PRUDENTIAL REGULATIONS FOR BANKS : SELECTED ISSUES

Bangladesh Bank

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[Updated till January, 2014]

BANGLADESH BANK

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POLICY ON CAPITAL ADEQUACY OF BANKS[1]

To adopt the international best practices and to make the bank's capital more risk-absorbent as well as to build the banking industry more shock resistant and stable, all scheduled banks are obligated to comply with "Guidelines on Risk Based Capital Adequacy (RBCA) for Banks - Revised Regulatory Framework in line with BASEL–II" from January 01, 2010[2]. These guidelines have been structured on following three aspects:

- ❖ Minimum capital requirement has been defined and to be maintained by a bank on solo basis as well as consolidated basis against RWA for credit, market, and operational risks.
- ❖ Process for assessing the overall capital adequacy aligned with comprehensive risk management of a bank.
- ❖ Framework of public disclosure on the position of a bank's risk profiles, capital adequacy, and risk management system.

The following headings containing specific instructions are issued for compliance by banks:

1. Definition of Capital:[3] Regulatory capital is categorized in three tiers:

1.1. Tier 1 capital called 'Core Capital' comprises of highest quality of capital elements:

a) Paid up capital
b) Non-repayable share premium account
c) Statutory reserve
d) General reserve
e) Retained earnings
f) Minority interest in subsidiaries
g) Non-cumulative irredeemable preference shares
h) Dividend equalization account

1.2. Tier 2 capital called 'Supplementary Capital' represents other elements which fall short of some of the characteristics of the core capital but contribute to the overall strength of a bank:

a) General provision
b) Revaluation reserves
   - Revaluation reserve for fixed assets
   - Revaluation reserve for securities
   - Revaluation reserve for equity instrument
c) All other preference shares
d) Subordinated debt

1.3. Tier 3 capital called 'Additional Supplementary Capital', consists of short-term subordinated debt (original maturity less than or equal to five years but greater than or equal to

[1] Guidelines on Risk Based Capital Adequacy (RBCA) issued vide BRPD Circular no. 35/2010
[2] Guidelines on Risk Based Capital Adequacy (RBCA) issued vide BRPD Circular no. 35/2010 (Page-1)
[3] Guidelines on RBCA (Page-1)

two years) would be solely for the purpose of meeting a proportion of the capital requirements for market risk.

1.4. For foreign banks operating in Bangladesh-

- Tier 1 capital consists of the following items:
  - a) Funds from head office
  - b) Remittable profit retained as capital
  - c) Any other items approved by BB for inclusion in Tier 1 capital
- Tier 2 capital consists of the following items:
  - a) General provision
  - b) Borrowing from head office in foreign currency in compliance with the regulatory requirement.
  - c) Revaluation reserve for securities
  - d) Any other items approved by BB for inclusion in Tier 2 capital.

2. **Conditions for maintaining regulatory capital :**[4] The calculation of Tier 1 capital, Tier 2 capital, and Tier 3 capital shall be subject to the following conditions:

   a) The amount of Tier 2 capital will be limited to 100% of the amount of Tier 1 capital.

   b) 50% of revaluation reserves for fixed assets and securities eligible for Tier 2 capital.

   c) 10% of revaluation reserves for equity instruments eligible for Tier 2 capital.

   d) Subordinated debt shall be limited to a maximum of 30% of the amount of Tier 1 capital.

   e) Limitation of Tier 3: A minimum of about 28.5% of market risk needs to be supported by Tier 1 capital. Supporting of Market Risk from Tier 3 capital shall be limited up to maximum of 250% of a bank's Tier 1 capital that is available after meeting credit risk capital requirement.

3. **Eligible regulatory capital:**[5] In order to obtain the eligible regulatory capital for the purpose of calculating Capital Adequacy Ratio (CAR), banks are required to make following deductions from their Tier-1 capital:

a) Intangible asset e.g., book value of goodwill and value of any contingent assets, etc. which are shown as assets

b) Shortfall in provisions required against classified assets

c) Shortfall in provisions required against investment in shares

[4] Guidelines on RBCA (Page-3)
[5] Guidelines on RBCA (Page-3)

d) Remaining deficit on account of revaluation of investments in securities after netting off from any other surplus on the securities.

e) Reciprocal/crossholdings of bank's capital/subordinated debt artificially intended to inflate the capital position of banks

f) Holding of equity shares in any form exceeding the approved limit under section 26(2) of 'ব্যাংক কোম্পানী আইন, ১৯৯১' (Bank Company Act, 1991). The additional/unauthorized amount of holdings will be deducted at 50% from Tier 1 capital and 50% from Tier 2 capital.

g) Investments in subsidiaries which are not consolidated: The normal practice is to consolidate subsidiaries for the purpose of assessing the capital adequacy of banking groups. Where this is not done, deduction is essential to prevent the multiple uses of the same capital resources in different parts of the group. The deduction for such investments will be 50% from Tier 1 capital and 50% from Tier 2 capital. The assets representing the investments in subsidiary companies whose capital had been deducted from that of the parent would not be included in total assets for the purposes of computing the CAR.

