detailed memorandum should be distributed to committee members at least 2 (two) days prior to each meeting
- iv. All recommendations/observations of the committee should be noted in the minutes.

Significant Shareholders of a Bank-Company

In line with the provision⁴ of Bank-Company Act, 1991, Bangladesh Bank issued instruction⁵ on the process of becoming significant shareholders of a bank company. As per the instruction, for becoming a significant shareholder (holding more than five percent of the equity interest) of a bank-company prior approval from Bangladesh Bank is a must. Any individual/institution/company intending to be Significant Shareholder(s) of a bank-company has to apply in a prescribed form for prior approval of Bangladesh Bank and sent it with continuation sheets for additional information (if any) to the concerned Bank-company. The Bank-company will transcribe the information contained in the Form and their respective continuation sheets, if any, to Bangladesh Bank for approval. A bank-company/institution providing custodial services does not require prior approval of Bangladesh Bank even if their collective shareholding, on behalf of customers exceeds five percent of the shares of a bank-company. However, if any single customer wants to hold more than five per cent shares of a bank-company; prior approval from Bangladesh Bank has to be obtained. Previously, before the issuance of this circular, no approval from Bangladesh Bank was required for becoming significant shareholder(s) of a banking company but banks had to submit their detailed information to BB.

⁴ Section 14 Kha of sub-section (1) of the Bank-Company Act, 1991

⁵ BRPD Circular No. 15 Dated 3 November 2014

Appointment of Managing Director/CEO

Appointment of a suitable, professionally competent and experienced Managing Director (MD) or Chief Executive Officer (CEO) is mandatory to ensure good governance in banking sector. The management and operation of a bank company face more challenges than ever to combat increasing business and technological risks. In this context, clear guidelines, for appointing Managing Directors (MD) or Chief Executive Officers (CEO) in banks, becomes the demand of time which led Bangladesh Bank to issue clear policy⁶ for appointment of MD/CEO.

Eligibility Criteria for Appointment/ Re-appointment of MD/CEO:

For appointed/ reappointed as MD/CEO, an individual must have the following qualifications and eligibility:

a. Characteristics and Moral integrity:

- i. The individual is not convicted by any criminal court, neither involved in any fraud, financial crime and other illegal activities at present nor in the past;
- ii. There are no adverse observations/comments regarding him/her in any of the verdict published by criminal or civil court;
- iii. He/she has not been convicted for any violation of rules, regulations, or laws of any regulatory authority;
- iv. He/she was not associated with the ownership of any company or entity whose registration or license has been revoked or the company or entity has been liquidated;
- v. He/she was not involved in any company or financial institution as an employee whose registration or license has been cancelled or revoked due to his/her direct or indirect criminal offenses.
- vi. He/she has not been removed or dismissed/terminated or downgraded or relieved from his/her own position as chairman/director /employee /staff of any company or institution due to financial embezzlement, corruption, fraud forgeries, or ethical violations.
- vii. He/she has not been removed or dismissed/terminated/ downgraded /relieved from while serving as a chief executive /chairman/ director/ employee /any other position of any bank company or any other financial institution.
- viii. There is no adverse observation raised against him/her in any on-site or off-site inspection of the Bangladesh Bank.

⁶ BRPD Circular No 05 Dated 27 February 2024

b. Financial Integrity:

- i. He/she is not a defaulter for loans taken from any bank/financial institution.
- ii. He/she has not ceased payment to any creditor or has not been exempted from payment of dues through compromise with the creditor.
- iii. He/she is not a tax defaulter.
- iv. He/she has not been declared bankrupt by a court at any time;
- v. He/she has not been involved in any illegal activities or during his/her tenure in a bank or financial institution in his/her professional capacity.

c. Educational Qualifications, Suitability, and Experience:

- i. He/she must at least have a post-graduate degree from any recognized university. Higher academic or professional education in the fields of Economics, Accounting, Finance, Banking, Management or Business Administration will be treated as additional qualifications for the concerned person. Greater importance has to be given to higher education on information technology for the appointment of Chief Executive Officers of digital banks.
- ii. He/she must not have a third division or class at any stage of his/her academic life. In the case of published results under the grading system, if the GPA is less than 3.00 for SSC or equivalent and HSC or equivalent, and if it is less than 2.50 on a 4.00-point scale or less than 3.00 on a 5.00-point scale as CGPA provided by any recognized university, it will not be acceptable. In the case of degrees obtained from abroad, result (class/division/GPA) must be approved and equivalent by competent authority.
- iii. He/she cannot serve as a director in any bank company, financial institution established under the Finance Company Act, 2023, insurance company, or any controlled entity of such companies, or be appointed to any profitable position in such entities.
- iv. He/she cannot be engaged in any other business or profession.
- v. He/she cannot have any business interests in the relevant bank.
- vi. He/she cannot have any association with an entity that is owned by or a related party to or a controlled entity of the bank director.
- vii. No member of his/her family can be included on the bank's board of directors.
- viii. For the appointment as chief executive officer, the concerned person must have 20 (twenty) years of experience in the banking profession as an active officer, including at least 02 (two) years of experience in a post immediately below that of the chief executive officer of a bank.

Age Limit:

The minimum age of the concerned person will be 45 (forty-five) years, and any individual exceeding the age of 65 (sixty-five) years cannot hold the position of Chief Executive Officer of any bank-company.

Designation:

In order to bring parity/conformity to the top executive position in the banking sector of the country, the designation of the top executive officer of bank-companies shall be referred to as "Managing director or Chief Executive Officer". However, the designation of the local top executive officer of foreign bank-companies in Bangladesh may be determined in accordance with the directives of the respective bank's head office. In such cases, utmost efforts must be given to maintain consistency with the designation of top executive officers of domestic banks.

Tenure of Appointment:

The tenure of appointment of the Chief Executive Officer shall generally be 3 (three) years, but he/she shall be eligible for reappointment on condition that he has more than 3 years left for becoming 65 years old. However, the bank will appoint the candidate for the period for which he/she will be recommended based on examination of his/her suitability through the interview conducted by the Bangladesh Bank, regardless of the bank's proposed tenure.

Performance Indicators for Appointment/Reappointment:

At the time of appointment/reappointment of the CEO, specific targets for reduction of non-performing loans of the bank and recovery of written-off loans must be set, and progress have to be reviewed periodically. Additionally, specific financial and managerial improvement provisions, as well as other performance indicators must be included to evaluate the performance of the appointed individual. Moreover, any special responsibilities or targets determined by Bangladesh Bank from time to time in the interest of depositors, the bank, or the public have to be included as performance indicators in the appointment/reappointment process.

Determination of Salary, Allowances and Other Benefits:

Following issues determine fixation of salary/allowances of the CEO:

- i. Financial condition, scope of operation, business-volume and general trend of earning capacity of the bank;
- ii. Number of branches, sub-branches, agent banking, and regional offices of the bank;
- iii. Qualifications, age, experience and past achievement of the candidate;
- iv. Salary and allowances paid to other officers of the bank-company or CEO of other peer bank-companies;
- v. Direct salary and allowances will include "basic salary" and "house rent" and by adding other allowances (if any) with it, total salary and allowances will be determined.

- vi. Other allowances such as utility bills, medical expenses and insurance premiums must have specific amount/limit. Besides, others provided benefits (e.g., car, fuel, driver, etc.) must be monetized to the utmost and thus will determine the monthly total salary.
- vii. Festival bonus shall be a maximum of two, and each one will not be more than one month's basic salary;
- viii. Leave-fare assistance shall not exceed one month's basic salary;
- ix. The term must be imposed so that no condition regarding salary and allowances stated in the appointment letter of the chief executive can be changed during the tenure. In case of renewal, proposal may be made for re-fixation of the salary and allowances considering the job performance of the incumbent chief executive.
- x. The chief executive officer shall not receive any other indirect benefits such as dividends against the bank's profit, commissions, club fees/expenses, foreign medical expenses or annual medical check-ups expenses, foreign medical expenses for family members, travelling allowances for himself or family members in case of personal purposes. However, in the case of receiving medical treatment abroad for his/her own (in any Asian country), based on the certification of a specialist physician that the treatment in the country's medical facilities is not sufficient, he/she may avail medical treatment abroad;
- xi. The chief executive officer will not be eligible for annual salary increase or increment, provident fund, gratuity, New Year bonus, leave encashment, superannuation fund, benevolent fund benefit as it's a contractual appointment.
- xii. The bank shall not pay any income tax against the salary and allowances of the chief executive officer, meaning the appointed individual must have to pay income tax from his/her own source;
- xiii. In the proposal for appointment, the amount of annual leave (including types of leave) to be availed by the chief executive officer must be clearly mentioned;
- xiv. The chief executive officer shall not be eligible for any other direct or indirect benefits other than the salary and allowances mentioned above.

Incentive Bonus:

If incentive bonus is provided to the general employees/staffs of the bank, the chief executive officer of the bank will be eligible for incentive bonus. However, the amount of the incentive bonus provided to the chief executive officer shall not be more than 15 (fifteen) lac taka in a year. Furthermore, it is also provided that no other employee of the bank shall receive an incentive bonus exceeding the limit specified for the chief executive officer.

Honorarium for Attending Board Meetings:

As the chief executive officer is a salaried employee of the bank, the CEO will not be eligible to receive any honorarium for attending meetings of the board or committees formed by the board.

Approval of Bangladesh Bank for Appointment of MD/CEO:

1. In accordance with Sub-sections (4) and (5) of Section 15 of the Bank Company Act, 1991, prior written approval from the Bangladesh Bank must be obtained for the appointment/reappointment of the Managing director or Chief Executive Officer of bank-companies. The prescribed documents and information must be attached along with the proposal for the appointment or reappointment of the managing director.
2. In order to ensure good governance and protect of depositors' interests, Bangladesh Bank shall give approval for appointments/reappointments based on the recommendations of the committee formed under the leadership of the deputy governor of Bangladesh Bank in order to check the qualification and suitability of the nominated individual(s) of the bank, through taking interviews by the committee. In case the qualifications, suitability, commitment to responsibilities, experience, and leadership qualities of the nominated individual does not seem satisfactory and acceptable, Bangladesh Bank will communicate the Chairman of the respective bank through a written letter mentioning the reasons for the non-approval.

Evaluation Committee for Appointment/Reappointment of MD/CEO:

With a view to check the qualifications, suitability, commitment to responsibilities, experience, age and leadership qualities⁷ of the nominated individual(s) through an effective interview, a committee consists of following 04 (four) members has been formed :

SL	Committee Members	Responsibility
1.	Deputy Governor (In Charge of Banking Regulation and Policy Department)	Chairman
2.	Executive Director (In charge of Banking Regulation and Policy Department)	Member
3.	Executive Director (In charge of Department of Off-site Supervision)	Member
4.	Director (Banking Regulation and Policy Department, Division-2)	Member & member Secretary

Terms of reference of the committee:

- i. The committee has to assess the candidate(s)'s qualifications and suitability in accordance with the Bank-Company Act of 1991, BRPD Circular No-05/2024 and directives provided in other circulars/circular letters issued by the Bangladesh Bank.

⁷ BRPD Circular Letter No 12 Dated 03 January 2024

- ii. The committee has to assess the candidate(s)'s commitment to responsibilities, experience, competence, age, and leadership qualities.
- iii. If the nominated individual(s) previously was/were MD/CEO, the committee has to evaluate his/her/their performance at that time.
- iv. The committee has to assess the work/business plan signed by the nominated person about how he/she will contribute to the overall condition of the relevant bank, remove existing constraints, maintain loan discipline, foster development, the excellence, technology, innovation, overall depositors' confidence, and customer service enhancement.
- v. The committee has to arrange the hearing of the CEO in case he/she applies for resignation due to personal or any other reason before the expiration of the contract and make a recommendation to dispose of the issue.
- vi. The committee has to submit a comprehensive report with recommendations regarding the appointment of a MD/CEO.

Evaluation Report:

In case of reappointment of the Chief Executive Officer, evaluation report must be submitted to Bangladesh Bank by the chairman and approved by the Board of Directors. In this case, the following matters must be considered:

- i. Achievement of pre-determined targets for recovery of defaulted and written-off loans;
- ii. Progress report on achieving assigned tasks/targets set by Bangladesh Bank during his/her tenure of appointment;
- iii. Description of the achievement of specific financial, business, and management growth provisions and the growth in the bank's main financial indicators such as CAMELS.

Ex-Bangladesh Travel:

The Chief Executive Officer of the bank shall avoid staying outside of Bangladesh for a long period of time as much as possible. If ex-Bangladesh travel is necessary, an application must be submitted before 10 (ten) working days of the departure to obtain prior approval from Bangladesh Bank. The prescribed information and documents (certified by the company secretary) must be submitted along with the proposal to obtain prior approval from Bangladesh Bank for ex-Bangladesh travel. If the application for proposed ex-Bangladesh travel is approved by Bangladesh Bank, the name, designation, official phone number, cell phone number, and email address of the person who will be on charge in the absence of the Chief Executive Officer must be informed in writing to the Banking Regulation and Policy Department (Division-2) before the station leave of the Chief Executive Officer.

Termination/dismissal/removal of CEO and fulfillment of the vacant post:

- i. If a Chief Executive Officer has not performed his duties with gross aberration, he cannot be terminated before the expiry of the contract or the contract cannot be cancelled.
- ii. If the Board of Directors of the bank wishes to cancel the contract of the Chief Executive Officer or terminate him/her before the expiry of the employment contract, a proposal mentioning the specific reasons must be sent to Bangladesh Bank for approval. If Bangladesh Bank approves the proposal, it shall become effective one month after approval. However, if Bangladesh Bank rejects such a proposal, the concerned Chief Executive Officer shall continue in his/her position until the remaining period of his/her contract.
- iii. If the Chief Executive Officer applies for resignation due to personal or any other reason before the expiration of the contract, such an application, along with recommendations from the Board of Directors, must be sent to Bangladesh Bank. The decision given by Bangladesh Bank based on the recommendation provided by the committee of Bangladesh Bank formed for the appointment of Chief Executive Officer after his/her personal hearing will be considered conclusive.
- iv. In accordance with Sections 45 or 46 of the Bank Company Act, 1991, Bangladesh Bank may terminate/dismiss/remove a Chief Executive Officer of any bank at any time mentioning specific reason.
- v. If the Chief Executive Officer voluntarily resigns, or if the position becomes vacant after expiry of the term or for any other reason, in accordance with Section 15Ka(1) of the Bank Company Act, 1991, the board will appoint a qualified officer (in case of multiple officers, the relative senior officer) from immediately below of the CEO as an acting Chief Executive Officer for a maximum period of 3 (three) months, and he/she will perform the overall responsibilities of the Chief Executive Officer of the bank.
- vi. The position of Chief Executive Officer cannot remain vacant for more than 3 (three) months at a time, and if the Chief Executive Officer position is not filled within the mentioned period, Bangladesh Bank may appoint an administrator to the bank according to Section 15Ka(3) of the Bank Company Act, 1991.
- vii. The aforementioned directives shall also be applicable in the case of foreign banks' local managing directors or chief executive officers.

Managing Directors/CEOs of Foreign Banks Operating in Bangladesh:

The local managing directors or chief executive officers of foreign banks operating in Bangladesh shall not be considered the Chief Executive Officer of the respective banks. As they shall be considered the local managing directors or chief executive officers for the operations of the bank in Bangladesh, their appointment policy will be as follows:

- i. In case of the appointment/ reappointment of local MD/CEO of all foreign banks operating in Bangladesh, prior approval from Bangladesh Bank must be taken in accordance with Section 15(4) of the Bank Company Act, 1991. For the appointment of a foreign national to the position of local Chief Executive Officer, they have to obtain a work permit from the Bangladesh Investment Development Authority (BIDA) subject to approval from the Bangladesh Bank. The Banking Regulation and Policy Department must be informed in writing with a copy of the work permit within 7 days of receiving it. Such a local managing director or chief executive officer cannot be terminated, dismissed or removed from his post without the prior approval of Bangladesh Bank.
- ii. The position of local Chief Executive Officer cannot remain vacant for more than three months at a time, and if the position is not filled within the specified period, Bangladesh Bank may appoint an administrator to supervise the banking operations in Bangladesh.
- iii. The salary and allowances of local Chief Executive Officers of foreign banks operating in Bangladesh can be determined following the respective policies of the concerned foreign bank following the above-mentioned directives. If the concerned officer is a regular employee on the payroll of the bank company, he/she will be eligible for annual salary increments and other benefits, along with incentive bonuses, provident funds, and gratuities, as per the bank's own policy.
- iv. Other than this, the provisions of the Bank Company Act, 1991, and other directives in this circular will be applicable for the appointment or reappointment of local managing directors or chief executive officers.

Responsibilities, Duties, and Powers of the CEO:

The Chief Executive Officer of the bank will perform the responsibilities & duties, and exercise powers as follows:

a. Fiduciary Duty:

The Chief Executive Officer must possess the proper knowledge and understanding of fiduciary duty to maintain the best interest of the depositors and the bank company. Such as-

- i. He/she will adhere to all applicable laws, regulations, and policies, practices related to banking business. Furthermore, he/she will perform his/her duties with prudence and without any kind of negligence or carelessness so that there will be no financial or other losses to the bank company and depositors (duty of care).
- ii. He/she will conduct his/her duties with good faith, being devoted to the bank company and avoiding conflict of interest so that the interests of the bank company and depositors are protected in place of interest of his/her own or another person or group (duty of loyalty).
- iii. He/she will exercise the vested power on that task or purpose for which he/she was given power.

b. Financial, Business, and Administrative Responsibilities, Duties, and Powers:

- i. The Chief Executive Officer will perform his/her own responsibilities and duties in accordance with the financial, business, and administrative powers vested by the bank's board of directors.
- ii. He/she will be responsible for/held accountable for implementing the bank's business plan and achieving business targets through proper administrative and financial management.
- iii. If any erroneous interpretation of the Bank Company Act, 1991, or any other Acts, laws, regulation, or directives of the Bangladesh Bank is made or an erroneous direction is given by the board members while discussing the memorandum presented by the bank management in the meetings of the board of directors or any its sub-committees, the Chief Executive Officer shall have to clarify the relevant Acts/directives to the board of directors in writing.
- iv. If any violation of the Bank Company Act, 1991, or any other Act, law, directive, custom practice occurs in a meeting of the board of directors or any other sub-committee by its member(s), the Chief Executive Officer shall have to inform Bangladesh Bank in writing, or verbally as the case may be.
- v. The recruitment and promotion of all employees and staff, apart from the two-tier subordinate level below the Chief Executive Officer, shall be vested with the Chief Executive Officer. He/she will perform these duties in accordance with the service rules and human resource policy approved by the board. While performing his duties, he/she cannot be able to perform any task or take a decision under the influence of emotions or through favoritism.
- vi. The recruitment, transfer, promotion/disciplinary actions and punitive measures of all employees and staff apart from the two-tier subordinate level below the Chief Executive Officer shall be vested with the Chief Executive Officer, which he/she will perform in accordance with the service rules approved by the board of directors. Other than this, the Chief Executive Officer may nominate any employee for training, seminars, workshop, etc. under the human resources policy approved by the board. If there are any government restrictions on foreign training or employee nominations for training because of any other reason, the Chief Executive Officer will be obliged to comply with such restrictions.

Appointment of Contractual Advisors and Consultants

Sometimes banks need to appoint advisor and consultant on contractual basis in addition to the permanent posts in the organization structure for performing any special or specific task. It is desirable to conduct such contractual appointments under specific guidelines. Therefore, Bangladesh Bank issued policy instructions^{8, 9 & 10} for banks to be followed during appointing advisor/ consultant. These are summarized below:

A) Appointment of Advisor:

- **Experience and Suitability:** For appointment as advisor, the concerned person will have to fulfill the following requirements with regard to experience and qualifications:
 - a) Experience in Banking or Administration for at least 15 (fifteen) years or have a long experience in social activities;
 - b) Higher academic education in the field of Economics, Banking and Finance or Business Administration will be treated as additional qualification for the concerned person;
 - c) Satisfaction should be ensured that the concerned person was not dismissed from his service when he was Chairman/Director/Official of any company;
 - d) A person who is working in any bank or financial institution or who has business interest in that bank will not be considered eligible for appointment to the post of advisor;
 - e) Satisfaction should be ensured that the concerned person is not a loan defaulter or tax defaulter and has never been adjudicated an insolvent by the court.
 - f) Though a person age of 65 cannot be employed or appointed in any position at the bank on a contractual basis, the bank may retain or hire an individual over the age of 65 as a consultant or advisor in special circumstances.
- **Responsibilities:** The responsibilities or terms of reference of advisor should be specified. The Advisor can advise the Board of Directors or the Chief Executive only on those matters that are specified in the appointment letter. Routine works or general works will not be included in his term of reference. He can't exercise any kind of power or can't participate in the decision making process of financial, administrative, operational or any other activities of the bank.

⁸ BRPD Circular Letter No. 19 Dated 27 October 2013

⁹ BRPD Circular No. 18 Dated 24 December 2018

¹⁰ BRPD Circular Letter No. 27 Dated 12 May 2021

- **Prior approval from Bangladesh Bank:** Prior approval from Bangladesh Bank is mandatory before appointing advisor. For such appointment, the justifications of the post of advisor, responsibilities or terms of reference, complete resume of the concerned person, terms of appointment (mentioning remuneration and facilities) and copy of board's approval must be submitted to Bangladesh Bank. The nominated person has to make a declaration as prescribed. This declaration must be also submitted to Bangladesh Bank.
- **Remuneration and other facilities:** The post of advisor is not a fixed or substantive post in the bank's organization structure. Advisor will not be entitled to salaries and allowances as regular employee except gross amount of remuneration, transport and telephone facilities. Remunerations inconsistent with terms of reference of the advisor will not be considered as acceptable by Bangladesh Bank.
- **Tenure:** The tenure of the advisor shall be maximum 1(one) year, which is renewable. An evaluation report (by the chairman that is approved by the board of directors) of previous tenure should be submitted to Bangladesh Bank along with the re-appointment proposal.
- **Appointment of Ex-officials:** Any former director, managing director or chief executive or any official up to the level of 02 (two) below the chief executive cannot be appointed as an advisor to the same bank until five years have passed after his/her retirement, resignation, or expiration of the contract.

B) Appointment of Consultant:

- **Terms of Reference:** Consultant can be appointed for specialized tasks like tax, law & legal procedures, engineering & technical works, information technology, etc. Consultants' appointment should be avoided as much as possible for those works that could be done by regular employees of the bank.
- **Responsibilities:** The responsibilities or term of reference of consultant should be specified. He/she shouldn't be involved beyond his/her terms of references and he/she cannot exercise any kind of power in bank operation or cannot participate in the decision making process.
- **Appointment:** Consultant can be appointed with the approval of Board of Directors. After such appointment the bank shall send the consultant's complete resume, terms of reference and details of remuneration to Bangladesh Bank immediately.
- **Tenure:** The tenure of consultant should be consistent with the terms of reference, but would not exceed 2 (two) years. Generally, consultant's appointment will not be renewable, but to complete unfinished tasks, the contract can be extended up to

maximum 1 year with the approval of Bangladesh Bank. An evaluation report (by the chairman that is approved by the board of directors) of previous period should be submitted to Bangladesh Bank.

- **Remuneration/honorarium:** The consultant's remuneration should be in the form of monthly or single lump-sum payment, he is not entitled to any other facilities.
- **Appointment of Ex-officials:** Any former director, managing director or chief executive or any official up to the level of 02 (two) below the chief executive cannot be appointed as a consultant to the same bank until five years have passed after his/her retirement, resignation, or expiration of the contract.

Appointment of CFO and Chief Information Technology Officer

The advancement and modernization of information technology along with the introduction of new products in the banking business, led the emergence of new risks regarding business and technology. Skilled and experienced Chief Financial Officer (CFO) and Chief Information Technology Officer (CITO) are necessary to cope with these new types of risks. Considering this, Bangladesh Bank issued a number of directives specifying the qualifications and eligibility criteria for the appointment of members of the bank's board of directors, chief executives, advisors and consultants to enhance good governance in bank management. Minimum qualifications and eligibility criteria have been prescribed in BB's directives^{11 & 12} for the CFO and CITO of the bank which are to be followed by banks while appointing/ reappointing CFO and CITO and also for contractual appointments of these posts.

Qualifications and eligibility criteria of CFO and CITO:

Before appointing CFO and CITO, bank must ensure that the concerned persons possess the following qualifications and eligibility criteria:

a. Character References:

- i) The concerned individual has never been convicted by any criminal court.
- ii) He/she has not been convicted for any violation of rules, regulations, or laws or Act of any regulatory authority.
- iii) He/she has not been dismissed/ terminated from employment due to financial embezzlement, corruption, fraud forgeries, or ethical violations.

b. Employment Record:

- i) The individual has a clean record in terms of employment.
- ii) He/she has not been involved in any illegal activities during his/her tenure in banking or respective profession.

c. Integrity and Financial Soundness:

- i) The individual is not a defaulter for loans in any bank or financial institution.
- ii) He/she has never been declared bankrupt by a court at any time.

d. Conflict of Interest:

- i) The individual has no business interest with the bank.
- ii) He/she does not hold position as director based on his/her qualifications or on behalf of any institution or in any other form in any business organization.

¹¹ BRPD Circular Letter No. 03 Dated 25 March 2018

¹² BRPD Circular Letter No. 41 Dated 05 August 2021

Educational Qualifications and Experience of CFO and CITO:

Qualification & Experience of CFO	Qualification & Experience of CITO
• Must have 10 (ten) years of experience in a bank/financial institution (with minimum 3 years of experience in banking operations and tax-related activities) • Must hold a CA/ CMA/ CFA/ an equivalent professional degree / master degree in MBA/ MBM/ Economics/ Finance/ Accounting/ Banking from a recognized university	• Must have 12 (twelve) years of experience in the field of information technology (with minimum 5 years of experience in banks/financial institution). • Must have IT related experience in IT policy and planning, financial network and application, financial information systems, cyber security technology, payment technology, etc. • Must have minimum bachelor's degree in Computer Science/Engineering/ Physics/ Applied Physics/Mathematics/Statistics, or Electrical and Electronic Engineering (EEE) from a recognized university or masters' degree in any subject with a diploma on ICT. • Must be a member/associate member of any approved/registered computer society

Responsibilities and Powers:

The Board of Directors or the CEO of the bank will determine the scope of work and responsibilities of the CFO and CITO by considering “Guidelines on Corporate Governance Principles for Banks (July, 2015)” issued by the Basel Committee on Banking Supervision's and other internationally recognized best practices.

Permanent Employees:

The CFO and the CITO shall be permanent employees of the bank. They may be appointed on a regular/contractual basis. However, they cannot be appointed on temporary basis. The bank must also ensure that the post of CFO and CITO are not managed as temporary or additional responsibilities for more than 3 (three) months.

Additional Responsibilities:

The duo of officers engaged in the aforementioned positions play a crucial role in performing the bank's operation efficiently and maintaining stability; therefore, the activities of these positions need to be managed continuously by competent personnel.

Prior Approval:

There is no need of approval from the Bangladesh Bank prior to the appointment of the CFO and the CITO. However, the bank must ensure that they are qualified and competent for the described positions according to the specified qualifications and eligibility criteria. Their appointment information must be disclosed in the bank's annual report.

Disclosure Regarding Family Business

To comply with the Sub-section (2) of Section 18 of the Bank Company Act, 1991 each director, managing director, or chief executive officer and officials of two tiers below him/her of every bank company must have to submit their personal commercial, financial, agricultural, industrial, and other business interests' name, addresses, and other information as well as details of familial business interests of each calendar year, by January 20 of the subsequent year to the respective bank¹³ The submitted reports shall be presented at the subsequent board meeting, and the bank company shall ensure the appropriate preservation of such reports.

¹³ BRPD Circular No. 02 Dated 21 January 2021

Transactions with Bank-Related Persons

To ensure proper utilization of bank's fund and to acquire and maintain confidence of the depositors, transactions with bank-related persons need to be conducted in a transparent manner in accordance with explicit policies. Apart from the provisions of Bank Company Act 1991 on the same, BB issued clear directives¹⁴ to be followed by banks for transacting with bank related persons:

General Regulations for Transactions with Bank-Related Persons:

1. No bank-company shall enter into a transaction with or for the benefit of a bank related person, if such transaction would be entered into on less favorable terms and conditions to the bank-company than would be agreed if the counterparty were not related to the bank-company.
2. All financial transactions conducted by a bank-company with or for the benefit of a bank-related person are subject to the prior approval of the majority of the Board of Directors of the bank-company.
3. No bank-company shall have an aggregate amount outstanding on all funded exposure to, or for the benefit of, bank related persons in excess of 10% of the bank's Tier-1 capital. For the funded facilities which are backed by cash or en-cashable securities, actual exposure will be determined by deducting such collaterals.

Director' loans:

1. **Director loan limit:** Total amount of loan & advances, guarantees and other credit facilities provided to a bank director, his/her sole proprietorship or partnership firms, any private or public company where he/she is acting as a director should not exceed 50% of the face value of shares of that bank-company held in director's own name. Under no circumstances, renewal or time extension of loan & advances, guarantee & other financial facilities in excess of that 50% can be made. In case of public company's exposure, a director's exposure will be proportionate to his/her shareholding in that company.
2. **Approval of director loan:** Any loan & advances, guarantee and other credit facilities provided to a bank director, his/her sole proprietorship or partnership firms, any private or public company where he/she is acting as a director, any person or entity for whom he/she stands as a guarantor, and to his/her spouse, father, mother, son, daughter, brother, sister and dependents should be approved by the majority member of the board of directors and later in the Annual General Meeting and separately disclosed in the audited financial statements of the bank-company.

¹⁴ BRPD Circular No. 04, Dated 23 February 2014

3. **Conditions of Loan:** Personal guarantee of the director concerned should be obtained when extending any loan & advances to a bank director, his/her aforesaid relatives, dependents and affiliated entities. Mortgages against such loan & advances should be registered in favor of the bank-company.
4. **Prior approval of Bangladesh Bank:** Prior approval of Bangladesh Bank will be required for providing funded facilities amounting taka 50.00 lac or above, and composite facilities comprising funded & non-funded facilities amounting taka 1.00 crore or above to a bank director, his/her aforesaid relatives, dependents and affiliated entities. In case of any alteration/cancellation/ return of collateral, securities, personal guarantee, etc. provided against loan & advances and guarantee; or, in case of any alteration of any condition of loans & advances, guarantee and any other credit facilities of a director/ex-director, his/her such relatives & dependents and affiliated entities, prior approval from Bangladesh Bank will have to be taken. In both cases, bank has to apply in prescribed form along with the asked documents.
5. **Waiver of Loan/Interest:** Waiver of any loan or part of loan and interest thereof that has been transferred to income account of the bank-company cannot be allowed to a director/ex-director, his/her aforesaid relatives, dependents and affiliated entities and prior approval of Bangladesh Bank will be required in case of waiving accrued interest or part thereof in such cases. But, in case of ex-directors who are at present not holding any share of the bank-company, and if such loans were availed before or after their directorship in the bank-company, waiver of interest can be granted by the Board of Directors without prior approval of Bangladesh Bank.

Independent Directors' Loan:

Neither loan facilities can be provided to, nor can other financial transactions be conducted with an independent director of the bank-company, his /her aforesaid relatives, dependents and affiliated entities.

Representative Directors' Loan:

General regulations for director' loans have to be complied with for representative directors' loan. In addition to that, approval and guarantee of the board of the shareholder institution/ organization/trust should be obtained for providing any loan and advances or any kind of financial facilities to a representative director, his/her relatives & dependents, and affiliated entities and the loan limit in such case should not exceed 50% of the face value of shares of that bank-company held in institution/organization/trust's name.

Alternate Directors' Loan:

No loan facility can be provided to an alternate director, his/her family members and affiliated entities; tenure or credit limit of facilities provided earlier cannot be extended or enhanced, interest waiver cannot be allowed or charging of interest cannot be withheld.

Special Regulations for Government Nominated Directors' Loan:

No new loan and advances, guarantee, surety or any other financial facility can be provided to a government nominated director, his/her family members and affiliated entities; and, limit of credit facilities provided earlier cannot be enhanced. Waiver of any accrued interest or requisites for rescheduling, or changes in the conditions of any existing facilities to such cases cannot be allowed, even if those facilities were extended before the commencement of his/her tenure as a director. In case of renewing existing loan and other facilities, all applicable regulations should be followed.

Additional Regulations for Significant Shareholders' Loan:

Loans & advances, guarantee and financial facilities exceeding taka 1.00 crore extended to a significant shareholder of the bank-company, his/her spouse, private or public company where he/she is acting as a director or holds more than 5% share of equity, should be reported to Bangladesh Bank after the approval of the board of directors. Waiver of any loan or part of loan and interest thereof that has been transferred to income account of the bank-company cannot be allowed to a significant shareholder, his/her spouse and aforesaid affiliated entities. Prior approval of Bangladesh Bank will be required in case of waiving accrued interest or part thereof arising from such loans.

Involvement of Bank Directors/their Related Organizations in the Procurement Activities of Bank Company¹⁵:

No director or his/her related organization can be involved in the activities of purchase and collection or procurement of any product or service of the bank.

¹⁵ BRPD Circular No. 12, Dated 15 June 2022

Chapter-II

Implementation of BASEL Accord

- **Policy on Capital Adequacy of Banks**
- **External Credit Rating**
- **Disclosure Requirements for Banks**
- **Calculation of Risk Weighted Assets (RWA)**

Policy on Capital Adequacy of Banks

With a view to ensure the implementation of Basel III capital adequacy of banks in Bangladesh, banks are instructed to comply with the regulatory limits and minima as prescribed under Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in Line with Basel-III)¹⁶ on an ongoing basis. Basel III capital regulations have fully been implemented from 01 January 2019.

GRBCA is underpinned with three Pillars, viz. Pillar 1; minimum capital requirements, Pillar 2: supervisory review, and Pillar 3: market discipline. For computing capital requirement under Pillar 1, the Basel III framework allowed Standardized Approach for credit risk, Standardized Measure Method for market risk and either of the two options, Basic Indicator Approach (BIA) or The Standardized Approach (TSA), for operational risk.

Before implementing Basel III in Bangladesh, Basel II regime came in to force for the purpose of statutory compliance from January 01, 2010 and continued till December 31, 2014. Indeed, to cope up with the international best practices and to make the bank's capital shock absorbent 'Guidelines on Risk Based Capital Adequacy (RBCA) for banks' (Revised regulatory capital framework in line with Basel II) was introduced from January 01, 2009 as a parallel run with Basel I.

Scope, Reporting Requirement¹⁷ and penalty for non-compliance¹⁸:

GRBCA applies to all scheduled banks and shall require submitting the consolidated¹⁹ and solo²⁰ CRAR report on quarterly basis to Department of Offsite Supervision (DOS). Internal Capital Adequacy Assessment Process (ICAAP) report based on the latest audited financial report approved by the Board shall submit to Banking Regulation and Policy Department (BRPD) within May 31 of every year²¹. BB may impose restrictions on bank's business or penalty under Bank Company Act (BCA) 1991 (as amended) if a bank fails to meet minimum capital [Section 13(7)], willfully/ knowingly furnishes false information in reporting [Section 109(2)] or fails to submit the report within stipulated time without any acceptable/satisfactory reason [Section 109(7)].

¹⁶ BRPD Circular No- 18 dated December 21, 2014

¹⁷ Guidelines on RBCA (Page-5)

¹⁸ Guidelines on RBCA (Page-6)

¹⁹ Consolidated refers to all position of the bank (including its local and overseas branches/offices) and its subsidiary company/companies engaged in financial (excluding insurance) activities like merchant banks, brokerage firms, discount houses, etc (if any)

²⁰ Solo refers to all position of the bank and its local and overseas branches/offices

²¹ Banks close their account at the end June shall submit ICAAP report within November 30 of every year

Capital to Risk-weighted Asset Ratio (CRAR):

The CRAR is the ratio of eligible regulatory capital as numerator and total Risk Weighted Assets (RWA) as denominator. In order to calculate CRAR, banks are required to calculate their RWA on the basis of credit, market and operational risks^{22, 23 & 24}. Total RWA will be determined by multiplying the amount of capital charge for market risk and operational risk by the reciprocal of the minimum CRAR and adding the resulting figures to the sum of RWA for credit risk.

Constituents of Capital and Minimum Requirement:

Capital is classified into two tiers:

1) Tier 1 (T1) Capital (going-concern capital²⁵):

a) Common Equity Tier 1 (CET1):

For the local banks: (i) Paid up capital; (ii) Non-repayable share premium account; (iii) Statutory reserve; (iv) General reserve; (v) Retained earnings; (vi) Dividend equalization reserve; (vii) Minority interest in subsidiaries²⁶.

For foreign banks operating in Bangladesh: (i) Funds from Head Office for the purpose of meeting capital adequacy; (ii) Statutory reserves kept in books in Bangladesh; (iii) Retained earnings; (iv) Actuarial gain/loss kept in books in Bangladesh; (v) Non-repatriable interest-free funds from Head Office for the purpose of acquisition of property and held in a separate account and have the ability to absorb losses regardless of source.

Less: Regulatory adjustments applicable on CET1²⁷.

b) Additional Tier 1 (AT1):

For the local banks: (i) Instruments issued by the banks that meet the qualifying criteria for AT1u²⁸; (ii) Minority Interest, i.e. AT1 issued by consolidated subsidiaries to third parties (for consolidated reporting only)²⁹;

For the foreign banks operating in Bangladesh: (i) Head Office borrowings³⁰; (ii) Any other item specifically allowed by BB from time to time for inclusion in AT1 capital.

²² Refer to section 5 of GRBCA

²³ Refer to section 6 of GRBCA

²⁴ Refer to section 7 of GRBCA

²⁵ Going-concern capital is the capital that absorb losses without triggering bankruptcy of the bank

²⁶ Minority Interest i.e. common shares issued by consolidated subsidiaries of the bank and held by third parties meeting eligibility criteria, as mentioned in Annex 2 of GRBCA

²⁷ As mentioned in Para 3.4 of GRBCA page # 11~13

²⁸ As specified at Annex 4 of GRBCA

²⁹ Refer to Annex 2 of GRBCA for further details

³⁰ In foreign currency by foreign banks operating in Bangladesh for inclusion in Additional Tier 1 capital which complies with the regulatory requirements as specified in Annex4

Less: Regulatory adjustments applicable on AT1 Capital.

2) Tier 2 (T2) Capital (gone-concern capital³¹):

For the local banks: (i) General Provisions³²; (ii) Subordinated debt / Instruments issued by the banks that meet the qualifying criteria for Tier 2 capital as specified at Annex 4; (iii) Minority Interest, i.e. Tier 2 issued by consolidated subsidiaries to third parties as specified at Annex 2

Less: Regulatory adjustments applicable on Tier 2 capital

For the foreign banks operating in Bangladesh: (i) General Provisions; (ii) Head Office (HO) borrowings in foreign currency received that meet the criteria of Tier 2 debt capital

Less: Regulatory adjustments applicable on Tier 2 capital

Limits (Minima and Maxima):

Minimum required CRAR is 10%, where CET1 and T1 capital shall be respectively at least 4.5% and 6% of the total RWA. Additional Tier 1 capital can be admitted maximum up to 1.5% of the total RWA or 33.33% of CET1, whichever is higher³³. T2 Capital can be admitted maximum up to 4.0% of the total RWA or 88.89% of CET1, whichever is higher.

Capital Conservation Buffer (CCB):

Banks are required to maintain a CCB of 2.5%, comprised of CET1 capital, above the regulatory minimum capital requirement of 10%. The minimum capital conservation ratios a bank must meet at various levels of the CET1 capital ratios as prescribed in GRBCA³⁴. The CET1 ratio includes amounts used to meet the minimum CET1 capital requirement of 4.5%, but excludes any additional CET1 needed to meet the 7% Tier 1 and 10% Total Capital requirements. The bank would meet all minimum capital requirements, but would have a zero CCB and therefore, the bank would be subjected to 100% constraint on distributions of capital by way of dividends, share-buybacks and discretionary bonuses³⁵. If a bank does not have positive earnings and has a CET1 ratio less than 7%, it should not make positive net distributions.

³¹ Gone-concern capital is the capital which absorbs losses only in a situation of liquidation of the bank

³² General provisions/general loan-loss reserve eligible for inclusion in Tier 2 will be limited to a maximum 1.25 percentage points of credit risk weighted assets calculated under the standardized approach

³³ For the purpose of calculating Tier 1 capital and CRAR, the excess Additional Tier 1 capital and Tier-2 capital can only be recognized if the bank has CET1 ratio in excess of the minimum requirement of 7.0% (i.e. 4.5% plus CCB of 2.5%). Further, any excess Additional Tier 1 and Tier 2 capital will be recognized in the same proportion as stipulated above i.e. the recognition of excess Additional Tier 1 (above 1.5%) is limited to the extent of 33.3% (1.5/4.5) of the CET1 in excess of 7.0% requirement. Similarly, the excess Tier 2 capital (above 4.0%) shall be recognized to the extent of 88.89% (4.0/4.5) of the CET1 in excess of 7.0% requirement

³⁴ Guidelines on RBCA (Page-10)

³⁵ In this scenario a bank may distribute stock dividend subject to prior approval from Bangladesh bank

Leverage Ratio:

In order to avoid building-up excessive on- and off-balance sheet leverage in the banking system, a simple, transparent, non-risk based leverage ratio has been introduced. The leverage ratio is calibrated to act as a credible supplementary measure to the risk based capital requirements. A minimum Tier 1 leverage ratio of 3 percent³⁶ is being prescribed both at solo and consolidated level. The banks will maintain leverage ratio on quarterly basis³⁷.

SRP and SREP³⁸:

Supervisory Review Process (SRP) [the 2nd Pillar of Basel III] is intended to ensure adequate capital at banks to support all the risks in their business. In respect of SRP, banks would have a process for assessing overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital at an adequate level. In this regard, banks are instructed to form an exclusive body (called SRP team) where risk management unit is an integral part, and develop a process document (called Internal Capital Adequacy Assessment Process ICAAP³⁹) for assessing their overall risk profile, and a strategy for maintaining adequate capital.

Supervisory Review Evaluation Process (SREP) of BB includes dialogue between BB and the bank's SRP team followed by findings/evaluation of the bank's ICAAP. During SRP-SREP dialogue BB will review and determine additional capital to MCR of banks. For this purpose, banks are asked to provide information in specified format on risks addressed by BB under SRP in line with their own ICAAP.

Market Discipline:

The aim of introducing Market discipline is to establish more transparent and more disciplined financial market so that stakeholders can assess the position of a bank regarding holding of assets and to identify the risks relating to the assets and capital adequacy to meet probable loss of assets. For the said purpose, banks are instructed to develop a set of disclosure⁴⁰ containing the key pieces of information on the assets, risk exposures, risk assessment processes, and hence the capital adequacy to meet the risks. Banks shall have a formal disclosure framework approved by the Board/CEO. The process of their disclosures will include validation and frequency.

³⁶ It will be 4 percent in the year of 2026 adding 0.25 percentage points yearly from the year 2023 instructed vide BRPD Circular No 18 of 18 August 2021

³⁷ The calculation at the end of each calendar quarter will be submitted to BB showing the average of the month end leverage ratios based on the following definition of capital and total exposure

³⁸ Section 8 & section 9 of GRBCA

³⁹ It includes residual risk, concentration risk, interest rate risk in banking book (IRRBB), liquidity risk, reputation risk, strategic risk, settlement risk, appraisal of core risk management practice, environmental & climate change risk and other material risks including capital plan and stress test

⁴⁰ Section 10 of GRBCA

External Credit Rating

Eligibility Criteria and risk rating of External Credit Assessment Institutions (ECAIs):

The eligibility criteria and risk rating of External Credit Assessment Institutions (ECAIs)⁴¹ in the document "Basel III: Risk Based Capital Adequacy" are outlined as follows:

Eligibility Criteria: The eligibility of an ECAI is determined by six key criteria:

1. Objectivity:

- The methodology for assigning credit assessments must be rigorous, systematic, and subject to validation based on historical experience.
- Assessments must be subject to ongoing review and responsive to changes in the financial condition of the concerned entity.
- An assessment methodology for each market segment, including rigorous back-testing, must have been established for at least one year, preferably three years.

2. Independence:

- The ECAI should be independent and free from political, social, or economic pressures that may influence the rating.
- The assessment process should also be free from any constraints that could arise from the composition of the board of directors, shareholder structure, or officials of the assessment team that may create a conflict of interest.

3. International Access / Transparency:

- Individual assessments, key elements underlying the assessments, and whether the issuer participated in the assessment process should be publicly available on a non-selective basis, unless they are private assessments.
- The general procedures, methodologies, and assumptions used by the ECAI for arriving at assessments should be publicly available.

4. Disclosure:

- The ECAI should disclose its code of conduct, the general nature of its compensation arrangements with assessed entities, assessment methodologies (including the definition of default, time horizon, and meaning of each rating), actual default rates experienced in each assessment category, and the transitions of the assessments.

⁴¹ BRPD Circular No. 07 Dated 23 September 2008

5. Resources:

- The ECAI should have sufficient resources to carry out high-quality credit assessments, including substantial ongoing contact with senior and operational level executives within the entities assessed.
- Assessment methodologies should be based on both qualitative and quantitative approaches.

6. Credibility: The credibility of an ECAI's assessments should be evidenced by the reliance placed on them by independent parties (investors, insurers, trading partners).

Risk Rating:

Risk rating is mapped with the credit rating category to determine the risk-weighted assets (RWA) for calculating the capital requirement of banks against credit risk. The process includes:

• Application Process:

- Domestic and international credit rating companies that are registered under the Credit Rating Companies Rules, 1996 of the Bangladesh Securities and Exchange Commission (BSEC) and meet the eligibility criteria can apply for recognition as an ECAI.
- ECAs must categorize their ratings into broad asset classes such as Sovereign (government, public sector corporations, and autonomous bodies), Financial Institutions (banks, insurance companies, security firms, and other financial institutions), Corporate (other than government and financial institutions), and others as specified.

• On-going Recognition:

- Recognition of an ECAI is reviewed annually to ensure the robustness of the system to the satisfaction of Bangladesh Bank (BB).
- Ratings are reviewed annually and subject to back-testing.
- ECAs must inform BB of any material changes that affect ratings promptly.
- BB may withdraw recognition if an ECAI fails to comply with the recognition criteria or if there is noticeable deterioration in performance or market acceptance.
- Use of Multiple Rating Assessments:
 - If there is only one rating for a particular claim, that rating is used to determine the risk weight.
 - If there are two ratings with different risk weights, the higher risk weight is applied.
 - If there are three or more ratings with different risk weights, the two lowest risk weights are referred to, and the higher of those two is applied.

These guidelines ensure that ECAIs provide reliable and consistent credit assessments, which are crucial for maintaining the stability and integrity of the banking system under the Basel III framework.

ECAI Ratings mapping process:

The mapping process of ECAIs as outlined in the BB document is as follows:

1. Assigning Risk Weight to ECAI Ratings:

The Bangladesh Bank (BB) will evaluate and assign risk weights to the rating categories of eligible ECAIs. The process involves mapping each rating category to a numerical scale from 1 to 6, where 1 is the best rating and 6 is the worst, including a 'Default Rating Category'. Short-term credit ratings will be evaluated separately and mapped from S1 to S6. Later SME ratings included and mapped from SME1 to SME6⁴².

2. Evaluation Criteria:

BB considers both qualitative and quantitative factors for differentiating between the risk levels expressed by each rating category. The criteria include:

a. Quantitative Factors

▪ Cumulative Default Rate (CDR):

- Long-Run Default Experience: Evaluated using a ten-year average of the three-year CDR.
- Short-Run Default Experience: Evaluated using the most recent three-year CDR.
- The transition rates towards default within each rating category are compared to domestic, regional, or international standards.

▪ Benchmark CDRs:

- Two benchmarks are used: "monitoring" level CDR and "trigger" level CDR.
- If an ECAI exceeds the "monitoring" level CDR, it indicates a higher-than-expected transition to default, warranting a consultation process to understand the cause.
- If an ECAI exceeds the "trigger" level CDR in two consecutive years, its rating category may be downgraded.

▪ Short Records:

- ECAIs with limited historical data must project the ten-year average of the three-year CDR based on the two most recent CDRs.

⁴² BRPD Circular No- 08 Dated 15 April 2014

▪ **Definition of Default:**

- ECAIs must clearly define and disclose their default rating criteria, and any changes must be reported to BB.

b. Qualitative Factors:

▪ **Objectivity:**

- Rating methodologies must be rigorous, systematic, and validated based on historical experience.
- Ongoing reviews and responsiveness to changes in financial conditions are required.

▪ **Independence:**

- ECAIs must be free from external pressures that could influence ratings, ensuring an unbiased assessment process.

▪ **International Access/Transparency:**

- Ratings must be accessible to both domestic and international institutions under equivalent terms.
- The rating methodology should be publicly available.

▪ **Disclosure:**

- ECAIs must disclose assessment methodologies, rating notations, default definitions, time horizons, and historical default rates.

▪ **Resources:**

- ECAIs should have adequate resources for high-quality credit assessments, including substantial contact with assessed entities' executives.

▪ **Credibility:**

- Independent reliance on ECAI ratings by third parties indicates credibility.
- Effective internal controls must be in place to prevent misuse of confidential information.

3. Application Process

Eligible domestic and international credit rating companies must apply to the General Manager of the Banking Regulation and Policy Department at BB for recognition as ECAIs, adhering to the criteria and providing necessary documentation as specified in the application guidelines.

This structured approach ensures that the risk weights assigned to credit ratings reflect the true risk profile, promoting consistency and reliability in credit risk assessment for regulatory capital purposes.

Disclosure Requirements for Bank

The First Schedule of the Bank Companies Act, 1991⁴³, as amended, includes detailed forms for the preparation of financial statements by bank companies. Here are the Forms described in brief:

1. Balance Sheet Form:

The balance sheet form includes sections for:

- **Property and Assets:** This includes cash in hand, balances with Bangladesh Bank and other financial institutions, money at call on short notice, investments (both government and others), loans and advances, fixed assets, and other assets.
- **Liabilities and Capital:** This includes borrowings from other banks and financial institutions, deposits (current accounts, savings deposits, fixed deposits, etc.), other liabilities, and shareholders' equity (including paid-up capital, statutory reserve, and other reserves).

2. Profit and Loss Account Form:

The profit and loss account form includes sections for:

- **Income:** This includes interest income, investment income, commission, exchange, brokerage, and other operating income.
- **Expenses:** This includes interest paid on deposits and borrowings, fees for directors, provisions for loans and diminution in value of investments, and other provisions.
- **Appropriations:** This section includes appropriations of profit for banks incorporated outside Bangladesh as per their policy.

3. General Instructions for Financial Statements:

- **Disclosure Requirements:** Financial statements must include balance sheets, profit and loss accounts, cash flow statements, statements of changes in equity, liquidity statements, and explanatory notes.
- **Significant Accounting Principles:** Disclosure of significant accounting principles adopted should be an integral part of the financial statements. These should cover conventions, bases of accounting, and principles for determining interest income and expenses, investment valuations, asset classifications, and treatments of bad debts.
- **Notes and Details:** Notes to financial statements should provide details of balance sheet items, profit and loss accounts, and other statements to ensure clear understanding by users.

⁴³ BRPD Circular No. 14 Dated June 25 2003

4. Specific Provisions and Notes:

- **Bad and Doubtful Debts:** Movements in specific provisions for bad and doubtful debts and general provisions on unclassified loans should be presented separately.
- **Interest Suspense Account:** This account should show movements during the year including amounts transferred, recovered, and written off.
- **Paid-up Capital:** Notes should disclose various classes of capital, shares issued, and any capital surplus or deficit.
- **Statutory and Other Reserves:** Movements in statutory reserves (under Section 24 of the Act) and other reserves should be shown separately.
- **Contingent Liabilities:** Details of contingent liabilities, such as claims, guarantees issued, and other commitments, should be explained clearly.

These forms and instructions are intended to provide transparency and adequate disclosure in the financial statements of bank companies, facilitating a clear understanding for users of these statements.

Calculation of Risk Weighted Assets (RWA)

The RBCA guidelines outline the methodology for calculating the capital requirements and followed Standardized Approach for Credit Risk, Standardized (Rule Based) Approach for Market Risk and Basic Indicator Approach for Operational⁴⁴:

A. Credit Risk:

Credit risk involves both on-balance sheet and off-balance sheet items:

i. On-Balance Sheet Exposures:

- **External Credit Ratings:** Banks use ratings from eligible external credit assessment institutions (ECAIs) to determine risk weights. Higher-rated exposures receive lower risk weights.
- **Unrated Exposures:** These are assigned standard risk weights based on the asset type (e.g., corporate, sovereign, retail).
- **Specific Risk Weights:** Different asset classes such as cash, claims on central governments, and claims on banks have predefined risk weights.

Risk Weight Assignment:

Assign risk weights to different types of assets based on their credit ratings and other factors.

- Claims on government: 0%
- Claims on banks: 20% (if short term) to 100% (if long term or unrated)
- Corporate loans: 20% to 150% [depends on ECAI ratings and 125% for unrated]
- SME loans: 20% to 150% [depends on ECAI ratings and 75% for unrated less than BDT 3.0 million and 100% for more than BDT 3.0 million]
- Retail loans: 75%
- Consumer Finance: 100%
- Other Fixed Risk weight: 100% to 150%⁴⁵

Formula: Risk-Weighted Asset (RWA) = Exposure Amount times Risk Weight

Example: For a bank with a corporate loan portfolio, the calculation process may:

⁴⁴ Referred to Guideline on Risk Based Capital Adequacy 2014 issued vide BRPD Circular No. 18 Dated 21 December 2014

⁴⁵ Banks can maintain 100% risk weight against investment in alternative investment tools (venture capital) instead of 150% until 30 September 2024 vide BRPD circular Letter No. 47 Dated 30 November 2022

- (1) Outstanding Amount: Assume a corporate loan of BDT 10 million.
- (2) **Risk Weight Based on Credit Rating:** If the corporate exposure has a BBB rating of CRISL, apply a 100% risk weight.

(3) **Calculated the Risk-Weighted Asset (RWA):**

RWA = Outstanding Amount X Risk Weight = BDT 10 million X 100% = BDT 10 million

ii. Off-Balance Sheet Exposures:

- Market-Related Transactions include derivatives and are assigned risk weights based on the counterparty's credit rating and the type of transaction.
- Non-Market-Related Transactions include commitments, guarantees, and letters of credit. They are converted to credit equivalent amounts using credit conversion factors (CCFs) and then risk-weighted similarly to on-balance sheet items.
- Conversion to Credit Equivalent: Convert off-balance sheet items to credit equivalent amounts using Credit Conversion Factors (CCF).
- Example CCFs:
 - Guarantees and letters of credit: 100%
 - Commitments with an original maturity of one year or less: 20%
- Risk Weighting: $RWA = \text{Credit Equivalent Amount} \times \text{Risk Weight}$

Example: A letter of credit of BDT 1,000,000 with a 100% CCF and a counterparty risk weight of 100% would result in: $RWA = 1,000,000 \times 1.00 \times 1.00 = 1,000,000$

iii. Credit Risk Mitigation (CRM):

- Collateral: Eligible financial collateral (e.g., cash, gold, high-quality debt securities) can reduce the exposure amount.
- Guarantees and Credit Derivatives: Recognized guarantees and credit derivatives can also be used to mitigate credit risk.
- Adjust the exposure value based on eligible collateral or guarantees.
- Formula: $E^{\wedge} = E \times (1 + H_e) - C \times (1 - H_c - H_{fx})$

Where, $E^{\wedge}$: Exposure value after risk mitigation

E: Current value of the exposure

H_e : Haircut for exposure

C: Current value of the collateral

H_c : Haircut for collateral

H_{fx} : Haircut for currency mismatch

Example: For an exposure of BDT 1,00,000 with a collateral value of BDT 80,000, haircut for collateral at 10%, and no currency mismatch:

$$E^{\wedge} = 1,00,000 \times 1.00 - 80,000 \times (1 - 0.10) = 1,00,000 - 72,000 = 28,000$$

iv. External credit rating:

Bangladesh Bank has recognized eight credit rating agencies which met the eligibility criteria under ‘Guidelines for Recognition of eligible External Credit Assessment Institutions (ECAIs)’ [Annex 12]. BB has developed a ‘Credit Rating Methodology for Small and Medium Enterprises’ [Annex 13] to determine the relative creditworthiness of entities belonging to this segment. In addition to this, surveillance manual has been developed in order to review eligibility and justify assigned notch/notations with BB rating grade. Banks may also use the ratings (if available) of Fitch, Moody, and Standard& Poor as well as OECD ratings.

Rating categories of ECAIs both for corporate and SME’s are mapped with the rating grades of BB as per Table 5 and Table 6 respectively. Rating of a client recognized by ECAI is valid for one year and each entity needs to get credit rating individually. However, short-term assessments may only be used for short-term claims. In cases where multiple assessments exist, the higher risk weight will be applied for two assessments, and the higher of the two lowest risk weights will be used for three or more assessments. Additionally, if no risk weight is available for the issue, the bank shall use the risk weight of the issuer.

B. Market Risk:

Market risk pertains to the risk of losses in on and off-balance sheet positions arising from movements in market prices. The process includes:

1. Standardized Approach:

- Interest Rate Risk: Positions in the trading book exposed to interest rate changes are risk-weighted using standardized risk weights based on the maturity of the instruments.
- Equity Position Risk: Equity positions in the trading book are assigned risk weights based on the type of equity and the market in which they are traded.
- Foreign Exchange Risk: Banks calculate their net open positions in each currency and apply a standard risk weight to determine the capital requirement.
- Commodity Risk: Positions in commodities are also risk-weighted using a standardized approach.

i. Capital Charge Calculation:

Interest Rate Risk:

- Calculate capital charges for specific and general risks.
- Formula: Capital Charge = Risk Weight times Market Value

Example: For a bond portfolio with a market value of BDT 1,000,000 and a risk weight of 3.25%: Capital Charge = 1,000,000 times 0.0325 = 32,500

Equity Position Risk:

- Calculate the capital charge for equity positions based on market values and risk weights.

Foreign Exchange Risk:

- Measure the exposure in each currency and apply appropriate risk weights.

C. Operational Risk:

Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people, systems, or external events. The process includes:

(1) Basic Indicator Approach (BIA):

- Banks hold capital for operational risk equal to a fixed percentage (15%) of their average annual gross income over the previous three years.

i. Calculate Average Gross Income:

Assume the average gross income over the past three years is BDT 5 million.

iii. Apply BIA Percentage:

Operational Risk Capital = Average Gross Income times 15% = BDT 5 million times 15% = BDT 0.75 million

(2) Standardized Approach:

Banks divide their activities into standardized business lines and apply specific risk factors to each line of business to calculate the capital requirement.

(3) Advanced Measurement Approaches (AMA):

Banks with sophisticated risk management systems can use internal models to estimate operational risk capital requirements, subject to regulatory approval.

Chapter-III

Bank Establishment and Operational Issues

- **Guidelines for Establishment of Banking Company in Bangladesh**
- **Guidelines for Establishment Digital Bank**
- **Establishment of Business Centers & Related Rent/Lease issues**
- **Guidelines for Agent Banking Operation**
- **Guidelines for Islamic Banking**
- **Guidelines for Bancassurance**
- **Account Opening Form & KYC**
- **Operation of Dormant Account**
- **Cash Withdrawal policy for Illiterate Customer**
- **Unclaimed Deposits & Valuables**
- **Interest of Loans and Deposits**
- **Schedule of Charges**
- **Acquisition of Fixed Assets**
- **Policy for Non-Banking Assets (NBA)**
- **Compensation to Victims of Fraudulent Transactions**
- **Banking Services to Specially Focused Customers**
- **Customer Complaint Management**
- **Outsourcing Arrangements**
- **Safety Measures for bank branches/vaults/Lockers etc**

Guidelines for Establishment of Banking Company in Bangladesh

As per Section 31 of the Banking Companies Act, 1991, no company shall carry on banking business in Bangladesh without having license from Bangladesh Bank. BB will grant licenses on considering the need and overall strategy congenial to effective monetary and financial policy for the country. The key requirements for obtaining a banking license in Bangladesh are quite comprehensive and required compliance of stringent criteria set by the Bangladesh Bank.

Firstly, the entity must be a public limited company incorporated in Bangladesh. The paid-up capital for a new commercial bank should be no less than Taka 500 crore as stipulated under the Bank Company Act 1991, and this capital must be formed with ordinary shares only.

The capital contribution by the sponsors and subscribers of the proposed bank must be in a liquid, unencumbered form, such as cash or approved securities, and held lien under Bangladesh Bank. Sponsors are required to provide an initial minimum capital of Taka 500 crore, with individual sponsor stakes ranging from Taka 1.00 crore to a maximum of 10% of the total share capital. This limit can be relaxed for joint ventures with foreign financial institutions.

Additionally, sponsors holding 5% or more shares must sign a Capital Maintenance Agreement, committing to inject additional capital if needed, and their shares cannot be transferred within 3 (three) years of the commencement of business without permission from Bangladesh Bank. The sponsors' contribution to the equity capital must be from the net worth declared to the tax authorities, and contributions from borrowings are not acceptable.

On obtaining the license, the bank must issue public shares within three years, and these public issues should be at least equal to the sponsors' share amount. New bank has to ensure finance at least at 5% of its total lending into agricultural sector or as per instruction issued by Bangladesh Bank from time to time and should take part in Corporate Social Responsibility (CSR) activity and should spent 10% or more of its previous year's net income to Corporate Social Responsibility (CSR) activity.