Eligible Tier 2 capital will be derived after deducting components (if any) qualified for deduction. Total eligible regulatory capital will be calculated by summing up the eligible Tier 1, Tier 2 and Tier 3 capital.

4. Minimum Capital Requirement (MCR):[6] Minimum Capital Requirement (MCR) for the each scheduled bank in Bangladesh is at least 10% of total RWA from July 2011 to onwards or the amount determined by BB from time to time. Moreover, banks have to maintain at least 50% of required capital as Tier 1 capital. Banks have to maintain minimum CAR on 'Solo' basis as well as on 'Consolidated' basis as per instruction(s) given by BB from time to time.

5. Approaches for calculating RWA:[7] Under the guidelines, for calculating RWA, Standardized Approach for Credit Risk, Standardized (Rule Based) Approach for Market Risk and Basic Indicator Approach for Operational Risk is being followed.

In this regard, following things are shown in Annexure-I under credit risk:

- Risk weights for Balance Sheet Exposures,
- Risk Weight for Short Term Exposures,
- Risk Weight against ECA Score (Published by OECD),
- Credit Conversion Factor under Current Exposure Method,
- Credit Conversion Factor under Original Exposure method and
- Credit Conversion Factor for Non-market-related OBS transactions.

In Annexure-II, the Capital charge weight for specific risk, Calculation of general market risk and Calculation of Capital Charge for Operational Risk are shown.

Under the standardized approach, the credit ratings assigned by the External Credit Assessment Institution (ECAI) duly recognized by Bangladesh Bank are used to assign risk weight against

[6] BRPD Circular no. 10/2010 and Guidelines on RBCA (Page-4)
[7] Guidelines on RBCA (Chapter 2. Credit Risk; Chapter 3. Market Risk; Chapter 4: Operational Risk)

credit risk. 08 (Eight) ECAIs after assessing eligibility criteria and Risk Weights have been mapped against different credit rating of ECAIs. ECAI's Credit Rating Categories Mapped with BB Rating Grade is shown in Annexure-III and Annexure-IV.

6. Supervisory Review Process (SRP) - Supervisory Review Evaluation Process (SREP) :[8]
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. Banks have been asked to form an exclusive body (called SRP team) where risk management unit is an integral part, and a process document (called Internal Capital Adequacy Assessment Process-ICAAP) for assessing their overall risk profile, and a strategy for maintaining adequate capital. Adequate capital means enough capital to compensate all the risks in their business, and to develop and practice better risk management techniques in monitoring and managing their risks. 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.

7. Reporting Requirement:[9] All banks are required to submit the RBCA report (according to the prescribed formats) on quarterly basis within the next 30 days of each quarter-end to the Department of Off-site Supervision of BB.

8. Penalty for non-compliance:[10] BB may impose penalty and/or punishment as per 'ব্যাংক কোম্পানী আইন, ১৯৯১' (Bank Company Act, 1991), if a bank-

- fails to meet minimum capital or CAR within the stipulated period,
- willfully furnishes any false information in the reporting,
- fails to submit the RBCA report within stipulated time without any acceptable/ satisfactory reason.

[8] Guidelines on RBCA (Page-37 & 51) & Process Document for SRP-SREP Dialogue on ICAAP
[9] Guidelines on RBCA (Page-4)
[10] Guidelines on RBCA (Page-5)

ANNEXURE-I

Risk Weights for Balance Sheet Exposure[11]

Sl.	Exposure Type	BB's Rating Grade	Risk Weight (%)
a.	Cash		0
b.	Claims on Bangladesh Government (other than PSEs) and BB (denominated in domestic and foreign currency)		0
c.	Claims on other Sovereigns & Central Banks		
d	Claims on Bank for International Settlements, International Monetary Fund and European Central Bank		0
e	Claims on Multilateral Development Banks (MDBs)		
	i) IBRD , IFC, ADB, AfDB, EBRD, IADB, EIB, EIF, NIB, CDB, IDB, CEDB		0
	ii) Other MDBs	1	20
		2,3	50
		4,5	100
		6	150
		Unrated	50
f	Claims on public sector entities (excluding equity exposure)	1	20
		2,3	50
		4,5	100
		6	150
		Unrated	50
g	Claims on Banks and NBFIs (denominated in domestic as well as foreign currency)		
	i) Original maturity over 3 months	1	20
		2,3	50
		4,5	100
		6	150
		Unrated	100
	ii) Original maturity up to 3 months		20
h	Claims on Corporate (excluding equity exposures)	1	20
		2	50
		3, 4	100
		5, 6	150
		Unrated	125