For a comprehensive understanding of the process, including obtaining name clearance, forming a Memorandum of Association, and other procedural details, please visit Bangladesh Bank website for the “Guidelines To Establish a Banking Company in Bangladesh”⁴⁶.

⁴⁶ <https://www.bb.org.bd/en/index.php/about/guidelist>

Guidelines for Establishing Digital Bank

To attain the objectives of Sustainable Development Goals (SDGs) and National Financial Inclusion Strategy (NFIS) and to keep pace with modern banking practice around the globe, Bangladesh Bank (BB) decided to adopt Fin-Tech and digital solution-based banking services. A branchless end-to-end virtual banking system will not only enable the banking service to be safe, secured and convenient but will also add a mileage and momentum in taking the modern days banking services to the citizens of the last mile of the country at a low cost. This may play significant role in creating employment opportunities, ensuring financial stability as well as ensuring a sound financial ecosystem for the country. This led BB to step forward for creating a regulatory environment favoring responsible innovation, cyber resilience, and advancement in digitization of financial sector. BB's such endeavor resulted in the issuance of "digital bank" framework⁴⁷ in 2023.

Licensing Procedure:

A Digital Bank (DB) shall obtain a license from BB under section 31 of Bank Company Act (BCA), 1991 and must abide by the provisions of Bangladesh Payment and Settlement Systems Regulations, 2014 to carry out banking business in Bangladesh. For having license they need to comply with the followings:

Sl	Issues	Direction
1	Paid Up Capital must be BDT 125.00 crore (Comprised of ordinary shares)	To be determined by BB (under section 13 of Bank Company Act, 1991)
2	Paid-up capital, subscribed capital, authorized capital and voting rights of share-holders	To be governed by section 14 of the BCA, 1991.
3	Initial minimum Paid-up capital	Shall be provided by sponsors
4	Go for Initial Public Offering (IPO)	Within 5 (five) years (from the date of license issued by BB)
5	Amount of IPO	Not less than sponsor's initial paid-up capital
6	Sponsors' contribution to the share capital	Must come from Sponsor's own net worth as declared to the Tax authorities (borrowing from bank/FI/family members not acceptable).
7	Eligibility of Sponsor/Director	Qualify in the Fit and Proper Test (FPT) set by BB
8	Non eligibility of Sponsor/Director	i) loan defaulter with any Bank/FI ii) Awaiting verdict of any indisposed lawsuit in any court/tribunal against loan defalcation.

Composition of Board:

Formation of Board of Directors must comply with the instruction of BCA 1991(amended up to 2023)⁴⁸ and relevant directives of Bangladesh Bank. Size of the Board shall be in accordance

⁴⁷ BRPD Circular No 08 Dated 15 June 2023

⁴⁸ Section 23 of BCA 1991(amended up to 2023)

with section 15(9) of BCA, 1991(ie; maximum 20 including 3 independent directors). This restriction is applicable for both appointment and reappointment of directors against retirement or filling casual vacancy subject to section 15KaKa of BCA, 1991(where the tenure and other related matters of directorship are clearly stated). Board preferably shall include at least 50% members having proper education, knowledge and expertise related to technology-based banking, emerging technologies, cyber laws, regulations etc. and rest shall have adequate knowledge and expertise in banking, e-commerce, banking laws & regulations.

Operational Procedure:

Digital Bank has to maintain minimum Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) prescribed by Bangladesh Bank from time to time. It shall maintain Advance to Deposit Ratio (ADR) to the percentage as determined by BB and shall also maintain the Capital to Risk Weighted Assets Ratio (CRAR), liquidity ratios (LCR-Liquidity Coverage Ratio and NSFR-Net Stable Funding Ratio) as per BASEL III RBCA guidelines/ as per instructions given by BB in this regard from time to time.

A DB must have a registered head office in Bangladesh to serve as ‘the point of contact’ for its stakeholders including BB and other regulatory authorities. It shall offer efficient, cost effective and innovative digital financial products and services through end-to-end digital ecosystem using AI, machine learning, block chain and other advanced technologies of 4th Industrial Revolution (4IR). Instead of having its own agent/ ATM/CDM/CRM/other channel, it is allowed to use the Agent/MFS network of conventional banks and MFS providers including their existing network of ATM/CDM/CRM. Having any branch/sub-branch/window or providing Over The Counter (OTC) service is strictly prohibited for Digital Bank. They are allowed to issue virtual card, QR Code or any other advanced technology-based product for facilitating customer transactions but strictly prohibited to issue any physical instruments. It has to clearly inform its customer about the details of its financial products, the procedures to operate them and their appropriate security measures.

They need to ensure compliance of “The Bankers’ Book Evidence Act, 2021” and with the other relevant data protection laws and regulations in force and must oblige by any other prudential limits or regulatory requirements prescribed by BB from time to time. It shall follow the AI based Alternative Credit Scoring guidelines issued by BB from time to time regarding the analysis of customers’ credit risk. It shall accept the movable properties of the customers as the collateral security included in the Movable Property Collateral Registry.

ICT requirements:

DB must have a robust, sophisticated, manageable ICT infrastructure and application systems. It shall have at least tier three Data Center (DC) and Disaster Recovery Site (DRS) in the different

seismic zone. It may take Cloud service but the location of the Cloud must be within the territory of Bangladesh. “Guidelines on ICT Security for Banks and NBFIs”, Version 3.0, May 2015 (as amended from time to time) issued by BB shall be applicable for DB. It has to perform Vulnerability Assessment and Penetration Testing (VAPT) for infrastructure and applications and must obtain necessary standard certifications for its applications and infrastructures. It shall identify the possible technological, settlement and operational risk of its system and have the remedial measures to resolve those.

Other regulations:

It will be subject to compliance with the prudential regulations set out by the government and BB applicable for them including corporate governance and risk management particularly on information and communication technology, cyber security, outsourcing, consumer protection, Anti-Money Laundering (AML), and Combating the Financial Terrorism (CFT). It shall not use customers’ information for purposes other than its designated business and must not ask for any private information from its customer which may breach the customer’s privacy. It shall take prior permission from BB regarding the purposes and types of information it intends to collect from its customers.

Bangladesh Bank has the sole discretion to invite applications for establishing a digital bank in Bangladesh. In case of any invitation made by BB, an applicant need to submit the several documents delineated in the “**Guidelines to Establish Digital Bank**”. Bangladesh Bank, if necessary, from time to time, may modify, revise or impose any of the conditions of the guidelines and incorporate new ones complying with section 31(2) of the BCA, 1991 upon its full satisfaction while issuing license. DB shall not engage itself in any activities unless otherwise explicitly mentioned in the guidelines or permitted by BB.

Establishment of Business Centers & Related Rent/Lease issues

To facilitate wide spread of banking business throughout the country with a view to serve unbanked and underserved population (especially in geographically dispersed locations) with a range of banking services therefore, ensure enhanced financial inclusion, Bangladesh Bank issued directives for banks regarding establishment of Business Centers (including Branch, SME/Agro-Branch, Sub-branch, Booths (Collection Booth & Electronic Booth) & Business Development Centers) time to time⁴⁹.

Business Center:

Prior approval of Bangladesh Bank is mandatory for establishment, relocation and closure of any business center except electronic booths. Prior approval is also required for renting/leasing of all type of establishments as well as their renewals. For expansion of branches, scheduled banks are required to submit annual plans by November of the previous year. Based on overall performance, banks are allotted to open a certain number of branches for the following year. Collection of branch license and commencement of branches must be completed within the concerned year.

SME & Agro branch:

Licenses are also provided for opening SME/Agro branches of the banks. The SME/Agro branches need to be established outside the divisional cities to reach the under privileged people of the unbanked areas. These types of branches must invest 50% of their fund in the agriculture/SME sector of their local area.

Urban/Rural Branch:

Branches opened or to be opened in the City Corporations and 'Ka' type Municipalities will be treated as 'urban branches' and branches outside these areas will be treated as 'rural branches. If new City Corporations/ 'Ka' type Municipalities are declared or City Corporations areas are extended, branches opened in these areas will be treated as urban branches. In order to provide banking services to the underprivileged people in 'unbanked' areas, the number of rural branches should be at least 50% of the branches allotted for that year.

⁴⁹ BRPD Circular No 18 Dated 29 November 2012, BRPD Circular No 02 Dated 19 January 2023, BRPD Circular Letter No 02 Dated 16 January 2014, BRPD Circular Letter No 12 Dated 02 June 2014, BRPD Circular Letter No 07 Dated 25 April 2013, BRPD Circular Letter No 02 Dated 13 January 2015, BRPD Circular Letter No 09 Dated 26 July 2016, BRPD Circular Letter No 28 Dated 27 December 2018, BRPD Circular Letter No 01 Dated 08 January 2019, BRPD Circular Letter No 28 Dated 03 December 2019,

Space Acquisition & Rent/Lease:

The maximum limits for acquisition of spaces for the urban and rural branches are 6000 & 3000 respectively. But to open the sub-branches, banks are allowed to take spaces not exceeding 1000. At least 60% of the sub-branches must be opened in the rural areas other than the City Corporations and 'Ka' type Municipalities areas to provide low cost banking services other than foreign exchange transactions to the public of unbanked areas. The amount of advance rent payment for such establishments is restricted to the equivalent rent of maximum 36 months on the basis of tenure of the rental agreement.

Before selection of new spaces for the business centers, banks shall assess (by the team of engineers of the bank) the structural strength of the concerned building along with ensuring the statutory permission of the competent authorities and the availability of the necessary safety measures to combat the sudden accident thereon.

Decoration & Maintenance Expenses:

Banks are allowed to spend a maximum Tk. 2000 per square feet excluding the cost of IT & Air Conditioning equipment for decoration purposes of new business centers. However, this cost shall not exceed Tk. 1400 per square feet for relocation of the existing business centers. Expenditure on purchase of IT & Air Conditioning equipment shall also be kept at a reasonable level. In the case of procurement of such furniture and other equipment, banks have to focus on durability and qualitative standard.

Guidelines for Agent Banking Operation

With a view to serve unbanked and underserved population (especially in geographically dispersed locations) with a range of banking services, ‘Guidelines on Agent Banking for the Banks’ was issued in 2013. Considering the increased demand and importance, BB initiated to consolidate and update existing policies by calling off previous guidelines and circulars^{50, 51 & 52} and issued a new ‘Prudential Guidelines for Agent Banking Operation in Bangladesh’ in 2017⁵³.

Approval Process:

Banks (both conventional and Islamic Shariah based) willing to offer banking services through agent need prior approval from BB. They must do a thorough study on agent banking model and submit application (prescribed format) along with requested data and the following documents:

- Contract with agent & implementation roadmap with details of services,
- Feasibility report with associated risk and remedial measures & future prospects,
- Opinion of independent Audit team on adaptation of internal control for agent banking,
- Board approval on agent banking operation policy detailing on agent selection & management, compliance & monitoring, quality of services, customer protection & due diligence, infrastructural support, internal Control, contingency arrangements etc.

Assessing bank’s overall, as well as specific performance and evaluation of its capacity to conduct agent banking, BB may approve the operation and has the liberty to withhold, suspend or cancel approval on the ground of findings stating its activities detrimental to the public interest or contradictory to Law/Regulation of the country. Banks must resume operation within 3 (three) months of approval and are entirely responsible for any misdeeds of their appointed agents.

Structure-wise Eligibility:

Agent must be a juristic person and the entity/director/shareholders must be fit and proper.

⁵⁰ BRPD Circular Letter No 07 Dated 24 March 2014

⁵¹ BRPD Circular Letter No 11 Dated 02 June 2014

⁵² BRPD Circular Letter No 01 Dated 06 January 2015

⁵³ BRPD Circular No 14 Dated 18 September 2017

Structure	Eligibility Criteria
Master Agent	• Have valid business license & must have one year practical experience, • Have managerial, financial & technical expertise for managing agent banking outlet, • Capacity of managing liquidity, risk management, security management etc, • Outlet must have at least a manager and a teller with required managerial expertise Note: In addition to the above, Master agent must have multiple outlets
Unit Agent	
Support Service Providers	• Capable to provide technological solutions/other support services for agent banking operation & have managerial, financial and technical expertise for managing agent banking outlet • Have valid business license and at least one year practical experience

Agent Banking Operation:

Agent banking outlet should be set up preferably in a location where bank branches are not available within 1km of radius. Remote rural areas, chars, island and other geographical area with limited accessibility will get priority. A minimum rural and urban ratio of 3:1 should be maintained. Appointing small businessmen and eligible women as an agent and promoting women employment in the agent outlet are encouraged. Agents are supposed to be confined with the list of permissible and non-permissible services as mentioned below:

SL	Permissible activities	Prohibited activities
1	Cash deposit and cash withdrawal	Agent contract with more than one bank
2	Disbursement of Inward foreign remittance	Transaction without a system generated receipt/ acknowledgement
3	Loan disbursement & repayment ,	Offer guarantee in favor of customer,
4	Bills/utility bills/insurance premium collection,	Charge customers beyond banks' prescribed fees,
5	Payment of salaries/retirement & social benefits,	Offer banking services on its own accord,
6	Balance enquiry & Fund Transfer,	Make debit/ credit transactions using cheque,
7	Collection of forms of account opening/Loan/ Debit & Credit Card etc.,	Provide/render any financial service not specifically permitted in the contract,
8	Generation and issuance of mini bank statements.	Transact in foreign currency.

Regular business hours announced by BB for banks are also applicable for agent banking outlets. However, if a bank is satisfied with the security and risk issues, it may allow agent outlets to remain open as it decides. Banks shall establish limits within which agent shall operate. Initial limits should not be less than BDT 2.00 lac per agent banking outlet and is revisable based on demand and transaction profile of the agent. Banks may also extend credit facility to the agent for meeting unexpected transaction needs, which shall not be more than 100% of the agent's deposit limit with the bank.

Relocation/ transfer/ replacement of agent banking outlet requires prior approval of BB. Agents are needed to serve three months notice for relocation/transfer/closure of an outlet and failure to provide notice will be treated as violation of contract and subject to penalty.

The maximum number and volume of transactions for client at agent banking outlet should not exceed the limits specified in the following table:

Name of Accounts	Cash Deposit		Cash Withdrawal		Transfer/BEFTN/Inter-Bank/Intra Bank	
	No of Transaction	Total Volume (in lac BDT)	No of Transaction	Total Volume (in lac BDT)	No of Transaction	Total Volume (in lac BDT)
Current Account	4	6.00	2	5.00	4	15.00
Savings Account	2	4.0	2	3.00	2	5.00
Special Notice Deposits (SND)	4	6.00	2	3.00	4	10.00
Note: Transactions beyond the limits require at least 1 (one) working day prior notice to bank by agent.						

Technological Requirement for Settlement of Transaction:

Bank must have a robust IT infrastructure having capacity to support agent banking services, real-time processing of transactions, provide a secured network including end-to-end encryption and also capable of monitoring, detecting and combating cybercrimes and other possible threats. Its Payment Acceptance Devices (PAD) must be able to support minimum TFA/two-step verification for agent and customer registration and should not store the sensitive customer information like PIN/password/biometrics etc. The Agent Banking Application/Software must have inter-operable features and must be able to support host validation for PIN/password/biometrics authentication. It should also be capable to have limit management feature for agents, customers, transactions and other limit requirements.

AML/CFT & KYC:

Banks and its agents shall have to comply with the prevailing AML/CFT related laws, regulations and guidelines and shall have to follow KYC format issued by Bangladesh Financial Intelligence Unit (BFIU) from time to time. Banks shall develop an IT based automated system and integrate the same with its agent banking system to generate Suspicious Transaction Report (STR) and Suspicious Activity Report (SAR) before introducing the services. Banks shall ensure that agents identify customers with at least two characters like ID, PIN, password, ATM card, Biometric fingerprint, secret code or secret message while performing any transaction requiring identification.

Reporting Requirements and Supervisory Oversight:

Bank shall submit data and other information on agent operations including information on nature, value, volume and geographical distribution of operations/transactions to BB on quarter basis. Banks shall submit quarterly reports on agent banking activities and issues like financial irregularities, fraud, forgeries, scams and accidents etc. within 7 (seven) working days after the end of each quarter. In addition, banks shall also submit annual report on its agent banking

operation including the names, number and other information on agent operations for the preceding year to FID not later than 15th February.

Remedial Measures and Administrative Sanctions:

Where a bank or its agent fails to comply with these Guidelines, Bangladesh Bank may pursue any or all corrective actions against the bank as provided under the Bank Company Act, 1991 and any other applicable laws and regulations. In addition, BB may pursue any or all of the following administrative sanctions against a bank, its board of directors, officers or agents:

- Prohibition from engaging in any further agent banking operation;
- Revocation of agent approval; and
- Termination of agency contract & Prohibition from contracting new agents;

Additional References:

- [BRPD Circular Letter No.-08 Dated-27 May 2018](#)
- [BRPD Circular Letter No.-11 Dated-21 April 2022](#)

Guidelines for Islamic Banking

Islamic Banking, based on [Shariah](#) (Islamic law) and its practical application, gained popularity over the conventional banking practices around the globe. Following the global trend a full-fledged Islamic bank namely Islami Bank Bangladesh PLC was established in Bangladesh in 1983. Initially, there were no separate laws/ regulations for Islamic banking. Being a significant part of mainstream banking in Bangladesh over span of time, Islamic banking required separate governance due to the basic differences of its salient features with that of the interest based banking system. Bangladesh Bank, in pursuance of Section 45 of Banking Company Act, 1991, issued 'Guidelines for Conducting Islamic Banking'⁵⁴ in 2009 to bring greater transparency and accountability and therefore, better governance of Islamic Banking.

Focus Group for Introducing Islamic Banking:

Bangladesh Bank constituted a Focus group comprising representatives of BB, members from Islamic Banks and the Central Shariah Board of Islamic Banks to formulate an integrated guideline for Islamic Banking business. Based on the recommendations of the Focus group this guideline includes directives regarding terminologies used in Islamic Banking operations, definitions of the terminologies, the principles and modes of deposits and investments.

Licensing Criteria: Banks can apply for full-fledged/ partial Islamic Banking license.

Full-fledged Islamic Banking	Islamic Banking branch of Conventional bank
- Public limited company with 50% share offered to the public, - Financial transactions based on Islamic Shariah, - Resource mobilization, expansion, nature of business and Expertise, other facilities for operation must be clearly stated, - Paid-up capital should be min Tk.500 crore and capital adequacy ratio must be maintained as per BB's directives, - Shareholding stake of each sponsor shall be min Tk.1.00 crore and shall be maximum 10% of the proposed bank's total share capital. - The Chief Executive (CEO) must be a professional with min 3 years Islamic banking experience, must& complied with all the terms & conditions of the "Fit & proper Test" issued by BB.	A: - Strong financial health & adequate capital Structure, - Good earning capabilities & liquidity position, - Have record of adherence to prudential regulations & credit discipline, - Convenience & the needs of the population of the area to be served by the proposed branch B: - Have CAMEL rating of 1/2 in the last On-Site inspection of Bangladesh Bank, - No major negative report against the bank. - Have Islamic banking division with adequate expertise, - Adequate Control and segregation of Islamic Banking Fund - Separate maintenance of accounts & financial statements.

⁵⁴ BRPD Circular No. 15/2009, Dated 09 November 2009

Responsibility for Shariah Compliance:

Board of directors of the respective banks will be responsible for ensuring the compliance of banks activities and their products with Islamic Shariah. The Board of the Islamic banks/Conventional commercial banks having Islamic branches, therefore, will be constituted with directors having requisite knowledge and expertise in Islamic Jurisprudence. The Board may form an independent Shariah Supervisory Committee with experienced and knowledgeable persons in Islamic Jurisprudence. However, the Board shall be responsible for any lapses/irregularities on the part of the Shariah Supervisory Committee.

Principles & Product of Deposit & Investment:

- i) **Al-Wadeeah:** Fund which is deposited with Banks by the depositors with clear permission to utilize/invest the same is called Al-Wadeeah. The banks have to pay back the deposits received on the principle of Al-Wadeeah on demand of the holders. The depositors have to pay govt. taxes and other charges, if any.
- ii) **Mudaraba principle:** Mudaraba is a partnership of labor and capital, where one partner provides full capital and the other one manages the business. The capital provider is called Sahib-Al-Maal and the user of the capital is called Mudarib. The deposits, received by Islamic banks under this principle are called Mudaraba Deposits. The Mudaraba deposits include:

iii) Investment Principles:

Shariah based banks do not directly deal in money. They run business with money.

Deposit Product	Investment Products	
• Al-Wadeeah • Mudaraba Savings Deposits (MSD) • Mudaraba Short Notice Deposits (MSND) • Mudaraba Term Deposits (MTD)	• Mudaraba, • Musharaka • Bai-Murabaha (Murabaha to the purchase orders) • Bai-Muajjal • Salam and parallel Salam • Istisna and parallel Istisna	• Ijara • Ijarah Muntahia Bittamleek (Hire Purchase) • Hire Purchase Musharaka Mutanaqisa (HPMM) • Direct Investment • Investment Auctioning etc • Quard • Quard Hassan etc

Maintenance of CRR/SLR:

Islamic Banks shall maintain Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) as per BB prescribed rates. Every commercial Bank having Islamic bank branches shall maintain SLR/CRR for its Islamic branches at the same rate as prescribed for the Islamic banks and shall, for the purpose, maintain a separate Current Account for the Islamic banking branches with Bangladesh Bank.

Preparation of Financial Statements:

All the Islamic banks/Islamic banking branches of the conventional banks shall prepare financial statements and provide information as per the prescribed format suggested by the guideline. The key points to be followed for preparation of financial statements are:

- i) To enable the banks under Islamic Shariah to prepare their financial statements as per provisions of Bank Company Act, 1991, International Financial Reporting Standards (IFRS), the Company Act, 1994, Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and Shariah principles/rules/regulations etc.
- ii) The minimum component of the specimen reports and financial statements for the reporting institutions is as follows:
 - a) Balance Sheet
 - b) Profit and Loss Account
 - c) Cash flow Statement
 - d) Statement of Changes in Equity
 - e) Liquidity Statement
 - f) Guidelines for the notes to the financial statements

The specimen financial statements are given at the original guidelines as appendix II.

Framework of Rate of Return:

Under Mudaraba principles, profit accrued from investment and financing are shared between the depositors and the bank based on pre-agreed profit ratio. Losses, if any, will be borne by the depositor unless the loss is due to the negligence by the bank in managing the depositors' funds. A standard framework for calculation of rate of return is given in Appendix-III at original guidelines.

Principle of Pre-financing:

As per Shariah rules, Islamic Banks are not eligible for Re-financing facilities from Bangladesh Bank, for that reasons Bangladesh Bank issued a circular letter⁵⁵ which describe briefly the Shariah aspects of pre-financing facilities from Bangladesh Bank. The details are described in the said Circular letter.

⁵⁵ BRPD Circular Letter No. 42 Date 26 October 2022

Guidelines for Bancassurance

Bancassurance is an arrangement/agreement between bank and insurance company for using bank's distribution channels to sell insurance products. In this arrangement bank works as a corporate agent of the insurance company and receive a certain fee/commission in return of the service.

Though bancassurance concept is pretty familiar around the globe from 1980, BB officially announced the permissibility of bancassurance activity in Bangladesh through a Gazette Notification⁵⁶ & ⁵⁷ in December 2023. It is expected that banks and insurance companies operating in Bangladesh shall be benefitted through this new business without taking additional risk and this will increase insurance penetration within the country. With a view to provide a regulatory and supervisory framework for banks engaged in bancassurance services, BB issued “Bancassurance Guidelines for Banks”⁵⁸.

Eligibility Criteria for Banks:

To become eligible for Bancassurance business banks must comply with the following criteria:

Sl	Particulars	Required Value/ Standard
1	Capital to risk-weighted asset ratio (CRAR) with capital conservation buffer (CCB)	$\geq 12.50\%$
2	Credit Rating (as per the Guidelines on Risk Based Capital Adequacy)	$\geq$ Grade 2
3	CAMELS rating	$\leq$ Rating 2
4	Non Performing Loan (NPL)	$\leq 5\%$,
5	Net Profit (for last three consecutive years)	Must be Positive
6	Viable Bancassurance business plan & review mechanism	Approved by Board
7	Manpower to operate a dedicated Bancassurance unit/wing	Competent and suitable

The guideline further states the eligibility of the Chief Bancassurance Officer (CBO), Bancassurance Manager/Officer of the bank, customers and the products. It also describes the code of conduct for the banks. It is mentionable here that banks are eligible to sell all life and certain non-life insurance products only. To be specific, among the non-life insurance products only motor, travel, agricultural and crop insurance products can be sold.

Application Process:

For getting approval from BB, bank needs to submit following documents:

- Board Resolution regarding approval of banks engagement in bancassurance business,
- Internal Bancassurance Guidelines approved by the Board,

⁵⁶ Reference Number-BRPD(D-1)/UBPS/761/2023-10722 Dated 12 December 2023

⁵⁷ BRPD Circular Letter No 74 Dated 12 December 2023

⁵⁸ BRPD Circular No 18 Dated 20 December 2023

- Bancassurance business plan with implementation roadmap,
- Declaration on Code of Conduct & forms filled-up with information of bank and insurer,
- Copy of the signed Bancassurance Agency Agreement(s) between bank and insurer vetted by the legal retainers of the bank and the insurer,
- Submit other document as per BB's requirement time to time.

Bangladesh Bank shall reserve the right to withhold, suspend or cancel the approval of Bancassurance business if, in its consideration, any activities of any of the parties involved in the process is detrimental to the depositors' interest or against any laws and regulations in force in the country. After getting approval from BB, bank shall apply for a corporate agent license to IDRA and notify Bangladesh Bank accordingly with a copy of the license from IDRA within 15 days of receipt of the license.

How it works:

For bancassurance business, banks are allowed to have agreement with not more than 3 Life insurance and 3 non-life insurance companies at the same time. They shall offer Bancassurance products (both Life and Non-Life Insurance) to their customers (except walk in customer) through any of their delivery channel like branch network, sales network (including tele-sales) or digital platform. The sale of insurance in combination with the sale of banking products (bundled products) must be offered in a transparent manner with respect to the features and cost of the insurance.

Claim Settlement is the sole responsibility of the insurer. The insurer shall settle the claim directly with the insured person or nominee (s), whichever is applicable, under intimation to the bank. The bank shall assist the insured person or nominee (s) as a facilitator in processing the claim as applicable. The bank shall provide adequate information to the claimant about the means of communication with the insurer for submission of claim.

Account Opening Form & KYC

Technological advancement, wide spread of technology driven financial infrastructure and increased access to information spur the need for modify the existing account opening forms in a customer-friendly manner. In line with this Bangladesh Bank issued a directive⁵⁹ for banks regarding upgrading all types of account opening forms like individual/institutional/government/semi-government/autonomous organization accounts and fixed deposit/ savings schemes/special scheme etc.

Considering the account holder's profession and sources of fund, the bank will complete the transaction profile along with KYC of the account holder and update it considering the actual transactions after 6 (six) months of opening the account.

Banks were advised to include all the information of the prescribed account opening form (as attached with the circular) during printing bank's own account opening form. Banks are allowed to add additional information if feels necessary. Banks may attach account related additional terms and conditionality with the form. The form may be printed in Bengali or English or both. Islamic Shariah-based banks may use accredited and consistent Islamic Shariah-based words/phrases instead of the words/phrases used in the said form.

Considering ease of business and promotion of environment-friendly banking activities in Bangladesh, BB come up with new directives⁶⁰ in the year 2021 which is to be followed along with the existing procedures. As per the new directive, accounts of authorities (such as Bangladesh Investment Development Authority, Bangladesh Economic Zone Authority, Bangladesh Export Processing Zone Authority, Bangladesh Hi-Tech Park Authority etc.); providing services through websites/web portals/apps of Scheduled Banks or through One Stop Service (OSS) service providers of Bangladesh for ease of business/ adoption of environment friendly mode, can be opened online through coordination with their website/web portal/app.

In case of online account opening, hard copy or soft copy of the relevant account information should be kept as per BRPD Circular/2020. However, the existing guidelines regarding KYC and Transaction Profile (TP) shall be followed in respect of such accounts. Also, sample signature of customer/account manager can be accepted online through verified channel.

⁵⁹ BRPD Circular No 02 Dated 23 February 2020

⁶⁰ BRPD Circular Letter No 16 Dated 11 March 2021

Operation of Dormant Account

Since there was no unified policy on dormant account management before 2021, different banks were following different procedures for managing dormant account which raised confusion among customers and made the issue complex. Besides, customers were deprived by the banks realizing service charges on dormant accounts without paying any interest/profit on remaining balance. In response the issue, BB issued a complete directive⁶¹ for the management of dormant accounts.

Definition/Timeframe of Dormant Account:

All types of current, savings, fixed deposit (FD) and Special Notice Deposit (SND) accounts; either Islamic or conventional, will be marked as inoperative for having no transactions for six consecutive months. The inoperative account will be considered as Dormant when:

Account	Marked as inoperative	Exemption
Current & SND	For Minimum 6 Months	Government, minor, and court-related financial accounts will not be considered as dormant.
Savings	For Minimum 18 Months	

Transactions refer to the account transactions through checks, customer debit instructions, debit/similar cards, internet banking, or any app (mobile) usage whereas interest/profit and charges/excise duty/VAT imposed on the accounts will not be considered as transactions. Applicable interest or profit on dormant current, SND, and savings accounts, along with any charges, duties, or VAT, must be settled with the customer within the specified timeframe as per the terms and conditions of the agreement.

Reactivation of Dormant Account:

To reactivate dormant accounts, customers need to submit a written application to the branch manager. The bank will consider the demand mentioned in the application to activate/reopen the dormant account. If the account has been inactive for more than 5 (Five) years, a new KYC (Know Your Customer) form⁶² should be completed. No charges or fees will be imposed for the activation of dormant accounts. Any discrepancies/issues with dormant account must be communicated to the customer at least one month prior through SMS, email, letter, contact from the bank's own relationship officer, or any other means of communication.

⁶¹ BRPD Circular No.-23 Dated 28 December 2021

⁶² BRPD Circular No. 02 Dated 23 February 2020

Cash Withdrawal policy for Illiterate Customer

For easy and risk-free transactions through cheques by the under-privileged illiterate bank customers, the following policies shall be followed⁶³.

- Conduct accurate and complete data collection and verification process (Know Your Customer-KYC) of illiterate customers by following Customer Due Diligence (CDD) as per BFIU Circular No-26/2020.
- Biometrics, Iris Recognition, Facial Recognition can be introduced to easily identify illiterate customers so that they can withdraw money from any branch easily and seamlessly.
- Illiterate customers have to present physically every time to withdraw money from any branch. In that case the customer can bring any close relative/acquaintance with him to assist in writing the cheque.
- If the customer does not bring anyone with him, the responsible bank officer will assist in writing the cheque and will read out the amount written in the cheque to the customer. The process of writing the cheque should be done in a visible place covered by CCTV.
- While writing a cheque by the bank officer, a declaration form can be taken from the customer containing the fingerprint of the customer, the name, designation, ID with the signature of the bank officer and the name, designation, ID etc. with signature of a witness acceptable to the bank.
- The customer shall provide thumb impression of his left hand at designated place of cheque in front of authorized bank officer. The concerned bank officer will attest the thumb impression and verify the appearance of the customer present with the photograph of the customer kept in the bank.
- The customer shall receive money from the counter with his own hand. Under no circumstances can the check be presented at the counter by a relative/representative of the customer.
- If the customer is unable to come to the bank branch for any reason acceptable to the bank, the branch manager may nominate a bank officer on the request of the customer. The nominated officer can go to the customer's house to write, read the cheque, ensure the customer's consent. With the customer's consent, it can be arranged to pay money from the cash counter to any member of the family.
- Activities of serving illiterate customers can be covered under help desk.
- Real Time Gross Settlement (RTGS)/Electronic Fund Transfer (EFT) and Debit/Credit card facilities should not be provided to illiterate customer at this stage.

⁶³ BRPD Circular No. 04 Dated 21 May 2018

Unclaimed Deposits & Valuables

A long-awaited need for a clear regulatory instruction for proper management of unclaimed deposit & valuable contents accumulated in the banking sector led Bangladesh Bank to issue a detailed policy⁶⁴ on it.

Deposits, Cheques, Drafts, negotiable instruments etc. and assets at banks not claimed by anyone for 10 years (except the deposit of Government, Minor or Court) are considered unclaimed, according to Section 35 of Bank Company Act, 1991. As per the Act, in such cases banks need to send 03 (three) months' notice to the customer's address and then submit the said fund and asset to the Bangladesh Bank subject to non-receipt response from the customer and afterwards BB will transfer the fund to government account after two years of preservation. Banks are subject to report BB (in a prescribed format) the list of deposits and valuables unclaimed for ten years within thirty days of closing of each calendar year after and also serve written notice to customer to respond within three months.

Procedure for submission of Unclaimed Deposit/Valuable Contents to BB:

- i) **Unclaimed deposits:** Bank must calculate the unclaimed deposit in local and foreign currency separately and submit the total amount to BB in the month of April of every calendar year. For unclaimed deposits in local currency they need to submit the principal along with interest to BB in the form of cheque/pay order. In case of foreign currency, Banks will submit the amount in 06 (Six) BB approved currencies - US Dollar (\$), Great Britain Pound (£), Euro (€), Canadian Dollar (CAD), Japanese Yen (¥) and Chinese Yuan Renminbi (CNY) with a cheque/pay order to the Bangladesh Bank, Forex Reserve and Treasury Management Department. Other foreign currencies will be submitted in the same process after converting the amount in USD using the exchange rate of that day.
- ii) **Unclaimed Cheque/Draft/Negotiable Instrument:** In case of Unclaimed Cheques, Drafts or Negotiable Instruments, Banks will submit the principal amount with interest (if applicable) following the same procedure of Unclaimed Deposits Submission. Bank will enclose the detailed information of the instruments (in prescribe format) along with a forwarding letter for reporting to concern departments of BB.
- iii) **Unclaimed Valuable Contents:** Unclaimed Valuable Contents pledged under loans/other arrangement must be submitted to BB as per the conditions of the loan/ other arrangements of the bank. In this case banks are needed to enclose the detailed information of the valuables (in prescribe format) along with a forwarding letter for reporting to concern departments of BB.

⁶⁴ BRPD Circular No. 10 Dated 12 September 2018

Note: Banks must publish the list of transferred Unclaimed Deposits/Valuable Contents in their own website and also circulate in two newspapers once in every three months for a year. BB may exhibit the list in BB's website for a year subject to having the soft copy of the list from the banks.

Refund Procedure from Bangladesh Bank:

Subject to claims of the relevant customer, banks can request BB (within two years) for returning the deposited unclaimed deposit & other valuables in a prescribe format along with necessary documents mentioned in Annexure-E of the circular. In case of deceased account, death certificate of the customer must be provided. Only competent successor; according to succession certificate, can apply for the unclaimed deposit of the relevant deceased account if it does not have any authorized nominee.

Transferring Unclaimed Deposit from Bangladesh Bank to Government:

After preservation of unclaimed deposits and valuable contents for two years BB will arrange transfer of the whole/ partial amount (subject to submitted claim for refund) to the government account. Thereon, these will be treated as public property and no further claims will be acceptable on it.

Information regarding Unclaimed Deposit:

A person can find his/her unclaimed deposit and valuable contents in the list of Bangladesh Bank published in the sub-section named **“Claim Your Money”** of the section named **“Services”** in Bangladesh Bank website and claim for refund through the respected bank.

Interest of Loans and Deposits

Policy of determining Lending rate:

The interest rate of bank loans will be determined solely based on banker-customer relationship, taking into account the demand of loan and supply of loan-able funds in the banking system⁶⁵. The following instructions will be applicable in determining the market-based interest rate of bank loans:

- a) Banks shall declare sector-specific interest rates on loans and may provide loans within a range of 1% lower or higher than the declared rates for individual customers, depending on their respective risk profiles;
- b) The loan sanction letter should state whether the interest rate is fixed or variable. If the interest rate is variable, the sanction letter must specify the maximum number of times and percentage it might be increased in a year.
- c) If any loan or installment of loan is fully or partially past due/overdue, a maximum penal interest of 1.5% might be charged on the entire amount outstanding of a continuous or demand loan and on the overdue installment(s) amount of a term loan;
- d) No service charge shall be levied or collected in excess of the bank's declared interest rate; and
- e) The interest rates of the loans extended under the incentive package/special fund/refinance/pre-finance fund established by Bangladesh Bank or the government shall be determined according to the policy governing the respective fund.

Calculation Procedure of the Lending Interest⁶⁶:

The Interest will be calculated on the end day of each quarter such as 31-03-XX, 30-06-XX, 30-09-XX, and 31-12-XX.

In the case of fixed-term Loans and Continuous Loan, interest will be calculated based on the product of the day-end balance but interest must be charged quarterly.

The loan under the Prudential Guidelines for Consumer Financing and Small Enterprise Financing will be repaid according to the Equal Monthly Installment (EMI) method. The Formula of the interest calculation is as follows:

$$\text{Annual Interest rate X} \frac{\text{Applicable days from the day of last calculation of interest}}{360 \text{ days}}$$

Interest will be applicable on the loan repayable monthly, quarterly or bi-annually proportionately to the annual interest rate.

⁶⁵ BRPD Circular No. 10 Dated 08 May 2024

⁶⁶ BRPD Circular No. 04 Dated 25 January 2012, BRPD Circular Letter No. 09 Dated 20 June 2011

Additional direction for Interest rate:

Banks must submit returns on the announced rate of interest on deposit and lending to Bangladesh Bank within 7 days of the respective month through Enterprise Data Warehouse (EDW). Banks are also advised to upload deposit and lending interest rates on their respective website and display the same in a visible place of all their head offices and branches⁶⁷.

Deposit Interest Rate:

There is no direction for determining the floor/ ceiling on deposit rates. Banks are free to charge/fix their deposit rate. However, Banks must submit returns on the announced rate of interest on deposit to Bangladesh Bank within 7 days of the respective month⁶⁸.

Operation of Special Notice Deposit (SND) Account⁶⁹:

For avoiding ambiguity and ensuring uniformity in the operation of (SND) account banks are to comply with the following rules:

1. All the accounts like Short Term Deposit/SND/Call Accounts shall only be termed as Special Notice Deposit (SND) account.
2. Minimum 7 day's prior notice from the depositor is required for withdrawal of money from the SND account. No prior notice will be required for transactions related to bill collection/IPO collection/ escrow account/transfer to another account if the account is consist of such term.
3. SND accounts can be operated without issuing cheque book.
4. Interest on the SND account will be calculated on the day-end balance and accumulated interest will be credited to the account on half-yearly basis/at the time of account closing.
5. The rate of interest may vary for different amount/range of deposits. However, banks shall not differentiate the rate of interest among the customers belonging to the same range.
6. No minimum balance fee/ incidental charge/ ledger fee/ service charge can be imposed on this account. Banks are allowed to impose charge for account maintenance (on every six month) and for account closing but in each case the amount must not be more than five hundred taka.
7. Rate of interest for SND account has to be declared in ranges- (a) Less than 1 crore, (b) 1 crore and above but less than 25 crore, (c) 25 crore and above but less than 50 crore, (d) 50 crore and above but less than 100 crore, (e) 100 crore and above.

⁶⁷ BRPD Circular Letter no-09 Dated 20 June 2011

⁶⁸ BRPD Circular no-04 Dated 25 January 2012

⁶⁹ BRPD Circular no- 20 Dated 16 May 2010; BRPD Circular no- 26 Dated 25 August 2010;
BRPD Circular letter no- 16 Dated 21 December 2010

8. No rate of interest beyond the published/announced rate can be offered.

Interest on Deposit/Loan Accounts of Deceased Individuals:

In order to introduce uniform practices in application of interest on deposit and loan accounts of deceased individuals, the banks are advised to follow the following guidelines⁷⁰.

- i. **Savings Bank Accounts:** Interest on the balance of savings bank accounts will be paid upto the date of withdrawal/closing of the accounts as admissible under savings bank account rules, irrespective of the date of expiry of the depositor.
- ii. **Fixed Deposit Accounts:**
 - a. Premature encashment: In such cases deposit should be deemed to have been made upto the date of withdrawal and not upto the date of death. Interest should be paid and recovery of penal interest made in accordance with prevalent instruction regarding premature encashment.
 - b. Encashment at maturity: Interest should be paid upto the date of maturity at the rate applicable for the relevant FDR.
 - c. Encashment beyond maturity: Interest upto the period of maturity should be paid at the rate applicable for the relevant FDR. Interest for the period beyond the date of maturity upto the date of withdrawal should be paid at the rate applicable for savings bank accounts with cheque facility.
- iii. **Loan Accounts:** Banks may charge interest in loan accounts till liquidation of outstanding bank dues. They should, however, pursue with the successors to adjust the loan accounts at the earliest to avoid accumulation interest burden.

It may, however, be noted that as usual all payments should be made to and recoveries affected from the legal successors of the deceased account holders.

⁷⁰ BRPD Circular No. 11 Dated 06 August 2017

Schedule of Charges

Banks in general are free to fix the fees and commissions relating to the services offered by them to their customers. In applying the fees there should be no discriminations among customers for similar services. In other words, all customers are required to be treated at par for similar services.

Bangladesh Bank has issued master circular⁷¹ on Schedule of Charges incorporating necessary instructions for rationalization of different service charges received by the banks. Important features of this policy are as follows:

Deposit related charges:

Different types of charges such as Account opening and closing fee, Account maintenance fee, cheque book issue fee etc. set on bank deposit related issue. For example, Considering the interest of small depositors it has been decided that no charge can be imposed as account maintenance fee for average deposit balance up to Taka Ten Thousand (BDT 10,000/-). Whereas maximum charges has been set for different slabs of average deposit balance more than Taka Ten Thousand (BDT 10,000/-). Minimum balance requirement and account maintenance fee has been exempted for personal retail account⁷².

Credit related charges:

Charges related to credit such as Loan processing fee, Loan application fee, documentation fee etc. have been addressed in the policy. For instance, No additional service charge can be imposed on any type of loans including Export Credit.

Local & Foreign Trade/Remittances related charges:

Trade related charges like maximum commission for LC opening, LC amendment; Bank Guarantee, etc. have been set in the circular.

Bank Account & Other related charges:

Fees related to Balance confirmation certificate, solvency certificate, stop payment and issuance of different instruments etc. have also been fixed.

Other instructions:

- Banks have been advised to upload the schedule of charges in their respective websites and display the same in all of their head offices and branches, for ready reference of the clients.
- Banks can not charge any fee/commission which is undeclared in their schedule of charges.

⁷¹ BRPD Circular No 11 Dated 10 June 2021

⁷² BRPD Circular Letter No 09 Dated 19 March 2023

Acquisition of Fixed Assets

Banks are restricted to purchase floor space/land/building or take lease for a period greater than 20 years⁷³ only for its Head office's own use. Purchase of floor space for branch use is permissible within the territory of City Corporation only. Banks shall take prior approval of Bangladesh Bank to purchase/take lease such floor space/land/building^{74&75}.

Banks are not allowed to hold fixed assets (ex: land, building, floor space etc.) more than 30% of their paid up capital. Banks which are holding fixed assets more than 30% of their paid up capital shall not acquire any further fixed assets until raising their paid up capital proportionately⁷⁶.

⁷³ BRPD Circular Letter No. 09 Dated 26 July 2016

⁷⁴ BRPD Circular Letter No. 04 Dated 25 January 2010

⁷⁵ BRPD Circular Letter No. 09 Dated 30 July 2012

⁷⁶ BRPD Circular Letter No. 14 Dated 12 August 2013

Policy for Non-Banking Assets (NBA)

As per the instructions of Section 38 of the Bank Company Act, 1991, balance sheet, profit and loss account and financial report of the Scheduled Banks are prepared in accordance with the form of First Schedule. As per the instruction serial no. 09 of Ka of financial statement preparation described in the first schedule, the assets acquired by the banks on the basis of payment of any claims or receivables have to be shown as non-banking assets (NBA) in the balance sheet of banks. Generally, such assets arise when bank acquires the ownership of collateral/mortgaged assets taken against the bank loan through legal process for non-payment of loans given by the bank. In this case, after obtaining the ownership of the security/mortgaged asset in accordance with Section 33(7) of the Money Loan Court Act, 2003, such assets should be included as bank's NBA after doing registration and mutation to confirm physical possession along with completion of necessary legal process and adjusting corresponding loan at the earliest. The following instructions⁷⁷ shall be followed in the case of inclusion of NBA in bank's account after adjusting corresponding loan:

Valuation of assets:

NBA should be evaluated very carefully while including it in bank's account. In the case of valuation of NBA, a committee consisting of at least three officers/executives experienced in this regard should be formed and the valuation should be completed by them. If there is a difference between the value determined by the Valuation Committee and the value fixed by the Government for the sub-registrar under the local jurisdiction of the asset, its justification shall be presented in the valuation report. Apart from asset valuation by a committee consisting of bank officers/executives, asset valuation should also be done through a valuation firm or professional organization. The lower of the two values as determined by the valuation firm/professional organization and the committee shall be considered as the market value of the asset. After determining the market value of the asset it has to be approved by the chief executive of the bank. It should be noted that while determining the market value of the assets, tin/semi-built buildings, unusable buildings and machinery should be sold and deposited against the loan as far as possible in the shortest possible time. In no way can such wealth be included as NBA. However, the land on which there are tin/semi-built buildings, unusable/saleable structures and machinery shall be determined from the estimated market value of the land/land after deducting the cost of removing the said structures/machinery.

⁷⁷ BRPD Circular No 22 Dated 20 September 2021

In the valuation of assets for the purpose of inclusion as NBA, if it is found that the value of any asset has abnormally decreased from the last valuation carried out earlier by the bank, then the liability (if any) has to be determined after ascertaining the reason.

Inclusion of NBA in bank's account through loan adjustment:

Before adjusting the borrower's loan by NBA, the total amount owed to the bank by the borrower (all dues including uncharged interest) should be assessed and be charged on the loan account (unless otherwise directed by the court) to determine total loan outstanding. In this case the uncharged interest must be transferred to Interest Suspense Account. The process of including NBA in bank's account after loan adjustment has been elaborated in the policy.

Inclusion of NBA in the bank's balance sheet against written-off loans:

Before adjusting the written-off loan of the borrower by the NBA received against the written-off loan, the total amount owed to the bank including uncharged interest (unless otherwise directed by the Court) should be assessed. Detailed procedure for inclusion of NBA in the bank's account against written-off loans has been illustrated in the policy.

Release of borrower from default after full adjustment of loan/written-off loan:

If the full amount of the loan/written-off loan is adjusted by including NBA in the bank's account, the concerned borrower should be released from default. However, before releasing the borrower from default, approval of the Board of Directors must be obtained after taking certification from the bank's 'Head of Internal Control and Compliance' stating that all the processes mentioned in the policy have been duly followed.

Sale and use of NBA:

NBAs being acquired on account of any claims or receivables of the Bank shall not be retained by the Bank for a period beyond the period prescribed by section 10 of the Bank Companies Act, 1991 from the date of acquisition of such assets. For that reason, after acquiring the asset, initiative of selling it should be taken as soon as possible. However, if necessary, the bank can use the said assets (in whole or in part) for its own banking activities. If any part (asset) of NBA is used for sale or banking activities, it should be adjusted following the process mentioned in the policy.

Disclosure:

After inclusion as NBA, those assets should be shown separately sector-wise mentioning holding period of the assets in the financial statements of the bank. Also, among such assets, income generating and non-income generating assets should be shown separately. Furthermore, instructions on Calculation and Reporting of NBAs are also given in the policy.

Compensation to Victims of Fraudulent Transactions

There are many incidents of stealing, deceiving & fraudulent activities around customers' accounts by faking bank checks where customers lose money. Involvement of few bank officials/staffs in such events is not farfetched. Apart from that these undue incidents may happen due to stealing check book, check book leaf, check counterfeiting, systemic fault, misuse of IT system etc. Usually bank files law suits to court immediately knowing such incidents. Since disposal of law suit is time consuming, if bank in its own investigation found no involvement in fraudulent activities from client's part, by taking an indemnity bond from client bank should pay concerned money to client.

Bangladesh Bank has issued a circular⁷⁸ in this regard which states that if bank found in its own investigation that its officials/staffs are involved in any check fraudulent activity bank should immediately pay customer the claimed money. If the incident is taken place due to involvement/fault of any third party where bank's officials/staffs are not involved, bank should take steps to compensate customer by taking permission from its board of directors.

Banking Services to Specially Focused Customers

To make the banking services convenient, smooth and comfortable for specially focused customer such as freedom fighters, elderly people, widows and customers with special needs, BB issued specific instruction⁷⁹ for banks. Banks are instructed to reserve priority seating arrangement for such kind of customers in all of their branches including the head office. The desired banking services to these customers should be rendered in an effortless, smooth and prompt manner. The banks are advised to specifically assign 01 (one) officer/employee in each branches including all of its service centers for providing support to the said customers visiting the bank outlet for receiving banking services.

Customer Complaint Management

Bank shall display the Bangladesh Bank's 'hotline' number (16236) along with the bank's own 'hotline' number in the existing complaint box in all the branches and sub-branches of the bank in a visible place⁸⁰.

Moreover, Banks should establish a well-defined mechanism to redress the complaints of their customers regarding outsourced services and ensure that genuine grievances are addressed promptly.

⁷⁸ BRPD Circular No 03 Dated 13 March 2017

⁷⁹ BRPD Circular No. 13 Dated 22 June 2022

⁸⁰ BRPD Circular No. 07 Dated 09 May 2023

Outsourcing Arrangements

Considering the rapid increase in the variety of banking services and its associated cost of operation, the introduction of outsourcing arrangement in banking sector become inevitable for reducing operational cost and achieving strategic aims. Bangladesh Bank issued complete guidelines⁸¹ on addressing the appointment, operation and management of outsourcing arrangement in 2015.

To mitigate the associated risk of outsourcing arrangement and ensure the regulatory compliance, banks are needed to adopt comprehensive and clear outsourcing policies, analyze the financial and infrastructure resources of the service provider, negotiate appropriate outsourcing contracts, require contingency planning by the outsourcing firm, and establish effective risk management programs.

Definition of Outsourcing:

- (a) Outsourcing: Outsourcing is when any activity of a bank-company or part thereof done by another party (Service Provider) from inside or outside the bank premises, from within Bangladesh or abroad irrespective of the term used for the relationship.
- (b) Service Provider: An outsourcing Service Provider can be an office of the banking company situated outside Bangladesh, its holding or subsidiary company or any of its affiliates in Bangladesh or abroad, or an unrelated third party in Bangladesh or abroad.
- (c) Sub-contracting: Sub-contracting is when a service provider uses any of its office situated outside Bangladesh, its holding or subsidiary company or any of its affiliates in Bangladesh or abroad, or an unrelated third party in Bangladesh or abroad for any part of the activities outsourced to it.
- (d) Confidential information: Confidential information includes information which can lead to identification of the customer, customer's credit reports, customer's balances and transactions, suspicious activity report and information, information not publicly available, and any so includes regulators' reports & instructions, ratings and price sensitive information of the bank.

Outsourcing Policy:

A bank seeking to outsource activities shall develop a comprehensive policy duly approved by its Board of Directors [Chief of Bangladesh operations in case of foreign banks]. The policy should include, inter-alia, identification of and the extent to which the relevant activities are appropriate

⁸¹ BRPD Circular No.-02 Dated 19 January 2015

for outsourcing, criteria for selecting suitable service providers, delegation of approval authorities for outsourcing depending on risks and materiality, risk mitigation measures and governance structure clearly defining roles and responsibilities of Board of Directors and management to monitor and review the operations.

Outsourced Activities:

- (a) Generally, banks should only outsource the activities which can be effectively supervised by them and compliance with applicable legal and regulatory requirements can be ensured.
- (b) Banks shall not outsource its core management functions, any of its risk management functions or core banking operations. However, in case of foreign banks, parts of its core management functions or risk management functions can be operated by any of its offices from outside the country subject to fulfilling conditions mentioned in Paragraph 8 (Outsourcing Abroad) of this Circular.
- (c) Statutory Audits, Legal and Professional Advisory Services, Drawing Arrangements, Foreign Correspondent Banking, and activities not related to banking services like usage of courier, housekeeping and janitorial services, catering, security of bank premises, utilities, telephone and telecommunication services, usage of media or firms for advertisements, printing of stationeries (except cheques, drafts, etc.) shall not be considered as outsourcing and the instructions of this Circular are not applicable to those activities.
- (d) Banks can outsource the activities listed in Annexure-1 to Service Providers in Bangladesh without prior approval of Bangladesh Bank. Any bank may approach Bangladesh Bank for clarification if it is uncertain whether a particular arrangement falls within these activities.
- (e) Sub-contracting by the service provider of material outsourcing arrangements both in case of local and abroad is not allowed. Material outsourcing arrangements are those, which if disrupted, have the potential to significantly impact the business operations, reputation or profitability.
- (f) Moreover, an activity should not be outsourced if it would impair Bangladesh Bank's right to assess, or its ability to supervise, the business of the bank.
- (h) With regard to services related to Doorstep Banking, SME Service Centers, Mobile Financial Services, Agent Banking, or any other special activity endorsed and guided by specific circulars or guidelines issued by Bangladesh Bank, instructions of this Circular shall also be applicable to the extent possible. However, in case of any conflict, relevant provisions of the specific circular or guideline shall prevail over this Circular.

Selecting Service Providers:

- (a) Banks must develop criteria that enable them to assess, prior to selection, the service provider's capacity and ability to perform the outsourced activities effectively, reliably and to a high standard, together with any potential risk factors associated with using a particular service provider.
- (b) Appropriate due diligence should include at a minimum:
 - i. Service provider's legal status, formation documents and availability of required licenses or approvals for doing the outsourced activity;
 - ii. Experience and competence of service providers to perform outsourced work;
 - iii. Service provider's financial soundness to fulfill its obligations;
 - iv. Performance standards, reputation, compliance culture, past regulatory measures and corrective actions, outstanding or potential litigation;
 - v. Security and internal control; (vi) audit coverage, reporting & monitoring environment, business continuity planning; and (vii) capability to meet special needs, such as servicing geographically dispersed activities.

Outsourcing Agreement:

- (a) Outsourcing relationships should be governed by legally enforceable written contracts that clearly describe all material aspects of the outsourcing arrangement, including the rights, responsibilities and expectations of all parties.
- (b) At a minimum, the outsourcing agreement should address the following issues:
 - Description of activities to be outsourced, including appropriate service and performance levels;
 - Bank's ability to access all books, records and information relevant to the outsourced activity in the service provider, and conduct audits thereof;
 - Provision for continuous monitoring and assessment by the bank of the service provider so that any necessary corrective measures can be taken immediately;
 - Termination clause and minimum periods to execute a termination provision, if deemed necessary;
 - Provisions relating to insolvency or other material changes in the corporate form, and clear delineation of ownership of intellectual property following termination;
 - Provisions for confidentiality of customer's information, and transfers of information back to the bank and other duties that continue to have an effect after the termination of the contract;

- Where appropriate, conditions of subcontracting by the service provider for all or part of an outsourced activity;
 - Establish and maintain contingency plans, including a plan for disaster recovery and periodic testing of backup facilities.
 - Provisions to effect that Bangladesh laws will be the applicable law and Bangladesh courts will have exclusive jurisdiction over the agreement.
- (c) The contract should neither prevent nor impede the bank from meeting its respective regulatory obligations. It should also include clauses to allow Bangladesh Bank to exercise its regulatory powers, including access to documents stored or processed by service provider and cause an inspection to be made.
- (d) The minimum wages declared by the Government of Bangladesh must be taken into consideration while determining the agreed rate of wages, salary, compensation, etc. to be paid against services provided by the staff employed by the service provider; and, details of such rates must be clearly stated in the contract. Banks should ensure that such wages, salary, compensation, etc. are paid to the staff by the service provider in proper amount and in timely manner through their respective bank accounts.

Customer Interest Protection:

- Banks should ensure that all information prohibited from sharing by laws or regulations are not disclosed to service providers and take appropriate steps to require that service providers protect confidential information of both the bank and its clients from intentional or inadvertent disclosure to unauthorized persons.
- Banks should establish a well-defined mechanism to redress the complaints of their customers regarding outsourced services and ensure that genuine grievances are addressed promptly.

Monitoring and Control:

Banks should-

- (a) Establish a comprehensive outsourcing risk management program along with corrective actions.
- (b) Ensure that service providers maintain appropriate IT security.
- (c) Conduct audits on regular basis, at least annually.
- (d) Ensure that both bank and service provider establish and maintain contingency plans including a plan for disaster recovery and periodic testing of backup facilities.
- (g) Review the financial and technical capabilities of a service provider on regular basis.

Outsourcing Abroad:

- (a) When engaging service providers in a foreign country, banks should take into account and closely monitor government policies and political, social, economic and legal conditions in those countries, during the due diligence process and on a continuous basis after employing the service provider.
- (b) Any outsourcing outside Bangladesh will require prior approval of Bangladesh Bank under Section 12 of the Bank Company Act, 1991. However, sharing of structured information of limited scope for management oversight of foreign banks shall not require such approval.
- (c) All such request to Bangladesh Bank should include details of the functions to be outsourced, rationale for the outsourcing abroad, due diligence report of the proposed service provider, data to be transferred, legal opinion regarding confidentiality of data which should include opinion about the ability of authorities and courts abroad to seek or instruct data access, draft agreement with the service providers, description of the monitoring and control measures to be undertaken by the bank, list of already approved outsourcing abroad along with information of the service providers and activities outsourced, number of employees of the bank at year-end during the last three years, and plan for the employees if any job loss is expected due to proposed outsourcing.
- (d) No approval will be granted where the arrangement involves direct interaction or communication between the service provider and customers, or disclosure or transfer of confidential customer information to unrelated third party as service provider or sub-contractor.
- (e) When engaging service providers in a foreign country, banks should ensure that necessary information is also available domestically for continuing operation in case of a communication disruption and for inspection by Bangladesh Bank as and when needed.
- (f) Outsourcing arrangements abroad should include provisions to allow Bangladesh Bank or persons authorized by it, if required, to access and inspect the documents, records and other information stored or processed by the service provider.

Allowed Outsourcing Arrangements:

1. Storing/warehousing physical records, documents and electronic/virtual data.
2. Printing of Cheques, Drafts, Pay-orders, and other similar banking instruments.
3. Telephone operator or greeter.
4. Address and Document verification.

5. Call Center, Mail receiving and dispatch.
6. Marketing Credit or Debit Cards, Consumer or SME loans upto the stage before credit request preparation.
7. Credit related security verification, charge creation or registration, stock verification and valuation.
8. Recruitment process before face-to-face interviews.
9. Background checking and document verification of candidates and employees.
10. Payroll processing and Employee Benefit Programs.
11. CSR Programs.
12. Customer, Industry and Market survey.
13. Servicing cash in ATM, Booths, Utility bill collection booths.
14. Development and maintenance of customized software.
15. Maintenance of purchased software, hardware and other machines and equipment.
16. System/application access management and user support.
17. Installation and user support to customers for bank provided systems/applications.
18. Procurement processing except the decision making and contracting on behalf of the bank.
19. Sorting, filing and imaging records and documents.
20. Market and industry information or commentary received through subscription or free.

Safety Measures for bank branches/vaults/Lockers etc

With a view to ensure greater security of the bank branches, Bangladesh Bank issued directives for banks to be followed time to time. After some modification and addition in the previous instructions regarding branch security BB issued a consolidated directive⁸² in 2015.

For ensuring greater security of the bank branches adequate number of CCTV/IP cameras/spy cameras should be installed at the entrance, inside, outside of the premises (branches, sub-branches, own/leased buildings etc.) and in all types of IT rooms which shall be connected to the central information network of the bank. At the same time, bank shall take necessary measures to bring under round the clock monitoring of CCTV/IP Cameras/Spy Cameras and take effective measures to get the video footage captured by the camera to the nearest police station/police if required.⁸³ It should be ensured that CCTVs are operational at all times. Access Control System should be introduced for CCTV operation. Access Authorization shall not be delegated in any way. In the absence of the designated officer, an officer of equivalent or higher rank shall take over the responsibility of Access Control with the approval of the competent authority. Necessary training should be arranged for the officers in charge of CCTV. All CCTV video footage captured in bank premises shall be preserved for a minimum period of one year from the time of capture.

At the same time, bank shall take necessary measures to bring under round the clock monitoring of CCTV/IP Cameras/Spy Cameras installed at the entrance, inside, outside of the premises (branches, sub-branches, own/leased buildings etc.) and take effective measures to get the video footage captured by the camera to the nearest police station/police if required.

Sufficient armed security guards shall be deployed on branch premises. Provision should also be kept for adequate training of armed security guards engaged in bank security. Before appointment of such security guards of the bank, all relevant information about them should be collected and preserved. In this connection, banks are also advised to follow the “Firearms licensing, renewal and usage policy 2016” issued by Ministry of Home Affairs⁸⁴.

Auto Alarm Systems should be introduced in every branch to deal with and prevent any kind of unwanted situation including theft, robbery in the bank premise. The said systems should have seamless connection to the 10 other important numbers (hotlines) including head office of the concerned bank, nearby police station and RAB office. In order to make the auto alarm systems more effective, auto lock gates should be installed with an alarm system so that when the alarm

⁸² BRPD Circular No. 07 Dated 05 July 2015

⁸³ BRPD Circular Letter No. 61 Dated 20 November 2023

⁸⁴ BRPD Circular Letter No. 06 Dated 05 March 2020

Sounds the gate is closed automatically and cannot be opened without PIN code. The alarm system should be placed in such a place that there is no chance of tampering. Alarm system with laser beam should be installed so that the bank has more security even at night. Motion detector close circuit cameras should be used with alarm system⁸⁵.