[11] Guidelines on RBCA (Page-12)

Sl.	Exposure Type	Risk Weight(%)
Fixed Risk Weight Groups:		
i	Claims categorized as retail portfolio & SME (excluding consumer finance and Staff loan)	75
j	Consumer Finance	100
k	Claims fully secured by residential property (excluding Staff loan/investment)	50
l	Claims fully secured by commercial real estate	100
m	Past Due Claims	
	The claim (other than claims secured by eligible residential property) that is past due for 90 days or more and/or impaired will attract risk weight as follows (Risk weights are to be assigned to the amount net of specific provision):	
	Where specific provisions are less than 20 percent of the outstanding amount of the past due claim ;	150
	Where specific provisions are no less than 20 percent of the outstanding amount of the past due claim.	100
	Where specific provisions are more than 50 percent of the outstanding amount of the past due claim.	50
	Claims fully secured against residential property that are past due for 90 days or more and/or impaired (gross of specific provision) -where specific provision held there-against is less than 20 percent of outstanding amount	100
	Loans and claims fully secured against residential property that are past due for 90 days or more and /or impaired (gross of specific provision) -where specific provision held there-against is more than 20 percent of outstanding amount	75
n	Capital Market Exposures	125
o	Investments in venture capital	150
p	Unlisted equity investments and regulatory capital instruments issued by other banks (other than those deducted from capital) held in banking book	125
q	Investments in premises, plant and equipment and all other fixed assets	100
r	Claims on all fixed assets under operating lease	100
s	All other assets	
	i) Claims on GoB & BB (eg. advanced income tax, reimbursement of patirakkha/shadharon shanchay patra, etc.)	0
	ii) Staff loan/Investment	20
	iii) Cash items in Process of Collection	20
	iv) Claims on Off-shore Banking Units (OBU)	100
	v) Other assets (net off specific provision, if any)	100

Risk Weight for Short Term Exposures[12]

BB's Rating Grade	S1	S2, S3	S4	S5, S6
Risk Weight (%)	20	50	100	150

Risk Weight against ECA Score (Published by OECD)[13]

ECA Score	1	2, 3	4, 5 & 6	7
Risk Weight (%)	20	50	100	150

Credit Conversion Factor under Current Exposure Method[14]

Residual Maturity	Interest rate contracts	Foreign exchange contracts	Equity
1 year or less	0.0%	1.0%	6.0%
> 1 year to 5 years	0.5%	5.0%	8.0%
>5 year	1.5%	7.5%	10.0%

Credit Conversion Factor under Original Exposure method[15]

Original maturity	Interest rate contracts	Foreign exchange contracts
1 year or less	0.5%	2.0%
> 1 year to 2 years	1.0% (i.e. 0.5%+0.5%)	5.0% (i.e. 2% + 3%)
For each additional year	1.0%	3.0%

[12] Guidelines on RBCA (Page-14)
[13] Guidelines on RBCA (Page-14)
[14] Guidelines on RBCA (Page-15)
[15] Guidelines on RBCA (Page-16)

Credit Conversion Factor for Non-market-related OBS transactions[16]

Nature of transaction	CCF
Direct credit substitutes Any irrevocable off-balance sheet obligation which carries the same credit risk as a direct extension of credit, such as an undertaking to make a payment to a third party in the event that a counterparty fails to meet a financial obligation or an undertaking to a counterparty to acquire a potential claim on another party in the event of default by that party, constitutes a direct credit substitute (i.e. the risk of loss depends on the creditworthiness of the counterparty or the party against whom a potential claim is acquired). This includes potential credit exposures arising from the issue of guarantees and credit derivatives (selling credit protection), confirmation of letters of credit, issue of standby letters of credit serving as financial guarantees for loans, securities and any other financial liabilities, and bills endorsed under bill endorsement lines (but which are not accepted by, or have the prior endorsement of, another bank).	100 %
Performance-related contingencies Contingent liabilities, which involve an irrevocable obligation to pay a third party in the event that counterparty fails to fulfill or perform a contractual non-monetary obligation, such as delivery of goods by a specified date etc (i.e. the risk of loss depends on a future event which need not necessarily be related to the creditworthiness of the counterparty involved). This includes issue of performance bonds, bid bonds, warranties, indemnities, and standby letters of credit in relation to a non-monetary obligation of counterparty under a particular transaction.	50%
Short-term self-liquidating trade letters of credit arising from the movement of goods (e.g. documentary credits collateralized by the underlying shipment), for both issuing and confirming banks.	20 %
Lending of securities or posting of securities as collateral The lending or posting of securities as collateral by banks. This includes repurchase/reverse repurchase agreements and securities lending/ borrowing transaction.	100 %
Commitments with certain drawdown	100 %
Other commitments (a) Commitments (e.g. undrawn formal standby facilities and credit lines) with an original maturity of: (i) one year or less. (ii) over one year. (b) Commitments that can be unconditionally cancelled at any time without notice or effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness.	20 % 50% 0%