In order to ensure the security of the bank vault, the state-owned banks shall take measures as per the report submitted by the High-Level Committee constituted under the Banking and Financial Institutions Department of the Ministry of Finance (sent to the said banks on December 23, 2014). Other banks shall take necessary measures under the policy approved by their Board of Directors to specifically secure their vault room. The structural safety of the walls constructed around the vault including the floor and roof shall be certified by the Civil Engineer. Automated fire extinguishers shall have to be installed inside the vault. Security alarm System should be maintained in the vault at all times and this system should be seamlessly connected with the Central Information System of the bank.

State-owned Sonali, Janata, Agrani and Rupali Bank shall create funds to deal with the adverse risks on the money kept in bank vaults, cash on counter, cash in transit and cash in ATM booths and all other banks shall ensure full insurance coverage on such money⁸⁶.

Banks are advised to follow the applicable instructions of the Fire Prevention and Extinguishing Act, 2003; Fire Prevention and Extinguishing Rules, 2014 and Bangladesh National Building Code, 2020 in order to prevent fire incidents and ensure fire-fighting system. To this end, necessary training measures should be taken for all those working in the building/premises including testing of the effectiveness of the automatic remediation system and man-made devices especially in case of fire accidents and fire-fighting drills should be organized at regular intervals⁸⁷.

Adequate Security of Lockers⁸⁸:

Although banks are not informed about the contents of lockers, banks have great responsibilities for the safety and security of the lockers. Therefore, banks have to ensure that security arrangements of lockers are adequate and suitable in all respects. The location and physical structures must be consistent with those of safety vaults and safety rooms. The internal auditors should ensure that the banks shall carry out proper due diligence processes on the security agencies, as well as the guards posted at their branches. Security agency must undertake that if a bank suffers loss by any act of vandalism, theft or burglary the agency will be liable to make good the losses up to a certain limit which may be decided by the individual bank on the basis of

⁸⁵ BRPD Circular Letter No. 14 Dated October 16, 2016

⁸⁶ BRPD Circular Letter No. 08 Dated July 21, 2016

⁸⁷ BRPD Circular Letter No. 17 Dated May 21, 2023

⁸⁸ BRPD Circular Letter No. 02 Dated January 31, 2008

the numbers of lockers available in the bank/branch concerned. Daily random checks by bank officials must be increased during regular office hours to ensure that everything is in order and that the guards are performing their duties efficiently. Banks must obtain corporate group insurance as per categories and sizes of lockers. In case of losses arising from breakage/ damage to the locker, at first, the loss sustained by the locker holder should be paid by the bank immediately as per the claim within the insurance ceiling of the locker. Subsequently, the bank shall claim the amount from the relevant insurer.

Banks shall take further actions (legal and administrative) in addition to above, keeping in view other aspects for safety & security of lockers. Failure of banks to comply shall lead to appropriate actions by the Bangladesh Bank, which, among others, may include cancellation of branch license and/or stopping of the operation of locker by a particular branch.

Chapter-IV

Financing & Loan Management

- **Financing:**
 - **Single Borrower and Large Loan Exposure Limit**
 - **Post Import Financing**
 - **Consumer Financing**
 - **Credit Card Operations**
 - **Loan and Credit Card Facilities to IT Freelancers**
 - **L/C Margin & Commission of Import Financing**
 - **Revenue A/C of Project Finance**
 - **Guidelines on Commercial Paper for Banks**
 - **Export Facilitation Pre-finance Fund (EFPF)**
- **Loan Management:**
 - **Loan Classification and Provisioning**
 - **Classification and Provisioning of Other Assets**
 - **Off-Balance Sheet Exposure**
 - **Loan Rescheduling and Restructuring**
 - **Interest Waiver**
 - **Loan Write off**
 - **Willful Defaulter Management**
 - **Taking Thumb Impression on Charge Documents**
 - **Verification of Financial Statements**
 - **Preserving Audited Financial Statements**
 - **Incentives to Good Borrowers**
 - **Special Monitoring of Classified Loan amounting BDT 100 crore & above**

Single Borrower and Large Loan Exposure Limit

With a view to strengthen credit risk management of banks by limiting concentrated exposures and thereby, further improving the stability of banking sector, Bangladesh Bank has given instructions on Single Borrower and Large Loan exposure limit for the scheduled banks⁸⁹ and also made some amendments of them. Important features of this policy are as follows:

Definition and Interpretation: For the purpose of this policy:

- A. **“Capital”** means the capital held by banks as per Clause (1) of Section-13 of the Bank Company Act, 1991, as amended.
- B. **“Exposure”** means credit exposure (funded and non-funded) and refers to all claims, commitments and contingent liabilities arising from on and off-balance sheet transactions, which include, but not limited to, outstanding loans/financing facilities, advances and receivables. These amounts comprise outstanding balance (i.e. principal amount and accrued interest/profit) which has not yet been repaid as on reporting date. In case of loans that are backed by cash and/or readily en-cashable securities maintained with the same bank (e.g. FDR of the same bank) under lien, exposure can be calculated after deducting the secured/covered amount from the outstanding balance of the associated loans.
 - i) **“Funded Exposure”** means the exposure for which the bank has provided or shall provide funds to the borrower or to a third party on behalf of the borrower;
 - ii) **“Non-funded Exposure”** means the off-balance sheet exposure which has not yet been funded by the bank and may or may not be converted into funded facilities in future. Examples, letter of credit, guarantee, acceptance, commitment etc;
 - iii) **“Large Loan”** refers to any exposure to a single person/counterparty or a group which is equal to or greater than 10% of the capital as mentioned in Paragraph 1(A) of this circular. While calculating such exposure, 100% of both funded and non-funded exposure shall be considered⁹⁰;
- C. **“Non-conforming Exposure”** – if an exposure is within the limit [limit set forth in Paragraph 2] when made but subsequently exceeds the limit, the exposure will be treated as ‘non-conforming’.
- D. **“Person”** – means a natural person or a legal person i.e., company, corporation, associate, trust, joint venture, partnership or other business enterprise etc.

⁸⁹ BRPD Circular No 01 Dated 16 January 2022

⁹⁰ BRPD Circular Letter No 21 Dated 02 June 2022

- E. “Group”** – includes any borrower and any other person, organization, or company involved directly or indirectly with that person whose financial well-being affects the financial condition of others or whose liabilities or advantages fall on others because of the existing relationships between them. Nevertheless, a public limited company, which has 50% or more public shareholdings, shall not be considered as an enterprise/organization of any group; thus shall be treated as a single person/counterparty. Furthermore, if more than one enterprise/organization is connected with such public limited company through meeting any of the criteria mentioned below, those connected enterprise/organizations shall fall under a group due to their connectedness with the public limited company even if there is no connection among those individual enterprise/organizations.

Apart from these, Group exists if at least one of the criteria mentioned under “Connectedness on the basis of Control” or “Connectedness on the basis of Economic Interdependence” is satisfied. Furthermore, banks shall consider other relevant aggregation criteria based on experience and judgment which may be indicative of connectedness between single counterparty and their connected persons.

Exposure Limits:

The following limits shall apply:

A. Single Person/Counter-party/Group:

Aggregate Principal Exposure	Applicable Conversion Factor
- Funded and non-funded exposure shall not exceed 25% of the capital at any point of time. - Funded exposure shall not exceed 15% of the capital at any point of time.	- Conversion factor of 0.50 shall be used against non-funded exposure. - Conversion factor of 0.25 shall be used against non-funded exposure in case of Power sector.

B. Large Loan:

Aggregate Exposure: The banks large loans sanction limits set against their respective classified loans are as follows:

Classified Loan to Total Outstanding	Large Loan Portfolio Ceiling against Bank's Total Loans & Advances
Less than or equal to 3%	50%
Greater than 3% but less than or equal to 5%	46%
Greater than 5% but less than or equal to 10%	42%
Greater than 10% but less than or equal to 15%	38%
Greater than 15% but less than or equal to 20%	34%
Greater than 20%	30%

However, the aggregate amount of large loan exposure shall not exceed 400% of bank's capital at any point of time. Large loan portfolio ceiling formula for the bank will be as below:

$$\frac{(\text{Total Funded Large Loan Exposure} + \text{Total Non-funded Large Loan Exposure except for power sector} \times 50\% + \text{Total Non-funded Large Loan Exposure in power sector} \times 25\%)}{(\text{Bank's Total Funded Exposure} + \text{Bank's Total Non-funded Exposure except for power sector} \times 50\% + \text{Bank's Total Non-funded Exposure in power sector} \times 25\%)}$$

Exceptions:

In order to allow banks to accommodate prudently the genuine credit needs of creditworthy borrowers, notwithstanding anything contained in this circular, the following exceptions shall be applicable to the limits set forth:

- C. In case of credit facilities (a) provided to the government or against government guarantees and (b) against guarantees provided by Multilateral Development Bank (MDB) or Export Credit Agency (ECA) having AAA rating, the aforementioned restrictions set forth in Paragraph 2 (of BRPD Circular No 01 dated 16/01/2022) shall not be applicable⁹¹.
- D. In case of interbank money market transactions with a contractual maturity of less than one year, the aforementioned restrictions set forth in Paragraph 2 shall not be applicable.

In order to ensure uninterrupted electricity production, loans sanctioned to any single person/counterparty or group for meeting expenses relating to establishment of coal based power plant, the prohibition mentioned in clause 26B(1) of Bank Company Act, 1991 shall not be effective for 5 years (till 08 November 2027). However, Bangladesh Bank will decide the upper limit which will be applicable during this time period instead of 25% as mentioned in clause 26B(1) of Bank Company Act, 1991⁹².

Furthermore, instructions on Prudential Norms, Risk Management Expectations and Record Keeping are also given.

⁹¹ BRPD Circular No. 01 Dated 16 January 2022, BRPD Circular Letter No. 39 Dated 11 October 2022

⁹² BRPD Circular Letter No. 44 Dated 08 November 2022

Post Import Financing

Bangladesh Bank (BB) has issued a policy for Post Import Financing (PIF) for strengthening monitoring and supervision of such financing. BB asked banks to follow them in case of giving financing facilities to their clients against imports⁹³. Important features of this policy are as follows:

- Duration of PIF will be based on the Banker-Customer relationship depending on cash cycle of the different sectors but such duration will not be more than the time specified by the Bangladesh Bank in the policy⁹⁴.
- All banks must formulate their own PIF policy following the central bank's credit risks management guideline, internal credit risks rating system and other related rules/regulations. The policy should include the approval process of PIF including the delegation of power and limit.
- Banks cannot finance new PIF to a borrower who has overdue-PIF.
- Banks are not allowed to provide PIF against Local LC as well as against sister concern. But in case of cross-border transaction, Banks are allowed to provide PIF facilities to the borrowers for importing finished goods from their sister concern⁹⁵.
- Banks will have to create a separate unit named 'PIF Monitoring Unit' for issuing credits, recovery and supervising PIF loans. All applicable banking rules and procedures must be followed in giving credits and their recovery.

⁹³ BRPD Circular No. 12 Dated 13 June 2021

⁹⁴ BRPD Circular Letter No. 12 Dated 26 April 2022

⁹⁵ BRPD Circular Letter No. 41 Dated 26 October 2022

Consumer Financing

'Consumer financing' means any financing allowed to individuals for meeting their personal, family or household needs. The facilities categorized as Consumer Financing are (i) Credit Cards; (ii) Auto Loans; (iii) Housing Finance and (iv) Personal Loans for the payment of goods service and expenses. Due to significant increase in credit disbursement in the arena of Consumer Financing, a guideline⁹⁶ containing the minimum set of regulations have been issued to the banks for better management of credit in that sector. Important features covered under Prudential Guidelines on Consumer Financing are as follows:

Type of Loan	Corresponding Limits for Consumer Loan
Credit Card	❖ Max Limit- 10 lac (Unsecured), 25 lac (against liquid security) BDT ⁹⁷
Auto Loans	❖ Max limit 40 lac BDT ⁹⁸
	❖ Debt to Equity 50:50
	❖ Max tenor 6 years ⁹⁹
	❖ Age of Car according to Import Order Policy ¹⁰⁰
House Finance	❖ Max limit 2.00 Crore BDT ¹⁰¹
	❖ Debt to Equity 70:30
	❖ Max tenor 25 years ¹⁰²
	❖ Housing Finance (excluding real estate business and commercial complex) shall not exceed 10% of bank's total loan portfolio
Personal Loan (Consumer Durables)	❖ Max limit 5 Lac (Unsecured) and 20 Lac (Secured appropriately) BDT
	❖ Debt to Equity 30:70 ¹⁰³ (70:30 in case of Digital Device purchase ¹⁰⁴)
	❖ Max tenor 5 years

Limit on Bank's Exposure against Total Consumer Financing:

Banks shall ensure that the aggregate exposure under all consumers financing facilities at the end of first year and second year of the start of their consumer financing does not exceed 2 times and

⁹⁶ BRPD Circular No. 07 Dated 03 November 2004

⁹⁷ BRPD Circular No. 04 Dated 03 April 2017

⁹⁸ BRPD Circular No. 12 Dated 13 August 2014

⁹⁹ BRPD Circular No. 10 Dated 20 August 2005

¹⁰⁰ BRPD Circular Letter No. 15 Dated 20 December 2010

¹⁰¹ BRPD Circular Letter No. 25 dated 19 November 2019

¹⁰² BRPD Circular No. 23 dated 16 June 2010

¹⁰³ BRPD Circular No. 03 dated 22 January 2012

¹⁰⁴ BRPD Circular No. 14 dated 12 July 2021

4 times respectively of their equity. For subsequent years, following limits are placed on the total consumer financing facilities:

Percentage of Classified Consumer Loan to Total Consumer Loan		Maximum Limit
a.	Below 5%	10 Times of the Equity
b.	6% - 10%	6 Times of the Equity
c.	11% -15%	4 Times of the Equity
d.	15% - above	Equal to equity

Furthermore, banks have been instructed to provide consumer finance such a way that, in any case, the growth rate in total loans under 'Consumer Financing' must not exceed the growth rate of bank's total loans¹⁰⁵.

Apart from this, several other Regulations on Consumer Financing, Policy and Procedural Guidelines, Preferred Organizational Structure & Responsibilities are also given.

¹⁰⁵ BRPD Circular No. 05 Dated 25 April 2012

Credit Card Operations

The use of “Credit Card” as a payment instrument for purchasing goods and services is increasing day by day. Because of convenience, security, increase in the number of electronic Point of Sales (POS) outlets and incentives offered by credit card issuers, the usage of credit cards is flourishing. Considering the requirement of improving the electronic payment systems and the growth of domestic credit card operations, it was necessary to provide a framework of guidelines for the credit card issuing banks for managing the risks of their credit card business and as well as to protect the customers' interest. Following guidelines on credit card operations has been issued by Bangladesh Bank to ensure safe, secure and efficient operations of credit cards as a payment instrument¹⁰⁶. Important features covered under this guideline are as follows:

Issuing Authority:

Credit card in Bangladesh Taka can be issued by any scheduled commercial bank in Bangladesh. But credit card in foreign currency is to be issued by Authorized Dealer (AD) banks only. For issuing credit card, prior approval from BB is not necessary. With the approval of their Board of Directors banks can issue credit cards.

Stakeholders of Credit Card:

A credit card scheme may involve a number of stakeholders; i.e.

- a) Cardholders;
- b) Card Issuers;
- c) Merchants;
- d) Merchant Acquirers; and
- e) Credit Card Associations.

Types of Credit Cards:

Credit card can be broadly categorized into two types:

- a) **General purpose cards:** These cards can be used for making payment for purchasing any goods and services and are accepted by most of the merchants. Credit Card Associations (VISA, Master Card, JCB, AMEX etc.) and most of the card issuing banks offer general purpose credit cards.
- b) **Private label cards:** These cards are only accepted by specific retailers (e.g. a departmental store).

¹⁰⁶ BRPD Circular No. 07 Dated 11 May 2017

Card Issuers may also issue Corporate Credit Cards to the employees of their corporate customers. A Supplementary Credit Card is an additional credit card that is issued under original or principal card where payment obligation is on the principal Cardholder. Foreign Currency Card for usage in abroad and Dual Currency Cards with global usage privileges i.e. both in Bangladesh and all over the world will prevail.

Credit Limit and settlement:

- a) Maximum unsecured limit under credit card to a borrower (supplementary cards shall be considered part of the principal borrower) shall not exceed Tk. 10 (Ten) Lac. The banks
- b) May allow financing under the credit card scheme in excess of the limit of Tk. 10 (Ten) Lac provided the excess amount is secured against liquid securities. However, in no case the limit will be allowed to exceed Tk. 25 (Twenty Five) Lac¹⁰⁷.
- c) Cardholders will be allowed cash withdrawal up to 50% of the card limit as cash advances.
- d) In case of cards issued in foreign currency against balances held in various foreign currency deposit accounts (for example: Resident Foreign Currency Deposit Accounts, Exporters' Retention Quota Account, etc.), the limit should be up-to the extent of balances held in respective accounts.

Eligibility of Customers:

Credit Card in Taka and/or Foreign Currency shall be issued only to an individual who has following eligibilities:

- a) The customer must be a citizen or resident of Bangladesh, who is above 18 years old on the date of the application and has sufficient and independent financial ability to pay the liabilities due for card transaction.
- b) Issuance of credit card to non-resident/foreign nationals shall be subject to the provisions of Foreign Exchange Regulation Act, 1947, Guidelines for Foreign Exchange Transactions (Vol-1), 2009 and subsequent related directives issued by Foreign Exchange Policy Department from time to time.
- c) The customer must have a valid ETIN certificate and clean/new CIB report.
- d) Credit Card Issuer shall be solely responsible for fulfillment of all "Know Your Customer (KYC)" requirements and such documents shall be maintained under the safe custody.

¹⁰⁷ BRPD Circular No. 04 Dated 03 April 2017

- e) Card Issuers shall make it clear to the principal Cardholder that he/she is ultimately liable for all the liabilities incurred by the supplementary Cardholders.

Issuing Supplementary Credit Cards:

- a) A supplementary card shall not be issued to any person who is below 18 years of age. Exceptions however can be made in case of students aged between 16-18 years who are direct dependent of the principal Cardholder and for educational purposes only.
- e) Card Issuers are allowed to issue foreign currency or dual currency Supplementary Credit Cards¹⁰⁸.

Issuing Corporate Credit Cards:

- a) Corporate Credit Cards can be issued to an employee or officer of a body corporate.
- b) In case of corporate cards, the body corporate shall bear sole liability for any amount charged to the credit card.
- c) Corporate Credit Cards will not fall under the 'Consumer Financing' category and shall be regulated by existing guidelines/regulations for lending to corporate clients.

Terms of contract, Interest/profit rates and other fee/charges:

- a) Card Issuers shall specify a period of validity for the card, not exceeding 5 years from the date of issuance/renewal, taking into consideration the usage purposes and repayment capability of the Cardholder.
- b) Card Issuers shall quote profit/interest rates and service charges (if any) on annual basis; separately for purchasing of goods & services and cash advances, if different.
- c) The interest/profit rate of Credit Card shall not exceed 20%¹⁰⁹.
- d) The interest/profit shall be charged from the immediate following day of payment due date on outstanding unpaid amount. In no case the interest/profit shall be charged from the date of transaction.
- e) In case of late payment by the Cardholder, late payment fee/charges can be levied only once.
- f) Non-transactional fee/ charges¹¹⁰ (annual fee, CIB fee, SMS fee etc.):

¹⁰⁸ BRPD Circular No. 10 dated 03 August 2017

¹⁰⁹ BRPD Circular Letter No. 47 Dated 24 September 2020

¹¹⁰ BRPD Circular Letter No. 06 Dated 15 February 2022

- No non-transactional fee shall be levied on the customer prior to activation of the credit card;
- Interest/profit shall not be levied on non-transactional fee;
- Customer shall not be adversely classified for non-repayment of non-transactional fee.
- Non-transactional fee can be imposed after activation of the credit card with the consent of the customer. However, if there is no liability related to transaction (purchase, cash withdrawal or any other type of merchant transaction) on the active credit card, no penalty in addition to non-transactional fee may be imposed in case of non-repayment/late payment;

Billing Process:

- a) Card Issuer shall provide the Cardholders a statement of accounts in writing or in electronic means at the end of each month (billing period) fully disclosing the transaction details including the calculation of interest/profit & charges (if any), late payment charges (if any), due date and mode of payment etc.
- b) Card Issuer shall dispatch such billing statement to each active Cardholder at the end of each billing period at least fourteen (14) calendar days before the payment due date.
- c) If a due date falls on a Friday, Saturday or any other public/bank holidays published by Government/BB at the beginning of each year, the Card Issuer shall allow the grace period (holiday) as required for payment to be made on the next working day.

Furthermore, instructions on Marketing of Credit Cards, Collection/Recovery Mechanism, Protection of Customer Rights, Dispute Resolution, Internal control, monitoring and compliance, Fraud Control, Security of Credit Cards, Other Legal & Regulatory issues are also given.

Apart from these, credit card operations shall also be adhered to relevant circulars/guidelines/instructions issued by Foreign Exchange Policy Department, Payment Systems Department and Bangladesh Financial Intelligence Unit from time to time.

Loan and Credit Card Facilities to IT Freelancers

Among the IT based industries, earnings of foreign exchange through outsourcing by freelancers are increasing successively and already it has started to make significant contribution to country's economy. The Government has initiated and implementing various projects to create skilled human resources, promote entrepreneurship, generate employment and to enhance investment in the freelancing sector through training to transform Bangladesh to a developed country within 2041. To recognize expert freelancers of IT sector socially and institutionally, ICT Division of Ministry of Posts, Telecommunications and Information Technology has decided to provide virtual ID card to IT Freelancers of Bangladesh. Freelancing sector with immense potentiality will get the opportunity to flourish effectively, if loans and credit card facilities can be provided easily to freelancers having virtual ID cards and they will be able to contribute to the national economy through earning foreign exchange as par the target of the government. To meet this target and to flourish potential freelancing sector, Bangladesh Bank has given instruction¹¹¹ to take necessary actions in accordance with prevailing banking laws and practices by the scheduled banks to provide loan and credit card facilities to IT Freelancers having virtual ID card.

¹¹¹ BRPD Circular No. 19 Dated 27 December 2020

L/C Margin & Commission of Import Financing

The banks have to keep a 100% cash margin for importing some luxury items such as motorcars, electrical and electronics home appliances, gold ornaments, precious metal and pearl, readymade garments, leather products, Jute products, cosmetics, furniture and decorative items, fruit, flower, Non-cereal food, processed food, drinks (e.g. canned food, chocolate, biscuits, juice, soft drinks etc), alcohol related drinks, tobacco, tobacco-derived products or alternative products of tobacco and other luxury items.

A minimum 75% margin has to be kept in case of opening L/Cs for the import of goods except for child food, essential food items, medicine and treatment-related machinery, raw materials and capital machinery, agriculture-related products, and products imported for priority projects of the government¹¹².

Some other products imported by commercial importers also included on the exception list of the above margin such as engine oil/lubricants and its production related product, retail parts of industrial machinery, chemicals, plastic packaging items, treatment-related material and reagents, IPS, UPS, security-related hardware products, IT-related and cyber security related products, tire-tube and the retail part of the vehicle¹¹³.

The margin requirement for importing the products mentioned on the exception list will be determined based on the banker-customer relationship.

¹¹² BRPD Circular Letter No- 25 Dated 04 July 2022

¹¹³ BRPD Circular Letter No- 54 Dated 22 December 2022; BRPD Circular Letter No- 19 Dated 23 June 2023

Revenue A/C of Project Finance

While a bank provides a loan to develop projects in various sectors, an escrow account or revenue account is opened in the corresponding bank to pay the installment of the linked project loan with the income or sales proceeds from the project. To facilitate the recovery of project loans provided by the banks and to ensure proper monitoring of loan accounts, the following directions shall be followed¹¹⁴.

1. In the case of a project loan, an Escrow Account or Revenue Account (or whatever the term is) must be opened in the name of the project with the bank that is issuing the project loan to collect the project's income or sales proceeds.
2. In the case of a project loan given under syndicated financing, the Escrow Account or Revenue Account should be opened in the lead bank to collect the project income or sales proceeds.
3. Collection of the project income or sales proceeds in the said account must be monitored to ensure loan recovery by the lending bank.

If the project's income or sales proceeds exceed the loan installments, a revenue account in the name of the project can be opened in another bank or financial institution to deposit the additional portion of the income or sales proceeds, subject to the no objection certificate from lending bank or lead bank.

¹¹⁴ **BRPD Circular No. 01 Dated 18 January 2024**

Guidelines on Commercial Paper for Banks

Commercial paper (CP) is a short term money-market instrument, which has an original maturity between a minimum of seven days and a maximum of one year, issued/sold usually by highly rated large companies. As an alternative to bank financing, it enables the issuers of CPs to diversify their sources of short-term borrowings and promotes competitiveness of the financial sector. In this context, it is desired that participants of the money market should practice a uniform procedure. So, Bangladesh Bank has issued guidelines¹¹⁵ on Commercial Paper (CP) for Banks.

Banks are allowed to invest in CPs, provide credit enhancements to CP issuers and act as an Issuing and Paying Agent (IPA) of CPs in the manner set forth in the guidelines. However, Banks shall not issue CP in any form or provide any guarantee for CPs.

General guidelines for three roles (Investor, provider of credit enhancements & IPA) banks can play are mentioned in details in the guideline along with specific guidelines for each role. BB also has issued another circular letter¹¹⁶ to amend a provision of the guidelines in 2017. Details of bank's involvements in CPs shall be reported to the Department of Offsite Supervision as per Annexure-1 of the guidelines on a quarterly basis or any amendment made therein by that department. The report shall also include information of CPs redeemed within the reporting quarter.

¹¹⁵ BRPD Circular No-7 Dated 25 September 2016

¹¹⁶ BRPD Circular Letter No-1 Dated 09 February 2017

Export Facilitation Pre-finance Fund (EFPF)

Export sector is one of the key drivers of economic growth of Bangladesh. To combat the future challenges of LDC graduation to developing country alongside keeping robust economic growth, export sector of Bangladesh demands special assistance. Bangladesh Bank has formed a special fund named “Export Facilitation Pre-finance Fund (EFPF)” of BDT 10,000 crores for ensuring the continuation of promotion of export oriented industries¹¹⁷. Key features of the fund are presented below:

- Max Interest Rate¹¹⁸ for borrowers is 5.00%, Interest Rate for Banks is 2.00%
- Max Maturity of the Loan is 180 days
- Fund is available for raw material purchase from home & abroad for export oriented industries
- Fund nature is revolving
- Fund is also available for local & foreign B2B
- Max loan amount for members of BGMEA, BKMEA, BTMA, B & C Type Companies in EPZ (except bulk importers) is BDT 200 crores
- Max loan amount under local B2B of export: For BTMA members BDT 200 Crores; for BDWEA members BDT 150 crores; for MGAPMEA members BDT 20 Crores for accessories supply, BDT 10 crores for Goods & packaging materials supply, for LFMEAB and BCWMA members BDT 7 crores
- Max loan for any other entity is BDT 5 crores
- Fund is unavailable for exporters who has export bill overdue; having said that, in extraordinary circumstances where exporter has export bill overdue due to reason beyond his/her control, will get fund for one more time subject to payment of at least 50% of B2B liabilities
- If any concern of a group has export bill overdue other concerns of the same group will also be unable to avail funding facilities from the fund¹¹⁹.
- Banks can make partial or full repayment of the loan to Bangladesh Bank before the loan maturity period¹²⁰.

Islamic Shariah based banks can avail funds through “restricted Mudaraba method”.

¹¹⁷ BRPD Circular No 01 Dated 01 January 2023

¹¹⁸ BRPD Circular Letter No 32 Dated 13 August 2023

¹¹⁹ BRPD Circular Letter No 11 Dated 25 April 2023

¹²⁰ BRPD Circular Letter No 39 Dated 13 September 2023

Loan Classification and Provisioning

Bangladesh Bank wishes to stress that it is the responsibility of bank management to adopt and implement proper accounting and reporting, and that correct classification and provisioning is a part of that responsibility. Loan classification and provisioning is a key component of a regular internal loan review process that looks at the current likelihood that the borrower will repay. With the purpose of aligning with the international reporting standards, Bangladesh bank has issued a master circular¹²¹ on loan classification and provisioning in 2012 and revises it time to time¹²². Important features of the master circular and all the subsequent circulars are as follows:

- **Categories of Loans and Advances:**

All loans and advances will be grouped into four (4) categories for the purpose of classification, namely-

- Continuous Loan (e.g. Cash Credit, Overdraft, etc.)
- Demand Loan (e.g. PAD, FBP, IBP, PIF etc.)
- Fixed Term Loan and (e.g. Consumer financing, SME, Housing finance etc.)
- Short-term Agricultural & Micro-Credit.

Basis for Loan Classification:

There are two bases for loan classification, which are Objective Criteria and Qualitative Judgment.

Objective Criteria:

Summary of loan classification is as follows:

¹²¹ BRPD Circular No. 14 Dated 23 September 2012

¹²² BRPD Circular No. 05 Dated 29 May 2013; BRPD Circular No. 08 Dated 02 August 2015; BRPD Circular No. 12 Dated 20 August 2017; BRPD Circular No. 15 Dated 27 September 2017; BRPD Circular No. 01 Dated 20 February 2018; BRPD Circular No. 03 Dated 21 April 2019; BRPD Circular No 16 Dated 21 July 2020; BRPD Circular Letter No. 52 Dated 20 October 2020; BRPD Circular Letter No. 63 Dated 31 December 2020; BRPD Circular Letter No. 03 Dated 02 February 2023; BRPD Circular No. 09 Dated 08 April 2024

Loan Type	Sub-standard	Doubtful	Bad/Loss
Continuous Loan -If past due/overdue for	≥03 months but <09 months	≥09 months but <12 months	≥12 months
Demand Loan -If past due/overdue for	≥03 months but <09 months	≥09 months but <12 months	≥12 months
Fixed Term Loan *A Fixed Term Loan is not repaid within the fixed expiry date, the amount of unpaid installment(s) will be treated as past due/overdue <u>after six months of the expiry date.</u> That's why overdue/past due= period of arrears+6 month from 30/09/2024 overdue/past due= period of arrears+3 month from 31/03/2025 overdue/past due= period of arrears	If past due/ overdue for ≥03 months but <09 months OR, If period of arrear in months (as per CL-4 format) ≥09 months but <15 months from 30/09/2024 ≥06 months but <12 months from 31/03/2025 ≥03 months but <09 months	If past due/ overdue for ≥09 months but <12 months OR, If period of arrear in months (as per CL-4 format) ≥15 months but <18 months from 30/09/2024 ≥12 months but <15 months from 31/03/2025 ≥09 months but <12 months	If past due/ overdue for ≥12 months OR, If period of arrear in months (as per CL-4 format) ≥18months from 30/09/2024 ≥15 months from 31/03/2025 ≥12 months
Short-term Agricultural and Micro-Credit -If past due/overdue for	≥12 months but <36 months	≥ 36 months but <60 months	≥60 months
CMSME- Continuous & Demand Loan -If past due/overdue for	≥06 months but <18 months	≥18 months but <30 months	≥30 months
CMSME- Fixed Term Loan -If past due/ overdue for	≥06 months but <18 months or If period of arrear in months (as per CL-4 format) ≥12 months but <24 months from 30/09/2024 ≥09 months but <21 months from 31/03/2025 ≥06 months but <18 months	≥18 months but <30 months or If period of arrear in months (as per CL-4 format) ≥24 months but <36 months from 30/09/2024 ≥21 months but <33 months from 31/03/2025 ≥18 months but <30 months	≥30 months or If period of arrear in months (as per CL-4 format) ≥36 months from 30/09/2024 ≥33 months from 31/03/2025 ≥30 months

Qualitative Judgment:

If any uncertainty or doubt arises in respect of recovery of any Continuous Loan, Demand Loan or Fixed Term Loan, the same will have to be classified on the basis of qualitative judgment be it classifiable or not on the basis of objective criteria. If any situational changes occur in the stipulations in terms of which the loan was extended or if the capital of the borrower is impaired due to adverse conditions or if the value of the collateral decreases or if the recovery of the loan becomes uncertain due to any other unfavorable situation, the loan will have to be classified on the basis of qualitative judgment. For incorporating qualitative judgment, banks must focus on the likelihood that the borrower will repay all amounts due in a timely manner, using their own judgment. The assessment factors that are needed to be considered are described in the master circular no 14/2012.

- **Improvement in Classification:**

- From time to time, in the judgment of the bank, the condition of a loan may improve and it may be justified to move it to a more favorable classification category.
- The decision to move a loan to a more favorable classification category must be accompanied by analysis showing that there has been improvement in the payment performance of the loan and/or in the financial condition of the borrower.
- The decision to move a loan from Bad/Loss to Doubtful or Substandard, or from Doubtful to Substandard, may, with appropriate justification, be taken by the Chief Credit Officer, with the concurrence of the Chief Financial Officer.
- The decision to move a loan from Substandard, Doubtful, or Bad/Loss to Special Mention Account or to declassify it completely must be taken by the Board of Directors, with appropriate justification presented by the branch manager who originated the loan in question and the Managing Director.
- A bank may request the concerned Department of Banking Inspection of Bangladesh Bank to review the classification of any loan for which there is a disagreement on classification that is not resolved during the on-site inspection.
- Any loan classified during Bangladesh Bank's on-site inspection on the basis of qualitative judgment cannot be declassified without the consent of Bangladesh Bank.

- **Accounting of the Interest of Classified Loans:**

- If any loan or advance is classified as 'Sub-standard' and 'Doubtful', interest accrued on such loan will be credited to Interest Suspense Account, instead of crediting the same to Income Account.

- In case of rescheduled loans the unrealized interest, if any, will be credited to Interest Suspense Account, instead of crediting the same to Income Account.
- As soon as any loan or advance is classified as 'Bad/Loss', charging of interest in the same account will cease.
- But interest thus charged in the loan account has to be preserved in the 'Interest Suspense' account.
- If classified loan or part of it is recovered i.e., real deposit is effected in the loan account, first the interest charged and accrued but not charged is to be recovered from the said deposit and the principal to be adjusted afterwards.

• **Maintenance of Provision:**

There are two types of provision that are required to maintain by the banks: General and Specific Provision. General provision is maintained against the unclassified loans and specific provision is maintained against classified loans. The provision requirement against loans and advances are summarized as follows:

Particulars		Short Term Agri. Credit	Consumer financing				CMSME Finance		Loans to BHs/MBs / SDs	All other Credit
			HF	LP	Credit Card	Others	Cottage, Micro and Small	Medium		
General Provision	Standard	1%	1%	2%	2%	2%	0.25%	0.25%	1%	1%
	SMA	-	1%	2%	2%	2%	0.25%	0.25%	1%	1%
Specific Provision	SS	5%	20%	20%	20%	20%	5%	20%	20%	20%
	DF	5%	50%	50%	50%	50%	20%	50%	50%	50%
	B/L	100%	100%	100%	100%	100%	100%	100%	100%	100%

The expressed minimum percentages of provisions in the above for exposures in each classification category are absolute minimums, and banks are encouraged to set aside higher provisions if expected losses on the loan pools (for general provisions) or individual loans (for specific provisions) warrant.

Base for Provision and eligible collateral:

For the eligible collaterals of the following types, provision will be maintained at the rates stated above based on the following calculation:

Types of Eligible Collateral	Base for Provision (BP)	Required Provision (RP)
➤ 100% of deposit under lien against the loan ➤ 100% of the value of government bond/savings certificate under lien ➤ 100% of the value of guarantee given by Government or Bangladesh Bank	BP = Outstanding Balance - Interest Suspense - Eligible Collateral	RP= Specific rate of provision for (SS, DF, BL) × BP eg.
➤ 100% of the market value of gold or gold ornaments pledged with the bank. ➤ 50% of the market value of easily marketable commodities kept under control of the bank ➤ Maximum 50% of the market value of land and building mortgaged with the bank ➤ 50% of the average market value for last 06 months or 50% of the face value, whichever is less, of the shares traded in stock exchange.	BP= Greater of the following two: (i) Outstanding Balance -Interest Suspense - Eligible Collateral (ii) 15% of the outstanding balance of the loan.	For BL: RP = 100% of BP For DF: RP = 50% of BP

Above mentioned collaterals are considered as eligible collateral only in determining the base for provision.

- **Determination of Market Value of Eligible Collateral:**

In determining market value of easily marketable commodities, land and building, the instructions that are needed to be followed by the banks are mentioned in this section of the master circular no 14/2012.

- **Other instructions:**

- In terms of the above policies, the banks will conduct their classification- activities on quarterly basis. These activities must include periodic revaluations of collateral, no less frequently than one year for movables and no less frequently than three years for immovable's.
- Banks are needed to submit the statements on Loan Classification and Provisioning as per prescribed format such as CL-1 to CL-5,
- Banks are advised to submit detailed statements through CL-1 within 15 days from the reference date to the Banking regulation & policy Department through Enterprise Data Warehouse (EDW) and ensure correct and timely submission of CL-1 failing to which penalty may be imposed on the concerned non-compliant bank.

Classification and Provisioning of Other Assets

Despite of not being genuine assets, revenue expenditure related items (shown under other assets) appear as assets in the balance sheet of the banks. Some banks often show few capital expenditure type items under other asset. Correct and timely adjustment of these items in the appropriate fields is very important. To maintain a unified system for classification and provisioning of unadjusted expenses, banks are advised to follow the instructions below¹²³:

Items/Title	Duration Unadjusted	Classification	Provision
1. Unadjusted advance and expenses:			
1(a) Revenue expenditure (e.g., Business development, travel, entertainment, advertisement, salary and allowance etc.)	≥6 Months but <1 Year	DF	50%
	≥1 Year	BL	100%
1(b) Capital Expenditure (e.g., Computer/ Software/Hardware/ATM Machine purchase, WIP of Establishment etc.)	≥1 Year	BL	100%
2. Litigation/Legal Expense	<1 Year	DF	50%
	≥1 Year	BL	100%
3. Embezzled money/Protested Bill	Immediate	BL	100%
4. Inter Branch Unadjusted Accounts (Debit Entry)	≥1 Year but <2Year	DF	50%
	≥2 Years	BL	100%
5. Unadjusted Accounts of Nostro A/C (Debit Entry)	≥6 Months but <1 Year	DF	50%
	≥1 Year	BL	100%
6. Income Receivables:			
6(a) Interest Receivables on Loans & Advances	≥6 Months but <1 Year	DF	50%
	≥1 Year	BL	100%
6(b) Interest Receivables on Investment	≥6 Months but <1 Year	DF	50%
	≥1 Year	BL	100%
6(c) Other Income Receivables (e.g., exchange and brokerage house commission, commission on shares and debentures, other income receivables including brokerage etc.)	≥6 Months but <1 Year	DF	50%
	≥1 Year	BL	100%
7. Advance Security Deposit	≥1 Year but <2 Years	DF	50%
	≥2 Years	BL	100%
8. Unadjusted Savings Certificate/ Wage Earners Bond/Army Pension Fund/Civil Pension Fund etc			
8(a) Unadjusted Savings Certificate/Wage Earners Bond	≥1 Year but <2 Years	DF	50%
	≥2 Years	BL	100%
8(b) Unadjusted Army Pension Fund/Civil Pension Fund	≥2 Years	BL	100%
9. Others	≥6 Months but <1 Year	DF	50%
	≥1 Year	BL	100%

¹²³ BRPD Circular No. 04 Dated 12 April 2022

Off-Balance Sheet Exposure

The Off-Balance Sheet (OBS) exposures are contingent claims or contracts that generate fee income for a bank. While a loan is an asset on a bank's balance sheet, a promise to make a loan is a contingent liability which creates a potential funding obligation in the future. Hence, it does not affect the balance sheet until exposed as funded. Indeed, a bank has limited control over its obligation of commitments of funds. Thus, certain types of portfolio risk are involved with OBS activities of the banks; i.e. credit risk, interest rate risk, exchange rate risk, liquidity risk, etc. With a view to strengthening risk management of escalating OBS business operations of banks and thereby further enhancing the stability of banking sector, the following instructions has been given by Bangladesh Bank for the scheduled banks¹²⁴. Important features of this policy are:

Components of Off-Balance Sheet Exposure:

Contingent Liabilities	Other Commitments
i. Acceptances & Endorsements	i) Documentary credits & short term trade-related transactions
ii. Letters of Guarantee	ii) Forward assets purchased and forward deposits placed
iii. Irrevocable Letters of Credit	iii) Undrawn note issuance and revolving underwriting facilities
iv. Bills for Collection	iv) Undrawn formal standby facilities, credit lines and other commitments.
v. Other Contingent Liabilities	

Provisioning Requirements:

Banks shall maintain provision against the total OBS exposure (amount of cash margin or value of eligible collateral shall not be deducted while computing such exposure), which has end maturity, in the following way-

A. Contingent Liabilities-

i) **Acceptances and Endorsements:** 1.00%.

ii) **Letters of Guarantee:**

- Provisioning requirement against letters of guarantee: 1.00%.
- Considering the risk mitigating effect of guarantees against which government has issued counter-guarantee: banks will not have to maintain any provision against such guarantees, i.e., NIL (0%).
- The provisioning requirement for the bank guarantees, against which a counter-guarantee has been issued, is stated as follows:

BB rating grade equivalence of counter-guarantee providing Bank/FIs/organization	Provisioning requirement (% of the exposure amount)
1	NIL
2	0.50%
3 or 4	0.75%

¹²⁴ BRPD Circular No. 06 Dated 25 April 2023

iii) Irrevocable Letters of Credit:

- Short-term self-liquidating trade L/C: 0.50%
- Other LCs including L/C used as guarantee or confirmation: 1.00%

iv) Bills for Collection: NIL**v) Other Contingent Liabilities:**

- With an original maturity up to one year: 0.50%.
- With an original maturity over one year: 1.00%.

B. Other Commitments:

- Unconditionally cancellable – NIL
- With certain drawdown - 1.00%
- Others with an original maturity up to one year - 0.50%.
- Others with an original maturity over one year – 1.00%.

C. Additional provisioning:

- Banks shall maintain additional provision over the provision requirement mentioned in paragraph 6(A) & 6(B) against OBS exposure, which maturity has end, in the following way:

Criteria		Additional provisioning requirement (%)
OBS exposures remaining overdue for-	03 (three) months or beyond but less than 12 (twelve) months.	1%
	12 (twelve) or beyond but less than 24 (twenty four) months.	2%
	24 (twenty four) months or beyond.	5%

- In case of OBS exposure under litigation, banks have to maintain additional 5% provision over the provision requirement mentioned in paragraph 6(A) & 6(B).

Furthermore, instructions on Monitoring and Reporting of OBS exposures are also given in the related circular.

Loan Rescheduling and Restructuring

To maintain stability in the financial sector and sound management of classified loans, policy¹²⁵ for rescheduling and restructuring of loans (investment for Islamic Shariah based banks) has been issued through BRPD Circular no. 16 dated 18 July 2022.

Some Important Instructions:

Loans of a habitual defaulter or loans created through forgery or any other form of fraud/irregularity or where fund diversion occurred must not be rescheduled. Bank should not reschedule any loan account as routine or repeated rescheduling of the borrowers having financial difficulty, if there is doubt in loan recovery and if the concern loan is related to business enterprises in unproductive sectors/ productive sectors with zero profit.

While considering any application of loan rescheduling, bank should analyze and review borrower's need, financial capability, cash flow statement and audited financial statements (where applicable), liability position with other banks and financial institutions, conduct on-sight inspections of the borrower's company/business place i.e., thoroughly examine overall repayment capability of the borrower. On the other hand, the impact of that rescheduling on long-term profitability and liquidity position of the bank and credit availability of other customers should be considered.

Approval of Loan Rescheduling/Restructuring:

No prior approval of Bangladesh Bank will be required for rescheduling/restructuring unless there is a requirement from Bangladesh Bank in the context of large loan or related to the director of the bank. The proposal of rescheduling/restructuring must be approved by at least one level higher than the loan sanctioning authority. However, for 3rd and 4th time rescheduling of loans other than agricultural, cottage, micro and small sectors or rescheduling of loans sanctioned by the Board of Directors, approval of the bank's Board of Directors is a mandatory.

Maximum Number of Loan Rescheduling:

A classified loan can be rescheduled maximum of 3 times. However, a loan can be rescheduled 4th time in special consideration for recovery of defaulted loans. If a rescheduled loan is taken over by another bank, the rescheduling order of the previous bank will apply to the loan taken over.

¹²⁵ BRPD Circular No. 16 Dated 18 July 2022

Four or more times rescheduled loans (rescheduled prior to the issuance of this circular) can be rescheduled for the last time under special consideration considering as 4th time. Such rescheduling shall remain open till 31 December 2023.

Required Down Payment and Time Limit for Rescheduling:

Required down payment and maximum time limit should be imposed considering the extent of loss, actual financial condition and cash flow of the borrower. However, required minimum down payment and maximum time limit (including grace period) for 1st and 2nd time rescheduling will be as follows:

Nature of the loan	Amount of loan outstanding	Required Down Payment (lesser of the total)		Maximum time limit
		of overdue installments	of total outstanding loans	
Term Loan	less than 100.00 crore	7.00%	4.50%	6 years
	100 crores and above but less than 500 crores	6.00%	3.50%	7 years
	500 crore and above	5.00%	2.50%	8 years
Continuous & Demand Loan	less than 50 crore	-	4.00%	5 years
	50 crores and above but less than 300 crores	-	3.00% (not less than 2 crores)	6 years
	300 crore and above	-	2.50% (not less than 9 crores)	7 years

Down payment shall be compulsorily 1% higher and the maximum time limit shall be 1 year less in each case for 3rd and 4th time of rescheduling from the previous one. Max time limit for rescheduling of Short-term Agriculture, Cottage and Micro Credit shall be 3 years for 1st time and 2 years 6 months for 2nd and every subsequent rescheduling¹²⁶.

New Loan Facility after Rescheduling:

A borrower whose credit facility has been rescheduled may avail a new loan facility or enhanced existing credit facility from the rescheduling bank subject to payment of minimum 3% compromised amount of the rescheduled loan balance (2% for exporters). A borrower may also avail a new loan facility from other banks by paying the compromised amount at the rate mentioned earlier and receiving no objection from the rescheduled bank/financial institution.

Conditions for Regular Term Loan Restructuring:

The time period of a regular (Unclassified: Standard or SMA) term loan (not created through conversion of other type of loans) can be extended up to a maximum of 50% of the remaining

¹²⁶ BRPD Circular Letter No. 52 Dated 21 December 2022

time without taking any down payment and such restructuring facility can be granted only once during the loan tenure. A rescheduled loan cannot be restructured.

Classification, provision and interest suspension of rescheduled loans:¹²⁷

As per the provisions of Section 5GaGa of the Bank Companies Act, 1991, a rescheduled loan will not be considered a "defaulted loan," and the borrower will not be considered a "defaulted borrower" as these terms are understood in the context of section 27KaKa(3).

The decision taken by Bangladesh Bank inspectors regarding classification category of a rescheduled loan, after checking whether all the conditions of rescheduling have been complied with, will be considered final.

During the rescheduled period all required principal and interest payments must be made in equal monthly/quarterly installments. If the amount of defaulted installments is equal to the amount of 6 monthly or 2 quarterly installments, the loan will be classified as Bad/Loss.

Interest retained in interest suspense account or interest accrued after rescheduling cannot be taken into income account, unless actually realized. Moreover, for 3rd and 4th time rescheduling of loans classified as bad/loss, reserved provision against the rescheduled loan account cannot be transferred to the income account of bank, unless actually realized.

¹²⁷ BRPD Circular Letter No. 33 Dated 03 August 2022

Interest Waiver

Policy¹²⁸ on interest waiver has been issued for banks to comply with the following instructions while considering waiver of interests (profit for Islamic Shariah based banks) of loans (investment for Islamic Shariah based banks) including the written off loans:

- **Principal Waiver:** The Waiver of loan-Principal of any loan is strictly restricted.
- **Waiver of Interest:** Interest waiver of loan is allowed for genuine cases. Interest waiver is highly restricted if the loan is created through forgery/for a willful defaulter/ the aggregate net profit after tax for last 3 years is positive/ owner's equity as per the last audited financial statement of the borrower is positive.
- **Approval Authority:** Proposal of interest waiver shall be approved by the Board of Directors of the Bank. However, the board may delegate the authority to the bank management for approving proposal of interest waiver when principal amount (during disbursement) is not more than BDT 10 lakhs.
- **Cost of Fund Recovery:** The bank must ensure cost of fund recovery during waiver of interest except in following cases:
 - a. A project has been closed for last 3 years;
 - b. The sale of collaterals/additional collaterals/project properties (assets) and the personal assets of project owners is not sufficient;
 - c. The legal and other necessary measures are inadequate for recovery; and,
 - d. The borrower has been died/ become unable to repay due to natural calamities, Epidemic, pestilence, flood or other distressed situation.
- **Opinion from Internal Control & Compliance:** The rationalities for relaxation of cost of fund recovery (due to one or more reasons/other essential cases) must be audited by Internal Audit Department of the bank and opinion of the Head of Internal Control and Compliance (HICC)¹²⁹ must be taken.
- **Special Instructions for State-Owned Commercial Banks and Specialized Banks:** Interest cannot be waived by debiting¹³⁰ the income account of the bank. Instructions regarding waiver of interest issued by the government from time to time shall also be followed.
- **Other Instructions:** For reviewing the impact of interest-waiver on bank's own financial position bank should consider their capital adequacy, profitability and other important financial indicators with due diligence. In case of interest waiver of loans of director of the bank-company/his family members/ any institutions in which a director has interest, the compliance of Section 28 of the Bank Company Act, 1991 should also be ensured.

¹²⁸ BRPD Circular no. 06 Dated 21 April 2022

¹²⁹ BRPD Circular Letter No. 46 Dated 16 November 2022

¹³⁰ BRPD Circular Letter No.18 Dated 24 May 2022

Loan Write off

As part of the bank's credit risk management, provision has to be maintained at a fixed rate against the non-performing loan accounts and as such long unpaid loan accounts have to be shown in the balance sheet. This makes the size of the balance sheet of a bank unnecessarily inflated. In this context the bad and loss loan accounts are written off following specific procedure, which is internationally recognized. For putting maximum importance and effective initiative to write off non-performing loan and its recovery, policy¹³¹ has been issued by BB following international best practices which replaced the previous instructions on the same. To strengthen the recovery process, formation of written off loan recovery unit and its functions have been also described in this policy.

Identification of Loan Accounts for Write off:

Loans classified as bad and loss for 2 consecutive years or loans in the name of a deceased person or his sole proprietorship, irrespective of the classification status, can be written off.

Write off Procedure:

Initiative should be taken to systematically sell the mortgaged property in favor of the bank and to collect the due amount from the guarantor(s) before write off. A case must be filed under Money Loan Court Act, 2003 if no legal action has been initiated before. However, a loan can be written off without filing a suit if not necessarily actionable under the Money Loan Court Act, 2003 loans up to Tk. 5,00,000.00 or any amount of loans in the name of a deceased person or his sole proprietorship. The write off must be approved by the Board of Directors of the Bank and no loan account can be written off partially.

Recovery and Supervision of Written off Loans:

Even after the write off, the bank's claim on the respective loans shall remain intact as per section 28(a) of the Bank-Company Act, 1991 and legal actions shall be continued for recovery. A separate unit named as 'Written off Loan Recover Unit' shall be formed under the direct supervision of the Managing Director or Chief Executive Officer of the Bank. The Unit shall consist of competent and experienced officers in the field of loan sanctioning process, loan documentation and loan collection processes along with a competent officer from the concerned branch/department and at least 1 officer with a Law degree. They will get an amount equal to 5% of the recovered amount against the written off loan. Terms related to recovery from the written off loan shall be included in the Terms of Reference (TOR) of managing director or chief executive officer of the bank during his/her appointment/re-appointment and his ability to

¹³¹ BRPD Circular No. 04 Dated 18 February 2024

recover/ achievement of annual recovery targets shall be considered as one of the performance criteria for his re-appointment.

Reporting Procedure:

Written off loan accounts should be maintained in a separate ledger and reported in the bank's financial statements as per the 'Instructions for Preparation of Financial Statements' in the Schedule to section 38 of the Bank-Company Act, 1991 (as amended up to 2023). Even if the loan is written off, the concerned borrower shall be identified as a defaulted borrower until full settlement and the loan account shall be reported as BLW to the Credit Information Bureau (CIB) of Bangladesh Bank as usual.

Other Restrictions:

Written off loan accounts shall not be rescheduled or restructured. Repayment schedule of such loan account can be determined only under Exit Plan. However, the concerned borrower shall be duly reported to the CIB as a defaulted borrower and the said loan/investment accounts shall be classified as bad and loss (BLW in CIB) until the borrower has fully repaid his loan liability. Loans taken in the name of a director or any institutions with his/her interests while being a director of the bank shall not be generally waived. However, if there is a need to write off any loan account due to the death of such a customer or any other reason, prior approval from the Banking Regulations and Policy Department of Bangladesh Bank shall be taken.

Willful Defaulter Management

Definition of the “Willful Defaulters” has been incorporated in the section 5kagakaka of the Bank-Company Act, 1991 (amended up to 2023). Moreover, direction related to the list of the willful defaulter etc. has been stated in the section 27kha of the said act. Following the BCA, 1991, Bangladesh Bank (BB) has issued a policy¹³² for Identification & finalization of willful defaulters with a view to reduce NPL, maintaining credit discipline and capacity development of the banking sector. Important features of this policy are as follows:

- **Identification of the willful defaulters:**
 - i. Banks have to form a “Willful defaulter identification unit” headed by an official, who is under immediate two step of the MD/CEO in the hierarchy.
 - ii. Banks have to identify the willful defaulters following the definition given in the BCA, 1991.
 - iii. If a borrower becomes defaulter, Banks have to identify whether he is a willful defaulter or not within the 30 days from the date of becoming defaulter. If identification is not possible within the stated period, the said time can be extended by another 30 (thirty) days with the approval of the Managing Director/CEO of the Bank.
- **Finalization of the willful defaulters:**
 - i. If a defaulter is identified as a willful defaulter, bank should mention the specific reasons for identification and give 14 (fourteen) working days to the concerned borrower’s for presenting his statement in this regard.
 - ii. Bank should get final approval from its BOD or MD/CEO depending on the amount mentioned in the policy before taking the final decision and duly inform the concerned borrower within the 7 (seven) working days.
 - iii. Bank should mention in its letter that aggrieved borrower can appeal to the Banking Regulation & Policy Department of the Bangladesh bank within 30 (thirty) days.
 - iv. If a borrower is identified as willful defaulter by the Department of Banking Inspection (DBI) of the Bangladesh Bank, bank should finalize it following the procedure of the said policy in accordance with the opinion of DBI.
- **Measures to be taken against willful defaulters:**
 - i. Bangladesh Bank will request authorities to impose a ban on foreign travel, the issuance of trade license, company listings with the Bangladesh Securities and

¹³² BRPD Circular No. 06 Dated 12 March 2024

Exchange Commission, and registration with the Registrar of Joint Stock Companies and Firms for willful defaulters.

- ii. Willful defaulters will not be eligible for obtaining any government award or recognition.
 - iii. BB will also send the list to car, land, home and flat registration authorities to take necessary actions.
 - iv. Even if a willful defaulter is removed from the list after repaying the loan, they will be prohibited from serving as a director of any bank or financial institution for the following five years. Moreover, if a director of a Bank/FI becomes willful defaulter, his director post will be announced vacant as per BCA 1991, 27 Kha (8).
 - v. Bank have to notice the concerned willful defaulter to repay his full due within 02 (two) months and if he failed to do so, bank should file a criminal suit against him.
 - vi. Interest cannot be waived against loan account of any willful defaulter and loans cannot be rescheduled too. Besides, loan of the willful defaulter cannot be taken over by other Banks/FIs.
 - vii. A willful defaulter is continued to be willful defaulter unless total loan is repaid or adjusted.
- **Other instructions:**
 - i. If a bank doesn't comply with these instructions, BB will impose BDT 50 lakh to BDT 1 crore fines on the bank.
 - ii. The banks shall report to the CIB after identifying and finalizing the willful defaulters and the CIB will display them in their database as WD.

Loan to Borrowers of a Group provided that none of them is a Willful Defaulter:

According to section 27kaka(3) of the Bank-Company Act, 1991 (amended up to 2023), Banks/FIs are not allowed to provide any loan facility to the defaulted borrower. However, if the concerned defaulted borrower is not willful defaulter and if he has rational reason for becoming defaulter then Banks are allowed to provide loan facilities to other borrowers of the group after getting prior approval from BB. BB has issued a circular¹³³ in this regard and important features of it are as follows:

- Banks/FIs are not allowed to provide any loan facility to the defaulted borrower.
- Banks are allowed to provide loan facilities to any borrower of the group if a borrower of the same group is not a willful defaulter after getting prior approval from BB.

¹³³ BRPD Circular No. 07 Dated 03 April 2024

- If a borrower aggrieved and appeal against his enlistment as willful defaulter, banks cannot forward any application under this circular until the disposal of the appeal.
- If any institution or company of a group gets the benefit under this circular, then the concerned defaulter loan account of the same group should be repaid or adjusted within one year. Otherwise, banks shall not provide further loan facilities under this circular.
- Banks should apply to BB through a prescribed format after getting approval from the BOD. Updated CIB and a report regarding the reasoning behind becoming defaulted borrower should be enclosed with it.
- Bank should provide necessary documents time to time as per BB requirement. BB will conduct an onsite inspection before giving approval.
- The decision of Bangladesh Bank in giving prior approval shall be considered as final.

Taking Thumb Impression on Charge Documents

According to the guidelines on credit risk management, disbursement of loans should be effected only after execution of charge documents and completion of covenants and creating charge on primary securities and collaterals. An indicative documentation checklist is given in Annexure 1 of the said guidelines, where taking signature, if necessary, of the borrowers and other third parties is required. Based on Honorable High Court's observation, in order to resolve the legal complications in loan recovery following instructions have been given¹³⁴.

- Read out the contents of the charge documents received for the purpose of disbursement of the loan to the borrower, guarantor and other concerned 3rd person/party.
- Signatures (where applicable) on the said documents as well as thumb impressions of both of their hands should be taken after the verification from the National Identity Card (NID) database.

Verification of Financial Statements

The loan applicant submits the financial statement for the purpose of taking loans from the banks. Bank verify the financial statement whether it is audited and signed by the authorized audit firm or not. With a view to ease verification by stakeholders through online The Institute of Chartered Accountants of Bangladesh (ICAB) has developed a system called "Document Verification System (DVS)". For better credit discipline and reduction of non-performing loans in the banking sector, BB has issued a circular¹³⁵ instructing the banks regarding the verification of financial statements submitted by borrowers from the DVS. The circular comprises the following instructions:

- During the verification of the financial statement submitted by the borrower, It must be ensured that the information provided in the statement is consistent with the DVS.
- Banks have to make necessary contact with ICAB for using the DVS.

¹³⁴ Circular No. 15 Dated 02 August 2023

¹³⁵ BRPD Circular Letter No. 35 Dated 06 July 2021

Preserving Audited Financial Statements

A number of ‘Public Interest Organization’ as defined in Section 2(8) of the Financial Reporting Act, 2015 do not submit the updated financial statements audited and prepared by chartered accountants while taking/renewing a loan from a bank. For the purpose of maintaining the credit discipline and bringing the enhanced transparency in the financial sector, BB directed the banks by issuing a circular¹³⁶ to preserve the audited financial statements in the loan file while taking/renewing a loan. Features of the circulars are as follows:

- Financial statement audited by the Chartered Accountants shall mandatorily preserved in the loan file at the time of sanction/renewal of loan in favor of any ‘Public Interest Organization’ as defined in Section 2(8) of the Financial Reporting Act, 2015.
- Further, in case of any other institutions for which obtaining the audited financial statement is necessary, banks should also preserve the audited financial statement in the loan file.

Considering the negative impact of the COVID-19 and the current global economic situation, BB has exempted the Cottage (C), Micro (M) and Small(S) from the above mentioned instructions until December, 2024^{137 & 138}.

¹³⁶ **BRPD Circular Letter No. 04 Dated 04 January 2021**

¹³⁷ **BRPD Circular Letter No. 31 Dated 29 June 2021**

¹³⁸ **BRPD Circular Letter No. 04 Dated 06 February 2023**

Incentives to Good Borrowers

In order to loan recovery of the bank and keep the country's business running, Bangladesh Bank has formulated various policies including loan rescheduling and restructuring for the affected borrowers at different times. In addition to these facilities, banks are also providing a variety of benefits to their customers in light of their own policies. But there was no policy to provide any kind of institutional incentives to encourage the good borrowers.

In order to develop a better credit culture, it is necessary to provide some additional benefits to the borrowers who pay loans regularly i.e. good borrowers by providing some additional benefits. In view of this, BB has issued a circular¹³⁹ regarding the identification criteria of the good borrowers and their incentives. Important features of the circular are as follows:

- Bank has to identify their good borrowers annually at the end of December considering the following criteria:
 - Loan of the borrower should be classified as ‘Standard’ for last 12 months consecutively and transaction should be satisfactory.
 - In case of multiple loan facilities of a borrower, each of the loans should meet the above criteria.
 - If any loan of the borrowers or its related parties is adversely classified in last 12 months, the concerned borrower shall not be considered.
 - Loans that are regularized by rescheduling or restructuring for the first time for some logical grounds could be taken into consideration if it meets the above mentioned criteria.
- If any Borrower identified as good borrower considering the above criteria, following instructions should be followed:
 - Information regarding good borrowers should be reported to Credit Information Bureau (CIB) as STD-GB.
 - Booklet/Magazine should be published containing the photo, profile etc. of the borrowers whom are identified as good borrower for three years and above. When number of good borrowers is many, in case of publication, priority should be given to those who are identified as good borrowers for longer period of time.
 - Banks can arrange an annual program for recognizing or awarding the good borrowers to honor.