[16] Guidelines on RBCA (Page-17)

ANNEXURE-II

Capital charge weight for specific risk[17]

Categories	BB rating grade	Particulars	Capital Charge Weight (%)
Government	--	--	0
Government (Other than Domestic Currency)	1		0
	2 , 3	Residual term to final maturity 6 months or less	0.25
		Residual term to final maturity greater than 6 and up to and including 24 months	1
		Residual term to final maturity exceeding 24 months	1.60
	4 , 5	--	10
	6	--	12
	Unrated	--	10
Qualifying	--	Residual term to final maturity 6 months or less	0.25
		Residual term to final maturity greater than 6 and up to and including 24 months	1
		Residual term to final maturity exceeding 24 months	1.60
Other	1	--	2
	2 , 3	--	6
	4	--	10
	Below 4	--	12
	Unrated	--	10

[17] Guidelines on RBCA (Page-27)

Calculation of general market risk[18]

a) Net weighted position	100% of Net short or long weighted position	100%
b) Vertical disallowances	Sum of 10% of Matched weighted positions in each time bands	10%
c) Horizontal disallowances	Matched weighted position within Time Zone 1	40%
	Matched weighted position within Time Zone 2	30%
	Matched weighted position within Time Zone 3	30%
	Matched weighted position between Time zone 1 & 2	40%
	Matched weighted position between Time zone 2 & 3	40%
	Matched weighted position between Time zone 1 & 3	100%
Total Capital Charge (a+ b + c) :		

Calculation of Capital Charge for Operational Risk[19]

The following formula is used for calculating capital charge against operational risk:

$$K = [(GI_1 + GI_2 + GI_3) \times \alpha]/n$$

where,

K = capital charge under the Basic Indicator Approach

GI = only positive annual gross income over the previous three years (i.e. negative or zero gross income if any shall be excluded)

α = 15%

n = number of the previous three years for which gross income is positive.

[18] Guidelines on RBCA (Page-31)
[19] Guidelines on RBCA (Page-35)

ANNEXURE-III

ECAI's Credit Rating Categories Mapped with BB Rating Grade[20]

BB Rating Grade	Equivalent Rating of S&P and Fitch	Equivalent Rating of Moody	Equivalent Rating of CRISL	Equivalent Rating of CRAB	Equivalent Rating of NCRL	Equivalent Rating of ECRL	Equivalent Rating of ACRSL	Equivalent Rating of ACRL	Equivalent Rating of WASO
1	AAA to AA	Aaa to Aa	AAA, AA+, AA, AA-	AAA, AA1, AA2, AA3	AAA, AA+, AA, AA-	AAA, AA+, AA, AA-	AAA, AA+, AA, AA-	AAA, AA+, AA, AA-	AAA AA1, AA2, AA3
2	A	A	A+, A, A-	A1, A2, A3	A+, A, A-	A+, A, A-	A+, A, A-	A+, A, A-	A1, A2, A3
3	BBB	Baa	BBB+, BBB, BBB-	BBB1, BBB2, BBB3	BBB+, BBB, BBB-	BBB+, BBB, BBB-	BBB+, BBB, BBB-	BBB+, BBB, BBB-	BBB1, BBB2, BBB3
4	BB to B	Ba to B	BB+, BB, BB-	BB1, BB2, BB3	BB+, BB, BB-	BB+, BB, BB-	BB+, BB, BB-	BB+, BB, BB-	BB1, BB2, BB3
5	Below B	Below B	B+, B, B-, CCC+, CCC, CCC-, CC+, CC, CC-	B1, B2, B3, CCC1, CCC2, CCC3, CC	B+, B, B-	B+, B, B-	B+, B, B-, CC+,CC ,CC-	B+, B, B-, CCC	B1, B2, B3, CCC
6			C+, C, C, D	C, D	C+, C, C-, D	D	C+, C, C-, D	CC+,CC,CC-, C+, C, C-, D	CC1, CC2, CC3, C+, C, C-, D

[20] Guidelines on RBCA (Page-10), BRPD Circular No. 09/2011, BRPD Circular No. 12/2012,

BB Rating Grade	Equivalent Rating of S&P and Fitch	Equivalent Rating of Moody	Equivalent Rating of CRISL	Equivalent Rating of CRAB	Equivalent Rating of NCRL	Equivalent Rating of ECRL	Equivalent Rating of ACRSL	Equivalent Rating of ACRL	Equivalent Rating of WASO
Short-Term Rating Category Mapping									
S1	F1+	P1	ST-1	ST-1	N1	ECRL-1	ST-1	AR-1	P-1
S2	F1	P2	ST-2	ST-2	N2	ECRL-2	ST-2	AR-2	P-2
S3	F2	P3	ST-3	ST-3	N3	ECRL-3	ST-3	AR-3	P-3
S4	F3	NP	ST-4	ST-4	N4	ECRL-4	ST-4	AR-4	P-4
S5,S6	B,C, D		ST-5, ST-6	ST-5, ST-6	N5	D	ST-5, ST-6	AR-5, AR-6	P-5, P-6

ANNEXURE-IV

ECAI's Credit Rating Categories Mapped with BB's SME Rating Grade[21]

BB's SME Rating Grade	Equivalent rating of BDRAL
SME 1	SE1, ME 1
SME 2	SE2, ME 2
SME 3	SE3, ME 3
SME 4	SE4, ME 4
SME 5	SE5, ME 5

[21] BRPD Circular No.12 dated October 31, 2013

POLICY ON LOAN CLASSIFICATION AND PROVISIONING[22]

Bangladesh Bank has, over the last several years, positioned the banks on a path towards higher regulatory capital ratios and a more precise calculation of each individual bank's need for capital, through a gradual implementation of internationally recognized capital standards. The enforcement of a stricter regulatory capital regime also requires measures to improve the accuracy of financial data which are used internally, stated in the audited financial statements and reported to Bangladesh Bank as per rules. For both the bank's managerial and Bangladesh Bank's supervisory purposes, as well as for accurate valuation of a bank's capital in all of its financial reports is necessary.

An accurate valuation of capital relies, in turn, on an accurate valuation of assets. Loan-loss provisioning – the recognition that some or all of the required payments on a loan may never be made – is the single most important aspect of asset valuation to bankers and bank supervisors. It is important because loans typically make up 50% or more of the total assets of the bank.
Basel II and Basel III devote a great deal of attention to the distinction between "expected losses" and "unexpected losses" on the bank's loan portfolio. The purpose of provisioning is to take into account expected losses. Expected losses can be assigned to loans based on a loan classification system, which has been utilized in Bangladesh for many years and is being updated with this circular.

Bangladesh Bank also 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 must be a key component of a regular internal loan review process that looks at the current likelihood that the borrower will repay. The value of the formed allowance that results from the provisioning process should reflect all expected losses resulting from credit exposures.

Bangladesh Bank has established requirements for general loan loss provisions, in certain percentages, for certain categories of loans that are unclassified or in the Special Mention Account. As the name suggests, general provisions are assigned to take into account the expected losses on pools of loans that are thought to have similar characteristics. The characteristics of each individual loan are not analyzed. Put differently, it is not known or even assumed which loan or loans in the pool are going to result in loan losses; it is simply taken as given that in such large pools, even those currently unclassified, there will undoubtedly be individual loans that in the future will not be repaid. Ideally, the percentages of provision that are applied to each pool are determined based on historical loss experience of similar loan pools. Banks are encouraged to calculate these historical loss experiences on the loan pools for which Bangladesh Bank has

[22] BRPD Circular No.14 dated September 23, 2012

indicated general provision percentages, and use these data if they result in higher provisions than are required in this circular. Because general provisions are not formed based on expectations of loss on any individual loan, they are allowed to be included in the calculation of Tier 2 capital, subject to some restrictions. In contrast, specific provisions (established on loans that are classified as Sub-standard, Doubtful or Bad/Loss) are set up on a loan-by-loan basis after careful analysis of each individual loan's probability of repayment. For loans placed into any of these classification categories, weaknesses have been identified that cast doubt on the borrower's ability or intent to make all contractual payments in a timely manner. For this reason, specific provisions are not allowed to be included in the calculation of Tier 2 capital.