¹³⁹ BRPD Circular No. 14 Dated 18 June 2020

Special Monitoring of Classified Loan of BDT 100 crore & above

In order to monitor the classified loan accounts amounting BDT 100 Core and above, Banks should take the following measures¹⁴⁰:

- a) All banks will establish a special monitoring cell called "Special Monitoring Cell" with the required number of manpower headed by the concerned deputy managing director for the purpose of monitoring the classified loan accounts of amounting taka 100 (one hundred) crore and above.
- b) The scope of work of the said Special Monitoring Cell will be as follows:
 - (i) Taking appropriate steps to Increase the collection of classified loan amounting Taka 100 (One Hundred) Crore and above and to reduce the amount of such classified loans and the number of defaulting borrowers;
 - (ii) Informing the Board of Directors of respective banks with all information including the progress of collection of classified loan accounts as described in the quarterly statements named ``Quarterly Statement of Classified Loans amounting BDT 100 crore & above''. Besides, submission of the said quarterly statement to Bangladesh Bank's Web Portal through EDW at the end of every quarter by the last working day of the following month to the Task Force Cell of Banking Regulations and Policy Department;
 - (iii) Inclusion of classified loans (once reported) in the statement for the next 8 (eight) quarters even after regularization by way of rescheduling or any other reason.
- c) The Board of Directors of the Bank shall ensure proper review of the said statement on a quarterly basis. In this case, the bank management authority will formulate a time-bound action plan for the recovery of the loan dues, and the board of directors will regularly review the implementation of the action plan and provide necessary instructions.
- d) The said statement should be submitted through EDW on Bangladesh Bank's Web Portal.

¹⁴⁰ BRPD Circular No. 06, Date: 22 July 2019

Chapter-V

Risk Management

- **Credit Risk Management**
- **Internal Credit Risk Rating System (ICRRS)**
- **Asset-Liability Management**
- **Enlistment of Collateral Valuation firm**
- **Internal Control & Compliance in Banks**
- **Interest rate risk in the banking book (IRRBB)**
- **Country Risk Management**
- **ICT Security Guideline**
- **Core Banking Solution (CBS) Features and Controls**
- **Guidelines on Cloud Computing**

Credit Risk Management

Aiming to deal with business-related risks more effectively and efficiently, Bangladesh bank has updated its “Guidelines on Credit Risk Management (CRM)” in 2016 and published it for the banks through a circular¹⁴¹.

These Guidelines have been prepared with the international standards in mind, most notably Principles 17, 18, 19, and 20 of the Core Principles for Effective Banking Supervision, issued in 2012 by the Basel Committee on Banking Supervision. It provides the broad-based policy on the core principles for identifying, measuring, managing and controlling credit risk in banks. The guideline is applicable for all types of conventional and Shariah-based mode of financing. The Board of Directors and senior executive officers of each bank are strongly advised to familiarize themselves with these principles and apply them throughout their credit risk management activities.

Important features of the CRM guidelines are as follows:

- **Chapter-1: Overview on Credit Risk Management**
 - This chapter broadly discusses the possible outcome of credit risk, Indicators of high credit risk or poor credit risk management, Concentration risk, Risk appetite statement and Limits on loan type, borrower type, rating grade, industry or economic sector.
- **Chapter-2: Organizing Credit Risk Management**
 - This chapter discusses the Role of the Board of Directors, Role of Senior Management, Role of the Credit Risk Management Committee.
- **Chapter-3: Managing Credit Risk in the Origination Process**
 - This chapter discusses the Internal credit risk rating system, The role of external credit assessment institutions (ECAIs), Analysis of specific borrower repayment capacity specially analyzing financial statements, Required loan documentation as a part of Borrower evaluation. Besides Risk-based loan pricing, basic approval authority principles, Disbursement procedures, related person lending issues are also discussed in this chapter.
- **Chapter-4: Credit Risk Mitigation Strategies**
 - Banks may use different strategies such as collateral and guarantees etc. to mitigate credit risks. Different credit risk mitigation strategies are stated in this chapter. Recommendation for categorizing loans by collateral type, Amount required as collateral and its valuation, third party guarantees are the discussion points of this chapter.

¹⁴¹ BRPD Circular No. 04 Dated 08 March 2016

- **Chapter-5: Managing Credit Risk in the Administration Process**

- Borrower follow-up and corrective action, Independent internal loan review and changes to the credit risk rating, the role of provisioning in managing credit risk are the main topics of this chapter.

- **Chapter-6: Managing Credit Risk with Appropriate Management Information Systems (MIS)**

- A Management Information System (MIS) must provide quality data to the Board and senior management on the segmented portfolio on a timely basis that will enable the analysis of the current and future risk, and exposure by both the business areas responsible for its management. Data archiving procedures and MIS must be adequate to facilitate the development of credit scores and models when required. The indicators that must be traced and tracked on a monthly basis at the each business level for Single Products and Multi products are Booking MIS, Portfolio MIS, Segmentation MIS, data sufficiency, Periodic stress testing, The role of loss control limits (“management action triggers”) in adjusting credit policies, authorities, limits, required credit enhancements, etc., are the main subject matter.

- **Chapter-7: Managing Credit Risk of Problem Assets**

- Problem loans are an inevitable consequence of lending. The causes of problem loans should and can be minimized through the proper risk management plan. Interaction with borrower, Appropriateness of rescheduling and restructuring, Credit Recovery, Write-off, repossession, and disposition of collateral in case of managing problem loans are discussed here.

Internal Credit Risk Rating System (ICRRS)

The ICRRS is introduced¹⁴² and implemented for regulatory compliance¹⁴³ from 01 October 2019 replacing Credit Risk Grading Manual (CRGM)¹⁴⁴ to analyze a borrower's repayment ability based on information of a customer's financial condition including its liquidity, cash flow, profitability, debt profile, market indicators, industry and operational background, management capabilities and other indicators. It is a fully automated credit risk scoring system that calibrates the characteristics of different sectors and industries¹⁴⁵ in a single model.

ICRRS is applicable for all exposures (irrespective of amount) except consumer loans, small enterprises having total loans exposures less than BDT 50 (fifty) lac and small enterprises in manufacturing having total loans exposures less than BDT 1 (one) crore, short-term agro-loans, micro-credit, and lending to bank/FI/insurance company/MFI/merchant bank/stock brokerage house and NGO¹⁴⁶. It shall be conducted for all credit proposals including new, renewal and enhancement of the existing proposal. It consists of 4-notched rating system covering the Quantitative and Qualitative parameters. Rating is Excellent if Scores Aggregate is $\geq 75\%$; is Good if $\geq 65\%$ to $< 75\%$, is Marginal if $\geq 55\%$ to $< 65\%$ and is Unacceptable if $< 55\%$ ¹⁴⁷. Banks are allowed lending to a borrower if the borrower's ICRR is "Excellent" or "Good". Indeed, whatever is the qualitative score, if the quantitative score is less than 45%¹⁴⁸, the borrower's ICRR shall be "Unacceptable".

The quantitative scoring of ICRRS shall be conducted by a credit officer/an analyst, while the qualitative scoring with total scores shall be completed by the Relationship Manager/Branch Manager. No loan shall be sanctioned to borrowers whose ICRR is "Unacceptable" unless the loan is 100% covered by cash /fully guaranteed by the Government or Multilateral Development Banks (MDBs)/ the loan is for any state-owned organization/state-owned project. However, bank can make renewal and enhancement of existing loans for maximum 2 (two) times if the borrower's ICRR is "Unacceptable". The ICRRS guideline includes the minimum standards and banks may adopt more sophisticated risk rating model in line with the size and complexity of their business.

¹⁴² BRPD Circular No 16 of 30 October 2018

¹⁴³ BRPD Circular No 18 of 2005

¹⁴⁴ BRPD Circular Letter No 12 of 20 June 2019

¹⁴⁵ A. Industry [1. Ready Made Garments (RMG), Textile (including spinning, knitting, weaving), Food and Allied Industries, Pharmaceutical, Chemical, Fertilizer, Cement, Ceramic, Ship Building, Ship Breaking, Jute Mills, Steel Engineering, Power and Gas, Other Industry]; B. Trade and Commerce; C. Agro Base and Agro Processing; and D. Service [1. Housing and Construction, Hospitals and Clinics, Tele-communication, Other Service]

¹⁴⁶ BRPD Circular Letter No. 5 of 06 January 2021

¹⁴⁷ Redefine by the BRPD Circular Letter No. 14 of 23 February 2021. However, until 31 December 2024, instructed as Marginal if $\geq 50\%$ to $< 65\%$ and Unacceptable if $< 50\%$ vide BRPD Circular Letter No. 02 of 03 January 2024

¹⁴⁸ It re-fixed to 40% until 31 December 2024 vide BRPD Circular Letter No. 02 of 03 January 2024

Asset-Liability Management

Managing Assets and Liabilities to foster a sustainable growth is one of the key issues of banking industry. After the Great Financial Crisis, managing the Liquidity and Market risk of banks attracts much more attention of the regulators and supervisors globally. The outcome of this concern was well reflected in the activities of the Basel Committee for Banking Supervision while formulating the Basel 2.5 and finally in Basel III documents. The Liquidity (LCR and NSFR) and leverage ratios are primarily meant to address the above risks. Asset and Liability Management (ALM) of banks is centered on the above three ratios while implementing Basel III.

Asset and Liability management is an essential process for banks and when not well managed, it creates a threat to the existence of the bank itself. Banks must have their own ALM policy, essentially approved by the BODs (ALCO, in case of foreign banks). In order to formulate the policy, the management and the BODs must understand the risks around each and every asset and liability of the bank. BB has issued a comprehensive Risk Management Guidelines for Banks in 2012 elaborating the determination and mitigation of various risks in this regard.

The Asset and Liability Management Committee (ALCO), comprising of the senior management of a bank, is primarily responsible for managing assets and liabilities under the set ALM policy. While setting any standard under the bank's ALM policy, the management and the BODs shall take necessary care, so that the minimum or maximum limits (where applicable) stated by BB in this ALM Guidelines¹⁴⁹ upholds. In other cases, international best practices suitably customized for local banks depending on their capacity and needs may be used. This ALM Guideline is a snapshot of what to do and how to do things regarding proper management of assets and liabilities of a bank. This should be considered as a basic framework for further development in this area with evolving situation in the banking industry. The ALM policy, set out by the BODs, incorporating the limits and essence of this ALM Guidelines should be reviewed periodically and as and when necessary.

¹⁴⁹ BRPD Circular No. 02 Dated 07 March 2016

Enlistment of Collateral Valuation firm

Credit discipline is essential for strengthening stable financial health of banking sector. Reliable and accurate valuation of assets pledged as collateral for customer loans ensures efficient credit management by facilitating inclusion of non-banking asset, proper classification of loan, rescheduling & recovery, exact calculation of provision, loan write off etc.

Bangladesh Bank emphasized on valuation of collateral by professional 3rd party Surveyor¹⁵⁰. Credit Risk Management Guidelines¹⁵¹ clearly specified provision for appointing recognized 3rd party valuation firms for conducting valuation of collateral. In compliance with the instructions conferred in both the directives, banks were appointing valuation firms by their own till 2023. Empowered by section 29 (Ka) of the Bank Companies Act 1991 (Amended up to 2023), BB issued a clear policy¹⁵² for enlistment of Collateral Valuation Firms by following transparent and acceptable procedure.

Criteria for Application:

The following criteria determine who can apply for enlistment:

SL	Eligibility
1	Membership Certificates from related association like Bangladesh Survey & Valuation Companies, Firms & Individual Concerns Association (BSVCFICA)/ Bangladesh Insurance Surveyors Association (BISA)/other professional association acceptable to BB.
2	Members of Institute of Chartered Accountants Of Bangladesh & Institute of Cost Management Accountants.
3	3 years of practical experiences of Valuation in Bank/ Govt. Offices/ NBFIs/ MNCs
4	Registered as proprietary/partnership/limited company under the prevailing law,
5	Skilled and experienced manpower (accountant, civil engineer, mechanical engineer, diploma engineer etc as applicable) and trained surveyor
6	Essential logistics and capacity for using modern tools and technology
7	Registered office, updated Trade License, TIN, BIN, Clean CIB report etc
8	Age limit for Chief Surveyor must not exceed 75 years.
SL	Non-Eligibility
1	Marked as defaulter under section 5(GaGa) of Bank Company Act 1991,
2	Receipt of any physical/ financial punishment by the court for financial irregularities/ embezzlement/ judiciary offences done (by the firm, its director, executive or the lead surveyor).

The following are considered as additional competencies for selection of valuation firms:

- Adaptability of modern technology and having permanent workforce consisting professionals with academic degrees in Cost and Management Accountant (CMA), Chartered Accountant (CA, ACCA), CFA (Chartered Financial Analyst), Chartered General Accountant (CGA), etc.

¹⁵⁰ BRPD Circular Letter No. 05 Dated 27 April 2005

¹⁵¹ BRPD Circular No. 04, Dated 08 March 2016

¹⁵² BRPD Circular No. 16 Dated 28 November 2023

- Current engagement with minimum three Banks/ Financial institutions as surveyor.
- Having five years and above experience as a chief surveyor.

Process of Enlistment:

Applicants need to submit their application (in prescribed format) to BB within 01-15 th of June and December of every calendar year. The application must include the following documents:

List of Documents	
• Copy of association membership certificate • Updated Trade license, TIN/BIN & Bank Solvency Certificate, • Notarized copy of partnership deed & registration copy/ Memorandum & Articles of Association copy • NID of Owner/Director/Partners/ CEO • Payment Order/Bank Draft of BDT 5000.00 as Application Processing fee	• Certificate of Experience as surveyor from related banks/FIs/ Govt. organizations/ MNCs/ Insurance Companies etc • Copy of Enlistment Contract with banks/FIs as proof of current affiliation. • Academic and Experience Certificates of engineers/surveyors/ other employees

BB will follow an approved Score Sheet for selecting eligible valuation firms for three years and publish the list (consisting two groups ‘Group-A’ & ‘Group-B’) in every six month. Eligible firms can re-apply for enlistment after expiration of their tenor. Firms rejected in this process of enlistment may re apply on compliance with the eligibility criteria.

Enlisted firms are subject to report their activities to BB on annual basis in a prescribed format. Banks will also report the performance of their appointed surveyor. On the basis of these reports, physical inspection and information collected from different sources BB will evaluate the performance of each firm and may delist one or more firms for 1-3 years for non-compliance, mal practices or on any other reasonable ground. Banks must comply with the following for valuation of collaterals pledged against loans:

SL	Loan Ceiling	Category	Asset Details	Valuation by
1	< 1.00 Crore	• Approve Loan • Enhance Ceiling • Renew Loan	Property, goods, machineries & equipment etc. taken as collateral	• Banks own management or • Appoint BB enlisted firms
2	≥ 1.00 Crore	• Loan Approval • Enhance Ceiling • Loan Renewal		• Appoint BB enlisted firms • Banks may re-check accuracy of valuation by own
3	≥100.00 Crore	• Loan Approval • Enhance Ceiling • Loan Renewal		• Separate valuation by appointing minimum two enlisted firms and at least one must be from Group-A.
4	≥ 50.00 Crore	If NPL of the bank is ≥ 10% in last quarter (before valuation)		• Appoint enlisted firms and must be from Group-A.
Note: 1. Bank must appoint the enlisted valuers for valuation of non banking assets & other sectors where BB's instruction prevails for valuation to be done by professional third parties. 2. Bank should accept one particular report (out of multiple valuers report) that favors the bank Most and can call explanation to the valuers for more than 20%.deviation of their reports. 3. Enlisted firms are allowed to appoint experienced /technically equipped personnel as their Advisor but prohibited to employ other (enlisted or non-enlisted) firms to perform their job. 4. For revaluation of collateral bank must appoint Valuer from BB enlisted firms.				

Internal Control & Compliance in Banks

Guidelines on Internal Control & Compliance Risk Management formulated in 2003, with the aim of dealing with the risks associated with banking business more effectively and efficiently, has been updated¹⁵³ based on the observation of the committee comprising members from Bangladesh and some other scheduled banks and opinion of the stakeholders. The revised guideline is available on the website of Bangladesh Bank (www.bb.org.bd).

¹⁵³ BRPD Circular No. 03, Dated 08 March 2016

Interest Rate Risk in the Banking Book (IRRBB)

Interest rate risk in the banking book (IRRBB) refers to the current or potential risk to the bank's capital and earnings arising from adverse movements in interest rates that affect the bank's banking book positions. The guidelines¹⁵⁴ aim to strengthen the management of interest rate risk in the banking sector, ensuring that banks have adequate policies and processes to identify, measure, evaluate, monitor, report, and mitigate IRRBB. It is applicable for all the commercial banks including Islamic banks (Profit Rate Risk in the Banking Book) operating in Bangladesh.

Key Components:

1. Definition and Types of IRRBB:

- **Gap Risk:** Arises from timing differences in the re-pricing of bank assets and liabilities.
- **Basis Risk:** Occurs due to different interest rate indices affecting instruments with similar tenors.
- **Option Risk:** Comes from options embedded in bank products where either the bank or its customer can alter cash flows.

2. IRRBB Management Framework:

- Banks must develop policies and procedures for managing IRRBB.
- The board of directors is responsible for overseeing IRRBB management, including setting risk appetite and limits.
- An Asset and Liability Management Committee (ALCO) should be in place to monitor and manage IRRBB.

3. Measurement and Monitoring:

- Banks should use both earnings-based and economic value-based measures to assess IRRBB.
- Internal Measurement Systems (IMS) should calculate the impact on Economic Value of Equity (Δ EVE) and Net Interest Income (Δ NII) under various interest rate shock and stress scenarios.
- Regular stress testing should be conducted to understand the potential impact of adverse market conditions on the bank's capital and earnings.

4. Reporting and Disclosure:

- Banks shall report to DOS and BRPD of Bangladesh Bank from 30 June 2021 using formats (prescribed in Appendix 2 and Annexure) in half-yearly (on an experimental basis).

¹⁵⁴ BRPD Circular No 06 of 13 April 2021

- Banks must develop their own and fully implementable IRRBB model within the final implementation period, 30 June 2024.

Calculation Process for IRRBB:

Banks are required to calculate the impact of interest rate shocks on their economic value and earnings. Different data formats for conventional and Islamic banks have been recommended. The process for calculating IRRBB as outlined in the document is as follows:

1. Internal Measurement Systems (IMS):

- Banks must ensure that their IMS captures all material sources of Interest Rate Risk in the Banking Book (IRRBB) and assesses the effect of market changes on their activities.
- The IMS should consider both the economic value impact of an interest rate shock and the ability of the bank to generate stable earnings sufficient for maintaining normal business operations.

2. Economic Value and Earnings-Based Measures:

- Banks should recognize the complementary nature of economic value measures and earnings based measures in their risk and internal capital adequacy assessments.
- The IMS should accommodate the calculation of the impact on economic value (ΔEVE) and net interest income earnings (ΔNII) of multiple scenarios, including:
 - i. Internally selected interest rate shock scenarios tailored to the bank's risk profile.
 - ii) Historical and hypothetical interest rate stress scenarios.
 - iii) The six prescribed interest rate shock scenarios provided in Appendix 1.
 - iv) Any additional interest rate shock scenarios required by the central bank from time to time.

3. Stress Testing and Scenario Analysis:

- Banks must measure their vulnerability to loss under stressful market conditions, including the breakdown of key assumptions, and use these results in establishing and reviewing policies and limits for IRRBB.
- An effective stress testing framework for IRRBB should be part of the broader risk management and governance processes, influencing decision-making at the appropriate management levels.

4. Behavioral Assumptions and Sensitivity Analysis:

- Banks should document and test the appropriateness of key behavioral assumptions and periodically perform sensitivity analyses to monitor their impact on measured IRRBB.

- The most significant assumptions must be clearly understood by the board and documented, including how they could potentially affect the bank's hedging strategies.

5. Model Governance and Data Integrity:

- Accurate and timely measurement of IRRBB is essential for effective risk management. The risk measurement system must identify and quantify major sources of IRRBB exposure, and the MIS should capture data on all material IRRBB exposures.
- The data inputs should be automated to minimize errors, with periodic reviews and testing against an approved model version. The slotting criteria for cash flows into time buckets must be stable over time for meaningful comparison.

6. Policy and Limits:

- IRRBB policies must be reviewed periodically and revised as needed. Policy limits set by the board should align with the bank's overall risk management approach and be consistent with its ability to measure and manage IRRBB.
- Aggregate risk limits should be applied on both a solo and consolidated basis, considering historical interest rate volatility and the time required by management to mitigate those risk exposures. Specific limits may be associated with different scenarios of changes in interest rates and term structures.

7. Periodic Reviews:

- Banks should review significant measurement assumptions at least annually and more frequently during rapidly changing market conditions. For instance, changes in the competitive market affecting prepayment sensitivity to interest rate changes must be considered.

This comprehensive framework for measuring and managing IRRBB ensures that banks can adequately address the risks associated with interest rate changes, maintain stability in their earnings, and comply with regulatory requirements.

Country Risk Management

Country risk refers to the possibility that a foreign obligor may be incapable or unwilling to fulfill his obligations due to country-specific economic, political, social, or ecological conditions. The guidelines¹⁵⁵ include the consequences of exchange control, currency devaluation, official government actions, or significant socio-political changes in the country where placements, lending, and investments are made. This comprehensive approach ensures that banks adequately account for and mitigate the various dimensions of country risk in their international lending and investment activities.

Categories of Country Risk:

1. **Sovereign Risk:** The risk that a foreign government may not have the capacity or willingness to repay its direct and indirect foreign currency obligations.
2. **Contagion Risk:** The risk that developments in one country lead to adverse credit conditions in other countries in its region.
3. **Currency Risk:** The risk that a borrower's holdings of domestic cash and income streams become inadequate to service its foreign currency obligations due to devaluation.
4. **Indirect Country Risk:** The risk that a domestic borrower's repayment ability is adversely affected by events in a foreign country where the borrower has business interests.
5. **Macroeconomic Risk:** The risk that a borrower in a foreign country may suffer due to the economic policies of the government in that country.
6. **Transfer Risk:** The risk that a borrower may not be able to convert local currency into foreign exchange to make debt service payments in foreign currency.

Risk Rating:

Banks must classify country risk under the following five categories:

- (1) Insignificant;
- (2) Low;
- (3) Marginal;
- (4) Moderate; and
- (5) High

These categories are mapped to the sovereign ratings of major credit rating agencies like S&P, Fitch, and Moody's as follows:

- Insignificant: AAA to AA (S&P/Fitch), Aaa to Aa (Moody's)

¹⁵⁵ BRPD Circular No 07 Dated 13 April 2021

- Low: A (S&P/Fitch and Moody's)
- Marginal: BBB (S&P/Fitch), Baa (Moody's)
- Moderate: BB to B (S&P/Fitch), Ba to B (Moody's)
- High: Below B (S&P/Fitch and Moody's).

Provisioning Requirements:

Banks are required to make provisions on net funded country exposures based on the risk category. The provisioning requirements are:

- (1) Insignificant: 0%;
- (2) Low: 0.25%;
- (3) Marginal: 1%;
- (4) Moderate: 5%; and
- (6) High: 20%

Provisioning must be done if a bank's net funded exposure to a country is 2% or more of its total assets. The provision for country risk is in addition to the provisions required based on the asset classification status of the asset. For 'bad loans,' the provision, including the one for country risk, may not exceed 100% of the outstanding amount.

Additional Guidelines:

Banks are also required to periodically stress-test their foreign exposures and report the results to the board of directors and senior management. Furthermore, banks must disclose their country risk exposures and the aggregate provisions held against country risk as part of their financial disclosures.

Disclosures and Reporting:

- Banks shall disclose as a part of the 'Notes on Accounts' to the Balance Sheet as on 31st March each year starts from the year 2022:
 - i. the risk category-wise country exposures, and
 - ii. the extent of aggregate provisions held against the country risk.
- Banks shall routinely submit the assessment of Country Risk under ICAAP reporting.

ICT Security Guideline

The use of information and communication technology in the banking sector and the scope of information and communication technology dependent services are constantly increasing. Besides, technological innovations are accelerating the digitization of the banking sector. Mainly: Banks are increasingly dependent on information and communication technology to modernize banking activities in order to provide quality and cost-effective banking services as soon as possible in order to gain competitive advantage. Along with this increasing dependency, security risks are also increasing. It is important to take appropriate measures to deal with the said risk. In general, the 'Guideline on ICT Security for Banks and Non-Bank Financial Institutions' has been revised and expanded into 'Guideline on ICT Security - Version 4.0'¹⁵⁶. The updated guideline is available on Bangladesh Bank website (www.bb.org.bd).

Core Banking Solution (CBS) Features and Controls

“Core Banking Solution (CBS)¹⁵⁷ Features and Controls (Version 1.0)” guidelines was issued in 2016 to formulate a uniform set of instruction as minimum requirements for CBS through the said circular. To adapt to constantly evolving technology-driven environment, the above mentioned guidelines has been updated in 2024. The updated ‘Guidelines on Core Banking Solution (CBS) Features and Controls’ (Version 2.0) is available in Bangladesh Bank website (www.bb.org.bd). This guideline shall come into force with immediate effect. However, its full compliance must be ensured by 30 June 2025.

¹⁵⁶ BRPD Circular No. 10, Date: 19 June 2023

¹⁵⁷ BRPD Circular No. 12, Date: 13 May 2024

Guidelines on Cloud Computing

The country is moving forward to create digital Bangladesh through the use of advanced technology in the financial sector. At present, the trend of using high-speed internet and cloud computing technology in various fields including data storage and processing in the management of systems used in the financial sector with the aim of building a smart Bangladesh is noticeable. The adoption rate of cloud services is also constantly increasing due to the use of the best technology according to demand, cost savings, access to the system from anywhere at any time, uninterrupted use of the system and improved security measures. However, since cloud computing technology relies on the Internet, it has risks related to data privacy and security, including cyber attacks. Risk assessment and effective oversight of cloud computing is critical to maintaining stability in the financial sector as a whole.

By combining the aspects of the field of cloud services, cloud infrastructure, cloud information management, implementation of cloud technology, overall management of cloud service providers including the conditions of cloud service adoption, cloud governance, risk assessment of cloud service use, information privacy and security assurance, cloud audit and compliance assurance and above all training and awareness raising on cloud technology, "Guidelines on Cloud Computing"¹⁵⁸ has been issued. The guideline is available at Bangladesh Bank website (www.bb.org.bd).

Banks/Non-Bank Financial Institutions/Mobile Financial Service Providers/Payment Service Providers/Payment System Operators and other financial service providers can provide various services using cloud computing technology subject to the overall compliance of the guidelines stated in "Guidelines on Cloud Computing".

¹⁵⁸ BRPD Circular No. 05, Date: 16 March 2023

Chapter-VI

Human Resource Management

- **Appointment of Employee/Officer**
- **Employee Promotion Policy**
- **Employee Transfer Policy**
- **Special Allowance and Incentives**
- **Mandatory Annual Leave**
- **Maternity Leave**
- **Provident Fund and Gratuity**
- **Universal Pension Scheme**
- **Child Day Care Service**
- **Code of Conduct for bank & NBFIs**
- **National Integrity Strategy**

Appointment of Employee/Officer

Efficient and enthusiastic workforce is a must for smooth and compliant banking operation. With a view to enhance motivation, sincerity, integrity, dedication and efficiency of the human resources of a bank company Bangladesh Bank issued several policy directives^{159,160 & 161} for banks.

Age Limit of Applicants:

To keep the banks abreast of the governmental practice of limiting the fresh applicants' age at 30¹⁶² all the scheduled banks are instructed to comply with this nationwide accepted norm. The banks are advised to keep the age limit for the fresh candidates at 30(thirty) instead of determining it from their own discretion.

Salary:

Sl	Category of Employee	Salary
1	Entry level officials of General Side (appointed as Assistant Officer/Trainee Assistant Officer/ equivalent officer/ by whatever name)	On Probation: min. BDT 28,000/- After Probation: min. BDT 39,000/-
2	Entry level officials of Cash-Side (appointed as Trainee Assistant Cash Officer /equivalent officer/ by whatever name)	On Probation: min. BDT 26,000/- After Probation: min. BDT 36,000/-
3	Existing employee on the same rank	Adjusted/ increased proportionately
4	Employees of highest rank (other than MD/CEO) to lowest rank	Difference of salary should be rationally/logically determined
5	Supporting Staff like messengers/ cleaners/ Security Workers etc. (Regular/Contractual/ daily basis)	a. Min BDT 24,000.00: (for divisional city areas, Narayanganj & Gazipur) b. Min. BDT 21,000.00 (for other district level city areas) c. Min. BDT 18,000.00 (for other upazila/other areas of the country)
6	Employees recruited on Contractual/daily basis/ Outsourcing	in accordance with the salaries and allowances of the employees mentioned above.
Note: - The pay and allowances of any officer/employee shall, in no case, be less than the prevailing pay. If such a situation arises, the salary and allowances of the concerned officer/employee have to be fixed by paying the required number of increments. Further, the officers/employees shall be entitled to other allowances and facilities as per the bank's service rules. - The perpetuation of the employment of the officers employed by the bank or the increase in the annual salary shall not be subject to the condition of achieving the target of deposit collection.		

¹⁵⁹ BRPD Circular No. 02, Dated 20 January 2022

¹⁶⁰ BRPD Circular Letter No. 04 Dated 25 January 2022

¹⁶¹ BRPD Circular Letter No. 05, Dated 01 February 2022

¹⁶² BRPD Circular No. 08 Dated 23 June 2013

Bank-company officials cannot be deprived of deserved promotion merely on the pretext of inefficiency or inability to achieve the set targets. Officers cannot be dismissed on similar pretexts, i.e., officers cannot be dismissed or forced to resign unless there is a specific and proven complaint;

Since the salary-allowances of the persons engaged in providing banking services in agent banking, mobile banking, or any other process are fixed by the remuneration agreement or by the respective agents, the instructions mentioned above shall not apply to them.

As the pay structure of state-owned banks is covered or fixed in accordance with the national pay scale issued by the government, the above instructions shall not be applicable to said banks.

Employee Promotion Policy

In order to improve the skill, ability and capability of bank officials, it is mandatory to pass the both part of Banking Professional Exam (Formerly known as Banking Diploma Exam) organized by the Institute of Bankers, Bangladesh (IBB) for inclusion in the eligibility list for promotion from senior officers or equivalent positions¹⁶³. Employees those who are newly recruited or got promotion prior 08 February 2023 (Published date of BRPD Circular BRPD Circular No-03/2023) will be exempted from the mentioned obligation for getting promotion in one higher position/post¹⁶⁴. This is to mention that employees working in departments like medical, civil, mechanical, and electrical or IT professionals which are not related to general banking will be exempted from the mentioned rule. While changing bank or shifting from exempted post to the general banking related departments employees have to pass the both part of Banking Professional Exam in case it is not for the same post. In case of the appointment of Managing Director/CEO, its related policy will be applicable.