1. Categories of Loans and Advances :

All loans and advances will be grouped into four (4) categories for the purpose of classification, namely- (a) Continuous Loan (b) Demand Loan (c) Fixed Term Loan and (d) Short-term Agricultural & Micro- Credit.

a) Continuous Loan: The loan accounts in which transactions may be made within certain limit and have an expiry date for full adjustment will be treated as Continuous Loan. Examples are: Cash Credit, Overdraft, etc.

b) Demand Loan: The loans that become repayable on demand by the bank will be treated as Demand Loan. If any contingent or any other liabilities are turned to forced loan (i.e. without any prior approval as regular loan) those too will be treated as Demand Loan. Such as: Forced Loan against Imported Merchandise, Payment against Document, Foreign Bill Purchased, and Inland Bill Purchased, etc.

c) Fixed Term Loan: The loans, which are repayable within a specific time period under a specific repayment schedule, will be treated as Fixed Term Loan.

d) Short-term Agricultural & Micro-Credit: Short-term Agricultural Credit will include the short-term credits as listed under the Annual Credit Programme issued by the Agricultural Credit and Financial Inclusion Department (ACFID) of Bangladesh Bank. Credits in the agricultural sector repayable within 12 (twelve) months will also be included herein. Short-term Micro-Credit will include any micro-credits not exceeding an amount [Tk. 50,000 (Tk. Fifty Thousand)] [23] determined by the ACFID of Bangladesh Bank from time to time and repayable within 12 (twelve) months, be those termed in any names such as Non-agricultural credit, Self-reliant Credit, Weaver's Credit or Bank's individual project credit.

[23] ACFID Circular Letter No. 01 dated March 05, 2013

2. Basis for Loan Classification:

a) Objective Criteria:

(1) Past Due/Over Due:

(i) Any Continuous Loan if not repaid/renewed within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/overdue from the following day of the expiry date.

(ii) Any Demand Loan if not repaid within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/overdue from the following day of the expiry date.

(iii) In case of any installment(s) or part of installment(s) of 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 from the following day of the expiry date.

(iv) The Short-term Agricultural and Micro-Credit if not repaid within the fixed expiry date for repayment will be considered past due/overdue after six months of the expiry date.

(2) All unclassified loans other than Special Mention Account (SMA) will be treated as Standard.

(3) A Continuous loan, Demand loan or a Term Loan which will remain overdue for a period of 02 (two) months or more, will be put into the "Special Mention Account(SMA)". This will help banks to look at accounts with potential problems in a focused manner and it will capture early warning signals for accounts showing first sign of weakness. Loans in the "Special Mention Account (SMA)" will have to be reported to the Credit Information Bureau (CIB) of Bangladesh Bank.

(4) Loans except Short-term Agricultural & Micro-Credit in the "Special Mention Account" and “Sub-Standard” will not be treated as defaulted loan for the purpose of section 27KaKa(3) [read with section 5(GaGa)] of the Banking Companies Act, 1991. However, Fixed Term Loans amounting up to Tk. 10.00 Lacs in the “Sub-Standard” category will also be treated as defaulted loan for the same purpose[24].

(5) Any continuous loan will be classified as:

i. *‘Sub-standard’* if it is past due/overdue for **03** (three) months or beyond but less than **06** (six) months.
ii. *‘Doubtful’* if it is past due/overdue for **06** (six) months or beyond but less than **09** (nine) months
iii. *‘Bad/Loss’* if it is past due/overdue for **09** (nine) months or beyond.

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[24] BRPD Circular No.19 dated December 27, 2012

(6) Any Demand Loan will be classified as:

i. *'Sub-standard'* if it remains past due/overdue for 03 (three) months or beyond but not over 06 (six) months from the date of expiry or claim by the bank or from the date of creation of forced loan.

ii. *'Doubtful'* if it remains past due/overdue for 06 (six) months or beyond but not over 09 (nine) months from the date of expiry or claim by the bank or from the date of creation of forced loan.

iii. *'Bad/Loss'* if it remains past due/overdue for 09 (nine) months or beyond from the date of expiry or claim by the bank or from the date of creation of forced loan.

(7)[25] (A) In case of any installment(s) or part of installment(s) of a Fixed Term Loan amounting upto Tk. 10.00 Lacs is not repaid within the due date, the amount of unpaid installment(s) will be termed as 'past due or overdue installment'. In case of such types of Fixed Term Loans:

i. If the amount of past due installment is equal to or more than the amount of installment(s) due within 06 (six) months, the entire loan will be classified as "Sub-standard".

ii. If the amount of past due installment is equal to or more than the amount of installment(s) due within 09 (nine) months, the entire loan will be classified as "Doubtful".

iii. If the amount of past due installment is equal to or more than the amount of installment(s) due within 12 (twelve) months, the entire loan will be classified as "Bad/Loss".

(B) In case of any installment(s) or part of installment(s) of a Fixed Term Loan amounting more than Tk. 10.00 Lacs is not repaid within the due date, the amount of unpaid installment(s) will be termed as 'past due or overdue installment'. In case of such types of Fixed Term Loans:

i. If the amount of past due installment is equal to or more than the amount of installment(s) due within 03 (three) months, the entire loan will be classified as "Sub-standard".

ii. If the amount of past due installment is equal to or more than the amount of installment(s) due within 06 (six) months, the entire loan will be classified as "Doubtful".

iii. If the amount of past due installment is equal to or more than the amount of installment(s) due within 09 (nine) months, the entire loan will be classified as "Bad/Loss".

[25] BRPD Circular No.19 dated December 27, 2012

Explanation: If any Fixed Term Loan is repayable on monthly installment basis, the amount of installment(s) due within 06 (six) months will be equal to the sum of 06 monthly installments. Similarly, if the loan is repayable on quarterly installment basis, the amount of installment(s) due within 06 (six) months will be equal to the sum of 2 quarterly installments."

(8) The Short-term Agricultural and Micro-Credit will be considered irregular if not repaid within the due date as stipulated in the loan agreement. If the said irregular status continues, the credit will be classified as 'Substandard ' after a period of 12 months, as 'Doubtful' after a period of 36 months and as 'Bad/Loss' after a period of 60 months from the stipulated due date as per the loan agreement.

b) Qualitative Judgement:

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 judgement 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 unfavourable situation, the loan will have to be classified on the basis of qualitative judgement .

Despite the probability of any loan being affected due to the reasons stated above or for any other reasons, if there is any hope for change of the existing condition by resorting to proper steps, the loan, on the basis of qualitative judgement, will be classified as 'Sub-standard '. But even after resorting to proper steps, there exists no certainty of total recovery of the loan, it will be classified as ' Doubtful ' and even after exerting the all-out efforts, there exists no chance of recovery, it will be classified as ' Bad/Loss ' on the basis of qualitative judgement.

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 and the following assessment factors:

(1) **Special Mention**

i. Assets must be classified no higher than Special Mention if any of the following deficiencies of bank management is present: the loan was not made in compliance with the bank's internal policies; failure to maintain adequate and enforceable documentation; or poor control over collateral.

ii. Assets must be classified no higher than Special Mention if any of the following deficiencies of the obligor is present: occasional overdrawn within the past year, below-average or declining profitability; barely acceptable liquidity; problems in strategic planning.

(2) **Sub-standard**

i. Assets must be classified no higher than Sub-standard if any of the following deficiencies of the obligor is present: recurrent overdrawn, low account turnover, competitive difficulties, location in a volatile industry with an acute drop in demand; very low profitability that is also declining; inadequate liquidity; cash flow less than repayment of principal and interest; weak management; doubts about integrity of management; conflict in corporate governance; unjustifiable lack of external audit; pending litigation of a significant nature.

ii. Assets must be classified no higher than Sub-standard if the primary sources of repayment are insufficient to service the debt and the bank must look to secondary sources of repayment, including collateral.

iii. Assets must be classified no higher than Sub-standard if the banking organization has acquired the asset without the types of adequate documentation of the obligor's net worth, profitability, liquidity, and cash flow that are required in the banking organization's lending policy, or there are doubts about the validity of that documentation.

(3) **Doubtful**

Assets must be classified no higher than Doubtful if any of the following deficiencies of the obligor is present: permanent overdrawn; location in an industry with poor aggregate earnings or loss of markets; serious competitive problems; failure of key products; operational losses; illiquidity, including the necessity to sell assets to meet operating expenses; cash flow less than required interest payments; very poor management; non-cooperative or hostile management; serious doubts of the integrity of management; doubts about true ownership; complete absence of faith in financial statements.

(4) **Bad/Loss**

Assets must be classified no higher than Bad/Loss if any of the following deficiencies of the obligor are present: the obligor seeks new loans to finance operational losses; location in an industry that is disappearing; location in the bottom quartile of its industry in terms of profitability; technological obsolescence; very high losses; asset sales at a loss to meet operational expenses; cash flow less than production costs; no repayment source except liquidation; presence of money laundering, fraud, embezzlement, or other criminal activity; no further support by owners.

c) 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. Bangladesh Bank will respond to the bank within 15 days of receiving such request. However, in any case where there is a lingering disagreement between the classification determined by bank management and the classification determined by Bangladesh Bank, the judgment of Bangladesh Bank will prevail. Any loan classified during Bangladesh Bank's on-site inspection on the basis of qualitative judgement cannot be declassified without the consent of Bangladesh Bank.