Formerly there specific number was allocated for passing JAIBB and DAIBB in the promotion policy of the bankers¹⁶⁵.

Employee Transfer Policy

For encouraging transparency in transfer policy and well management of human resources in banking sector Bangladesh Bank issued directives¹⁶⁶ time to time. Banks are advised to take measures for transfer of all levels of officers-employees of the branch and head office including the branch manager of the bank (except for the managing director, deputy managing director or equivalent officer and the officer appointed for special purpose or as an expert) in every 3 (three) years.

¹⁶³ BRPD Circular No. 03 Dated 08 February 2023

¹⁶⁴ BRPD Circular letter No. 24 Dated 23 July 2023

¹⁶⁵ BRPD Circular No. 18 Dated 13 October 2020

¹⁶⁶ BRPD Circular No. 15, Dated 25 October 2018

Special Allowance and Incentives

As per the Policy and Incentive wing of Financial Institutions Divisions, Ministry of Finance Notification Number-53.00.0000.311.99.008.17-492 dated 09 December 2021, permanent employees of state-owned commercial banks working in 16 upazilas announced as ‘Haor/Deep/Char’ shall be entitled to avail allowances from Grade 20 to Grade 7 & above under the National Pay Scale, 2015 at the rate of BDT 1650.00, 1700.00, 1760.00, 1800.00, 1860.00, 1940.00, 2040.00, 2200.00, 2260.00, 2500.00, 3200.00, 4400.00, 4600.00 and 5000.00, respectively¹⁶⁷.

Mandatory Annual Leave

With a view to encourage fall back of officials in each desk and to identify possible loopholes of the work process of employees Bangladesh Bank has issued provision¹⁶⁸ of Mandatory Annual leave for all employees of banking companies.

The officers and employees working in the branch must be given 10 (ten) days of compulsory leave continuously once every year. However, in the light of the government policy or the bank's own policy, any officer-employee working in the branches of such banks will not be entitled to compulsory leave in the year in which recreation leave is in effect.

When the officers-employees working in the branch are enjoying recreational leave or mandatory leave, the concerned officers-employees shall check the official activities performed by the concerned officers-employees for the immediate previous 1 (one) year from their respective branches, and if any suspicious activities are observed, the relevant report shall be submitted to the human resource department of the bank. Human resource department of the bank will take necessary action based on the report received.

¹⁶⁷ BRPD Circular Letter No. 01 Dated 09 January 2022

¹⁶⁸ BRPD Circular No. 15, Dated 25 October 2018

Maternity Leave

Considering the rise of active participation of women in education, job and different sector of the economy, government has initiated a number of supportive policies for women employees. As a part of this, the maternity leave period for government female employees has been extended up to six months by the amendment of the rule 197 of Bangladesh Service Rules (Part-I) in 2011. In line with the rule, Bangladesh Bank issued instruction for banks time to time to extend the tenor for maternity leave of their female employees¹⁶⁹, incorporate the issue in their HR Management Policy¹⁷⁰ and also to accept their previous best annual performance appraisal for maternity leave¹⁷¹ period. With a view to eliminate misunderstanding of the maternity leave related government rules and BB circulars within the banking community and to ensure their uniform compliance, BB comes up with a new circular¹⁷² by consolidating and updating all its previous circular letters on the same.

According to the Circular, banks are instructed to set the duration of maternity leave for all female bank employees to a period of six months from the date of commencement of the leave or her confinement for the purpose of delivery, whichever is earlier. Irrespective of the length of service, all female employees; whether permanent or temporary, will be entitled to avail maternity leave (maximum 2 times in her entire working life) and this leave cannot be combined with any other leave.

Besides, a female employee will be entitled to her normal pay/allowances during maternity leave. Disputes on maternity leave shall be governed by the relevant government regulations. For the annual performance appraisal of female employees in the year of availing her maternity leave, bank shall take into account her previous year's performance appraisal or the average of the previous three years' annual performance appraisal, whichever is better.

¹⁶⁹ BRPD Circular Letter No- 02 Dated 10 February 2011

¹⁷⁰ BRPD Circular Letter no- 08 Dated 17 June 2015

¹⁷¹ BRPD Circular Letter No- 01 Dated 28 March 2013

¹⁷² BRPD Circular No. 01 Dated 09 January 2020

Provident Fund and Gratuity

Bangladesh Bank issued a clear directive¹⁷³ regarding determining the provident and gratuity of contractual employees in special cases. In cases where regular employees, after completion of their regular tenure of service, are appointed as contractual employees in the same bank, the following directives have to be followed for determining their gratuity and provident fund:

- (c) At the time of final retirement of the officers/employees appointed to the Bank, the amount due towards provident fund and gratuity shall be paid in full in accordance with the existing policy;
- (d) No provident fund is required to be created for contractual officers or employees, and they will not be entitled to such benefits;
- (e) No officer/employee appointed on a contractual basis shall be entitled to any gratuity benefits afresh.

Universal Pension Scheme

The Government of the People's Republic of Bangladesh has formulated the Universal Pension Management Act, 2023 and Universal Pension Scheme Rules, 2023 to cover all sections of the country's population, especially the elderly population, under a sustainable and well-organized social safety net. Universal pension scheme is open to the officers/employees of private institutions or owners of said institutions, people working in the informal sector or self-employed, low-income people living below the poverty line and any Bangladeshi citizen working or staying abroad. To fulfill the said cause scheduled banks except the state-owned commercial banks and specialized banks are instructed to take necessary initiative to encourage their employees to participate in the universal pension scheme¹⁷⁴.

¹⁷³BRPD Circular Letter No. 15 Dated 15 May 2023

¹⁷⁴BRPD Circular Letter No.08 Dated 08 February 2024

Child Day Care Service

Need for Day care service facilities for the children of employees become inevitable with the increasing number of female employees in the banking sector. Well nurturing and safety of the children have significant impact on the workability and efficiency of the female employees which ultimately contribute in economic development of the country. International Labor Organization (ILO) policy titled as “ABC of women workers’ rights and gender equality” emphasized on establishing child day care service for the employees (irrespective of gender) in all kind of organization on free of cost basis/ at an affordable cost of the employee. In spite of the existence of such facilities in all Government offices and Bangladesh Bank, most of the commercial banks lack the facility for their employees. Considering the fact, Bangladesh Bank issued a policy instruction¹⁷⁵ for banks to establish Day Care Service Centre for the children of their employees either privately or jointly in a nearby location of the bank. Bank were advised to introduce a policy guideline regarding admission process, fees, preservation of information, standard of service, security measures for the children etc. with the approval of its board.

¹⁷⁵ BRPD Circular No 01 Dated 19 March 2013

Code of Conduct for bank & NBFIs

As per Vision 2021, the National Integrity Strategy has been formulated by the government with the hope of building a happy-prosperous Sonar Bangla. In order to implement the integrity strategy in the bank and financial sector, Bangladesh Bank has issued guidelines¹⁷⁶ on Code of Conduct for Banks and Non-Bank Financial Institutions. One of the objectives of its formulation is to ensure an environment of integrity, ethics, efficiency and responsibility in banks and financial institutions by establishing and following a culture of integrity. In the light of said guidelines, banks have been advised to formulate their own Code of Conduct by 31 December 2017 and to follow/comply that Code of Conduct from 1 January 2018 accordingly. The guideline is available in Bangladesh Bank website (www.bb.org.bd).

National Integrity Strategy

A National Integrity Strategy titled 'National Integrity Strategy has been approved in the Cabinet meeting in 2012 with the aim of building Sonar Bangla. The vision of the National Integrity Strategy is 'Happy-Rich Sonar Bengal' and the objective is 'Establishment of good governance in state institutions and society'. In order to implement this strategy, the National Integrity Advisory Council has been formed under the leadership of the Hon'ble Prime Minister and the Executive Committee of the Advisory Council has been formed under the leadership of the Hon'ble Finance Minister. Ethics Committees have been formed in all Ministries/Departments/other State Institutions to implement the Integrity Strategy as per the decision of the National Integrity Advisory Council. All ministries/departments/other state institutions have formulated and implemented integrity action plans to implement the national integrity strategy. The action plan includes, among other activities, the awarding of integrity awards.

Similar activities have been adopted in the scheduled banks operating in Bangladesh in parallel with the activities of the government in the practice of integrity. Bangladesh Bank issued instructions to set up ethics committees, determine focal points and implement action plans for the implementation of national integrity strategy in all banks. Hence, an 'Integrity Award Giving Policy'¹⁷⁷ & ¹⁷⁸ had been formulated for awarding officers/employees of banks as a part of integrity action plan which was revised¹⁷⁹ later on. Pursuant to this policy, Banks are advised to give award to bank officers/employees in every financial year for practicing integrity.

¹⁷⁶ BRPD Circular No. 16, dated 06 November 2017

¹⁷⁷ BRPD Circular No. 08, dated 08 August 2018

¹⁷⁸ BRPD Circular Letter No 29 Dated 04 December 2019

¹⁷⁹ BRPD Circular Letter No. 34, Dated 05 September 2022

Chapter VII

Bank Restructuring

- **Prompt Corrective Action (PCA) Framework**
- **Recovery Plan for Banks**
- **Merger/Amalgamation of Banks/FIs**

Prompt Corrective Action (PCA) Framework

PCA or Prompt Corrective Action is a framework set up by a central bank to manage financially weak and mismanaged banks across the industry to ensure the safety and soundness of both individual banks and the banking system as a whole.

In the latest amendment of the Bank Company Act (BCA), 1991(amended up to 2023) a new section 77Ka added empowering central bank to give directives regarding banks operational activities and management. Under the section, Bangladesh Bank declared the Prompt Corrective Action (PCA) Framework as a structured mechanism for early intervention of banks that are not able to maintain required level of norms across some parameters: Capital to Risk Weighted Assets Ratio (CRAR), Tier 1 capital ratio, Common Equity Tier1 (CET1) ratio, and Net Non Performing Loan (net of interest suspense and actual provisions), liquidity levels and Corporate Governance. Prompt Corrective Action (PCA) is necessary to address the problems of weak bank/banks. The framework requires a bank and its Board of Directors to carry out prescribed corrective actions to restore the bank's deteriorated financial and operational conditions to a normal state within a reasonable time.

Banks will be classified into Category-1, Category-2, Category-3, and Category-4 depending on the criteria/parameter indicators as set out in Annex-2 of the circular¹⁸⁰. Under the declared PCA Framework, the concerned bank shall have to carry out a schedule of corrective actions, referred as Directives of Bangladesh Bank (DOBB) applicable for specific type of Bank Category. Typical DOBB may be restriction on dividend/remittance, restriction on growth in RWA, control on operational cost, restriction on business expansion, etc. The PCA Framework is applicable to all scheduled bank companies operating in Bangladesh, including foreign banks operating through branches.

The provisions of the PCA framework will be effective from 31 March 2025, based on the audited financials of the period ended as at 31 December 2024. The audited financial statements and onward periodic supervisory returns submitted by the banks to BB, including with the ongoing on-site and off-site supervisory assessment conducted by BB will be the primary source of information for operationalizing the PCA Framework.

The board of directors of the concerned bank will provide a guarantee that the bank will implement the corrective DOBB measures to upgrade the indicators to standard level. If a PCA Category Bank achieves normal condition and maintains it for 04 consecutive quarters, and the Board of Directors of BB is satisfied, the obligation of PCA Framework will be lifted for that bank. In order to monitor the implementation of the DOBB, the bank will submit periodic progress reports to the Director, BRPD (Division-2) of Bangladesh Bank, at a frequency stated in DOBB.

¹⁸⁰ **BRPD Circular No. 17, Dated 05 December 2023**

Recovery Plan for Banks

In order to cope with stress events, bank companies should develop a Recovery Plan for preparing their responses to the potential shocks in advance so that they can act promptly and effectively in the event of a stress situation. Recovery planning makes banks more resilient to any shock. The aim of the Recovery Plan is to protect banks' on-going functions for the financial intermediation process and to uphold public confidence in the banking system.

To initiate the process, Bangladesh Bank directed the banks to submit their own Recovery Plan according to the Guidance on drafting Recovery Plan¹⁸¹ using the specified Layout (Recovery Plan Layout) to the Division-2, Banking Regulation and Policy Department (BRPD) of BB. The plan shall be prepared, maintained and executed by a bank in accordance with the guidance provided in the circular. The plan should ensure maximizing the bank's survival prospects without supervisory or government intervention/support/forbearance. The plan should also help to equip a bank in practice for taking necessary actions to bring back its financial and operational strength. However, in real cases, crisis specific decisions need to be taken.

According to the directives, update of the recovery plan shall have to be submitted by the banks on regular basis within 31st January each year. On the other hand, Bangladesh Bank helps the banks one-to-one to adjust their recovery plan requirements to the circumstances of each bank, and reviewing the Recovery Plan of banks as part of regular ongoing supervisory process.

¹⁸¹ BRPD Circular No. 03, Dated 24 February 2022

Merger/Amalgamation of Banks/FIs

Pursuant to Sections 49(1) (c), 77(16) of the Bank Companies Act, 1991 and Sections 228 and 229 of the Companies Act, 1994 with the approval and mediation of Bangladesh Bank, any bank-company can merge¹⁸² with any other banking company being mutually agreed/negotiated. If any bank falls under PCA framework due to capital and liquidity deficit, high level of non-performing loans, good governance deficiency and above all activities harmful to depositors, the concerned bank shall have to follow the restrictions imposed/directed by Bangladesh Bank for recovery.

In case of failure to implement the said recovery plan, in order to protect the interest of the depositors or to ensure the proper management of the bank in the public interest, the bank-company is subject to the provisions of Section 77 of the Bank Companies Act, 1991, to comply with any decision by the Bangladesh Bank regarding the compulsory merger of the said bank-company with any other bank-company or to comply with legal provisions to take more than one special measure.

The following policies have been issued under the powers conferred by Sections 49, 77, 77A and 45 of the Bank Companies Act, 1991 to be followed by the Banks in order to ensure disciplined and orderly completion of the Bank-Company merger process.

Policy on Bank-Company Amalgamation by Spontaneity:

It has been decided that, in accordance with the provisions of Sections 49(1) (c), 77(16) of the Bank Companies Act, 1991 and Sections 228 and 229 of the Companies Act, 1994 by a bank-company on its own initiative by amalgamation with another bank-company or finance company can form a financially stronger bank.

Applicability and Scope of Policy:

Under this policy-

- (1) Any one or more banking companies may merge with any other banking company;
- (2) A finance company may merge with another banking company;
- (3) A bank-company may acquire certain branches of another bank or finance company, swap branches between two similar institutions, transfer business and acquire micro-credit institutions under a compromised/arranged/negotiated arrangement;
- (4) In case of branch of a foreign bank the consolidation will be settled through its parent/origin bank.

¹⁸² BRPD Circular No 08 Date 04 April 2024

Merger Procedure:

- (1) **Merger Proposal:** The respective banking companies or, as the case may be, finance companies shall submit their proposal to their respective Boards of Directors for in-principle approval of the same and approval in-principle from Bangladesh Bank has to be taken after informing it.
- (2) **Audit & Due diligence:** Conducting audit, financial and legal due diligence of related companies:
 - a. Bangladesh Bank will appoint one or more audit firms from among its registered audit firms to complete the audit, financial and legal due diligence of the transferee bank and the transferor bank-company/finance company on it or the part of it to be acquired. In this case, the expenses related to the completion/conducting of said audit and financial and legal due diligence will be borne by Bangladesh Bank.
 - b. The audit firm performing the audit and due diligence shall maintain confidentiality regarding any information communicated or documents received during the performance of their duties and give an undertaking that the said information or documents will not be disclosed to any person or organization.
 - c. The concerned audit firm shall submit its audit and financial and legal due diligence report to Bangladesh Bank for the purpose of smooth and proper execution of the entire merger process including payment of the claims of depositors, creditors and shareholders.

- (3) **Protection/maintenance of confidentiality by concerned parties:**

After completion of audit, financial and legal due diligence and approval of Bangladesh Bank, concerned parties (transferee and transferee company, audit firm) shall submit an undertaking/declaration stating that all information of the companies, especially non-public domain information and documents, will be maintained by the concerned parties in strict confidentiality. If there is any violation of the right to maintain/protect confidentiality, Bangladesh Bank can cancel its approval.

- (4) **Audit, financial and legal due diligence report submitted by the audit firm/auditor:**

After completing financial and legal due diligence, the audit firm will submit a detailed report to Bangladesh Bank.

- (5) **Consent of shareholders and creditors of companies:**

A copy of the due diligence report received from the audit firm will be sent by Bangladesh Bank to the transferee and the transferor company. Then based on the information obtained in the due diligence, the transferor and transferee companies will formulate a scheme regarding the proposed merger and present it to their respective board

of directors for approval and take a decision in this regard. In view of the said decision, as per the provisions of the Companies Act, 1994, the companies shall call a special meeting for the consent of their shareholders or creditors and take special decisions. In this case, the consent of the company's creditors or shareholders, or as the case may be, the majority of the members, shall be obtained as per the provisions of the Companies Act, 1994 on the scheme formulated.

(6) Scheme submitted for approval of Bangladesh Bank:

After the approval of the merger related scheme in the special general meeting, the transferee bank-company has to submit the application along with the said scheme for the approval of Bangladesh Bank with the necessary information and documents.

(7) Review and Scrutiny of Draft Scheme:

After receiving the Scheme of Consolidation from the Transferee Bank, if Bangladesh Bank is satisfied that the scheme submitted by the Transferee Bank can be successfully implemented, then Bangladesh Bank shall approve the scheme.

(8) Valuation of Assets and Liabilities:

The transferee and the transferor companies may mutually agree on the valuation of the assets. Generally, Bangladesh Bank will not interfere in the matter unless there is reason to believe that the assessment is not fair and reasonable. However, in certain cases, Bangladesh Bank will play the role of mediator and solve the problem. If mediation fails, the decision of Bangladesh Bank in determining the value of the asset or liability or settlement of the issue shall be final and shall be binding on the parties concerned.

(9) Transaction/Transfer Price/Cost/Profit (Consideration):

The reasonable and fair value of the transfer of assets and liabilities shall be determined by mutual agreement between the transferee and the transferor company; the valuation may be at a premium or discount. In this case, Bangladesh Bank shall not normally interfere, but Bangladesh Bank shall be satisfied that the mutually agreed price is fair and reasonable, and for this purpose after review and examination shall issue necessary instructions in the matter for amendment/modification/modification of the scheme.

(10) Approval of Bangladesh Bank:

Bangladesh Bank shall give approval to the proposed Scheme of Amalgamation, with or without necessary modifications, to the satisfaction of Bangladesh Bank, and after such approval, the proposed scheme may be implemented.

(11) Petition filed in High Court Division:

- a. If the proposed scheme is approved by Bangladesh Bank, the transferee and the transferor company shall file an application to the Hon'ble High Court Division for

approval of the proposed scheme in accordance with the provisions of Sections 228 and 229 of the Companies Act, 1994 and a copy of that application will send to Bangladesh Bank. The concerned party shall, from time to time, inform the Bangladesh Bank in writing of the progress of the approval of the said scheme by His Highness the Court.

- b. On an application to His Highness Court, for the implementation of the Scheme of Consolidation or in relation to the Scheme, His Highness Court shall, by the same order approving the said scheme or by any subsequent order, provide for all or any of the matters or for any matter in the discretion of His Highness Court.

Implementation of the Scheme:

After the scheme of amalgamation is announced, the transferee and the transferor company shall file the copy of the order of the His Highness High Court for registration with the Registrar of Joint Stock Companies. Accordingly, the transferee and the transferor company shall take necessary steps to implement the scheme by giving notice to the shareholders and other stakeholders and send a copy of the scheme to the National Board of Revenue, Bangladesh Securities and Exchange Commission (if capital issue is required).

Dissolution of Transferor Company:

Upon full completion of all the activities of the transferor company, the transferor company shall call a general meeting for the purpose of passing all its accounts payable and receivable and explanations thereon. The transferor company shall publish a notice in the newspaper stating the purpose and place, date and time of the meeting 1 (one) month before the said meeting. Based on the decision taken in the meeting regarding the dissolution of the company, the transferor bank/finance company shall submit the original copy of its license to Bangladesh Bank. In case of cancellation of license by Bangladesh Bank, it shall notify the transferor company.

Consolidation of Financial Statements:

- (1) After the merger, the transferee bank-company may publish/prepare financial statements of the transferor company in consolidated/integrated form with their financial statements.
- (2) After the merger, the transferee bank-company may, if it so wishes, publish/prepare separately its financial statements of the transferor company for a maximum period of 3 (three) years. Provided that after 3 (three) years they must ensure preparation of consolidated financial statements.

Obtaining Approval and License from Bangladesh Bank for Change of Name:

After the merger, if the transferee bank-company does not propose any change of name, the said company will carry on its banking business under the existing name and license. If the name

change is proposed, approval and license should be obtained from Bangladesh Bank following the necessary procedure.

Other Guidelines on Bank-Company Amalgamation:

- Repayment of Deposits
- Officer-employees of the transferor bank-company or finance company
- Composition of the Board of Directors of the Transferee Bank-Company
- Top Management Authority
- Recovery of Loan
- Continuation of certain activities of the transferor company by the transferee company

Policy Support by Bangladesh Bank:

If a weak/distressed bank-company/finance company is merged with another bank-company, the financial indicators, like capital, liquidity, non-performing loans etc of the transferee bank-company may be diluted after the said merger. The necessary policy support to keep the operations of the bank-company uninterrupted and to protect the stability of the banking sector in the interest of the public will be provided from Bangladesh Bank-

Government Policy Assistance:

Special policy assistance may be provided by the Government on application of Bangladesh Bank.

Guidelines on Compulsory Amalgamation of Bank-Companies:

If any Bank-Company falls under the PCA Framework and fails to implement the recovery plan by following the restrictions imposed/directed by Bangladesh Bank, in order to protect the interests of the depositors or in the public interest or to ensure the proper management of the Bank, subject to the provisions of Section 77 of the Bank Companies Act, 1991, Bangladesh Bank can adopt any one or more special arrangements for compulsory amalgamation of the said bank-company with any other banking-company.

Applicability and Scope of Policy:

- (1) One or more banking companies can be merged with another banking company.
- (2) In case of amalgamation of branches of foreign banks, amalgamation will be done through its parent/ parent bank.

Process/Procedure of Compulsory Consolidation:

- (1) Bangladesh Bank shall publish a circular in the newspaper calling for participation in the tender for taking over the liabilities and assets of the concerned banks after the decision of consolidation of any category of banks has been adopted;
- (2) Bangladesh Bank will appoint an audit firm to carry out financial and legal due diligence including audit of the transferee bank-company and the transferor bank-company or the part which will be merged.
- (3) After completing financial, legal and other due diligence, the audit firm will submit a detailed report to Bangladesh Bank.
- (4) After receiving the audit report, a copy of it will be sent by Bangladesh Bank to the transferee and transferor bank for their information and necessary action.
- (5) After the audit and due diligence is carried out, the transferee bank and the transferor bank shall approve the merger proposal in their respective boards of directors, and shall notify Bangladesh Bank subject to compliance with the provisions of the Companies Act, 1994 and the Securities and Exchange Commission Act, 1993.
- (6) After the merger proposal is approved by the board of directors and shareholders of the respective banks, Bangladesh Bank will formulate the scheme of merger.

Subject Matters of Schemes to be formulated by Bangladesh Bank:

As per the provisions of Section 77(5) of the Bank Companies Act, 1991, the Scheme of the Bangladesh Bank will include subject matter as specified in BB Circular.

Feedback of concerned bank-companies on the draft scheme prepared:

- (1) Bangladesh Bank, upholding the provisions of Section 77(5) of the Bank Companies Act, 1991, including the matters mentioned in paragraph 6 above, calling upon the transferee and the transferor bank-company to give their opinions/statements within the period prescribed for that purpose, will send the copies of the scheme to transferee & transferor.
- (3) Bangladesh Bank can make necessary amendments in the draft scheme after taking into account the opinions/statements received from the concerned banking companies.

Application to the Government for implementation of the scheme:

Bangladesh Bank will apply to the Financial Institutions Department of the Ministry of Finance to implement the finalized scheme. Bangladesh Bank will arrange for publishing the scheme in the official gazette after the approval of the government. Bangladesh Bank will apply to the Financial Institutions Department of the Ministry of Finance if there is a need for a moratorium on the banking activities of the transferor bank-company prior to the formulation of the scheme.

Effectiveness, applicability, compliance, etc of the Scheme:

From the date of commencement of the Scheme or any provision thereof, all of the concerned shall be bound to comply therewith, namely-

Implementation of the Scheme:

After the scheme of amalgamation is announced, the transferor and the transferee bank-company shall file a copy of the Gazette Notification for registration with the Registrar of Joint Stock Companies. Accordingly, the transferor and the transferee bank-company shall take necessary steps for the implementation of the scheme by giving notice to the shareholders and other stakeholders and a copy of the scheme shall be forwarded to the National Board of Revenue, Bangladesh Securities and Exchange Commission (if capital issue is required).

Dissolution of Transferor Company:

On the completion of the activities of the transferor banking company, the transferor company shall call a general meeting for the purpose of passing all its accounts payable and receivable and explanations thereon. The transferor company shall publish a notice in the newspaper stating the purpose, place, date and time of the meeting 1 (one) month before the said meeting. Based on the decision taken in the meeting regarding the dissolution of the company, the transferor bank-company shall submit the original copy of its license to Bangladesh Bank. Upon cancellation of the license, Bangladesh Bank will notify the transferor company.

Taking Approval and Obtaining License of Bangladesh Bank for the Name Change:

After the merger, if the transferee bank-company does not propose any change of name, the said bank-company shall carry on its banking business under the existing name and license. However, if a name change is proposed, Bangladesh Bank approval and license must be obtained following the necessary procedures.

Policy Support of Bangladesh Bank and Government:

Bangladesh Bank shall provide necessary and appropriate policy support subject to the provisions of the Bank Companies Act, 1991 and the Bangladesh Bank Order, 1972. Moreover, special policy assistance may be provided by the government on request of Bangladesh Bank.

Chapter-VIII

Miscellaneous

- **Implementation of Citizen's Charter**
- **Displaying Hotline Numbers**
- **Restriction on Virtual Assets & Virtual Currencies**

Implementation of Citizen's Charter

In order to ensure proper citizen service, every bank should prepare and implement the Citizen's Charter in the light of the following directives¹⁸³:

- Citizens Charter, should be prepared as per specified the format mentioning a category-wise list of all the services provided by the bank, eligibility and documents required for receiving the service, process for receipt of documents, minimum time required for providing each service, service cost/fee, what to do if the promised service is not received (complaint redressal management), information of the assigned employee, etc., which should be updated on a quarterly basis. The updated Citizen's Charter Bank shall be uploaded on its website with the date of the latest update and shall be displayed at a visible place at the head office and each branch. Besides, a Focal Point Officer and an Alternate Focal Point Officer regarding the Citizen's Charter should be nominated and their name, phone number and email address should be mentioned on the website.
- A Citizen's Charter corner/box should be set up on the website of every bank. All information related to Citizens Charter has to be uploaded in Citizen's Charter Box/corner. The following information must be included in the Citizens Charter Box/Corner among other information:
 - (i) the updated Citizen's Charter;
 - (ii) name, phone number, email ID of the concerned Focal Point Officer and Alternate Focal Point Officer;
 - (iii) Citizen's Charter Implementation Report;
 - (iv) Citizens Charter Team/Branch/Sub-Branch/Cell information; and
 - (v) Citizen's Charter Scrutiny Committee Information.
- A Monitoring Committee [consisting of not less than 7 (seven) members) and a Citizen's Charter Team/Branch/Cell shall be constituted at the Head Office of each bank. The Monitoring Committee will formulate and monitor action plans on a calendar year basis regarding the implementation of the Citizen Charter. The Citizen's Charter Team/Branch/Cell will work on formulation, implementation, updating, preparation of the implementation progress report and uploading on website etc. of Citizen's Charter. The Monitoring Committee will monitor at regular intervals whether the activities are being implemented on time or not as per the plan. Further, the concerned team/branch/cell shall prepare the Citizen's Charter implementation report on a quarterly basis in its own format following the sample given in 'Annexure-B' and upload it on the respective bank's website.

¹⁸³ BRPD Circular No. 17 Dated 10 October 2022

- A minimum of 04 (four) trainings should be organized every year to sensitize bank officers/employees about the implementation of the Citizen's Charter. Mentionable that, for proper implementation of this directive regarding the Citizen's Charter, the Human Resources Department-1 of Bangladesh Bank will monitor the activities of the banks and conduct on-site inspection activities from time to time. Banks will provide overall support to the Human Resources Department-1 of Bangladesh Bank in this regard. Besides, the necessary information in this regard can be found on the website of the Bangladesh Bank.

Displaying Hotline Numbers

The bank shall display the Bangladesh Bank's 'hotline' number (16236) along with the bank's own 'hotline' number in the existing complaint box in all the branches and sub-branches of the bank in a visible place¹⁸⁴. Moreover, banks should establish a well-defined mechanism to redress the complaints of their customers regarding outsourced services and ensure that genuine grievances are addressed promptly.

¹⁸⁴ BRPD Circular No. 07 Date: 09 May 2023

Restriction on Virtual Assets & Virtual Currencies

Foreign Exchange Policy Department has issued a circular¹⁸⁵ for all individuals/entities/institutions operating in Bangladesh to refrain from dealing in virtual assets, virtual currencies and provide any kind of facilitation in favor of doing business, activities, and operations associated with exchange/transfer/trading of virtual assets or virtual currencies. It has been observed that a number of foreign Virtual Asset Service Provider (VASP) uses the customer account of the scheduled banks of Bangladesh for dealing, buy-sell, resell, P2P exchange/transfer/trading of the virtual currency/crypto currency, foreign currency etc through their app or website. In view of avoiding the potential financial and legal risks on this matter, BB has issued a circular¹⁸⁶ for the banks consists the following instructions:

- Assistance in dealing, buy-sell, resell, P2P exchange/transfer/trading of the virtual currency/crypto currency, foreign currency etc and any such activity using the customer account shall be stopped immediately;
- Due precautions shall be taken in this regard and monitoring activities should be increased.
- With a view to public awareness, the circular issued by Foreign Exchange Policy Department shall be simplified and displayed in the visible place of the Head Office, all the branches, sub-branches and agent banking outlets of the banks and homepage of the bank's website. Also, the contents of the said circular shall be discussed in all the training programs of the banks to inform the trainees.

¹⁸⁵ FE Circular No. 24 Dated 15 September 2022

¹⁸⁶ BRPD Circular Letter No. 40 Dated 12 October 2022