3. 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. In case of filing a law-suit for recovery of such loan, interest for the period till filing of the suit can be charged in the loan account in order to file the same for the amount of principal plus interest. But interest thus charged in the loan account has to be preserved in the 'Interest Suspense' account. If any interest is charged on any 'Bad/Loss' account for any other special reason, the same will 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.

4. Maintenance of Provision:

a) General Provision: Banks will be required to maintain General Provision in the following way :

(1) @ 0.25% against all unclassified loans of Small and Medium Enterprise (SME) as defined by the SME & Special Programmes Department of Bangladesh Bank from time to time and @ 1% against all unclassified loans (other than loans under Consumer Financing, Loans to Brokerage House, Merchant Banks, Stock dealers etc., Special Mention Account as well as SME Financing.)

(2) @ 5% on the unclassified amount for Consumer Financing whereas it has to be maintained @ 2% on the unclassified amount for (i) Housing Finance and (ii) Loans for Professionals to set up business under Consumer Financing Scheme.

(3) @ 2% on the unclassified amount for Loans to Brokerage House, Merchant Banks, Stock dealers, etc.

(4) Rate of provision on the outstanding amount of loans kept in the 'Special Mention Account' will be same as the rates stated in (1), (2), (3) of Section 4.a) which one is applicable. i.e. @ 0.25% against all unclassified loans of Small and Medium Enterprise (SME), @ 5% on the unclassified amount for Consumer Financing, @ 2% on the unclassified amount for Housing Finance, Loans for Professionals to set up business under Consumer Financing Scheme, Loans to Brokerage House, Merchant Banks, Stock dealers, etc. and @ 1% against all other unclassified loans[26].

(5) @1% on the off-balance sheet exposures. (Provision will be on the total exposure and amount of cash margin or value of eligible collateral will not be deducted while computing Off-balance sheet exposure.)

b) Specific Provision: Banks will maintain provision at the following rates in respect of classified Continuous, Demand and Fixed Term Loans:

(1) Sub-standard : 20%
(2) Doubtful : 50%
(3) Bad/Loss : 100%

c) Provision for Short-term Agricultural and Micro-Credits:

(1) All credits except 'Bad/Loss' (i.e. 'Doubtful', 'Sub-standard', irregular and regular credit accounts) : 5%
(2) 'Bad/Loss' : 100%

5. Provisions to Cover All Expected Losses:

The expressed minimum percentages of provisions in Paragraph 4 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.

[26] BRPD Circular No.05 dated May 29, 2013

6. Base for Provision:

For eligible collaterals of the following types, provision will be maintained at the stated rates in Para 4 on the outstanding balance of the classified loans less the amount of Interest Suspense and the value of eligible collateral:

a. Deposit with the same bank under lien against the loan,
b. Government bond/savings certificate under lien,
c. Guarantee given by Government or Bangladesh Bank.

For all other eligible collaterals, the provision will be maintained at the stated rates in Para 4 on the balance calculated as the greater of the following two amounts:

i. outstanding balance of the classified loan less the amount of Interest Suspense and the value of eligible collateral; and
ii. 15% of the outstanding balance of the loan.

However, the base for provision shall be further reviewed towards closer convergence with international best practice standards.

7. Eligible Collateral :

In the definition of 'Eligible Collateral' as mentioned in the above paragraph the following collateral will be included as eligible collateral in determining base for provision:

-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
-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.

<u>Determination of Market Value of Eligible Collateral :</u>

In determining market value of easily marketable commodities, land and building, banks are advised to follow the instructions mentioned below:

(a) Easily marketable goods will mean pledged, easily encashable/saleable goods that remain under full control of the bank. However, while the concerned bank branch official will conduct periodic inspection to verify as to whether requirements have been met such as the suitability of goods for use, expiry period, appropriateness of documentary evidences, and up to date insurance cover, the same will have to be assessed by the professional assessor from time to time.

(b) For land and building, banks will have to ensure whether title documents are in order and concerned land and building will have to be valued by the professional valuation firm along with completion of proper documentation in favour of the bank. In the absence of a professional valuation firm, a certificate in favour of such valuation will have to be collected from a specialized engineer. Nevertheless, temporary houses including tin-shed structure shall not be shown as building.

(c) In order to facilitate the on-site inspection by Bangladesh Bank’s Department of Banking Inspection, banks are also advised to maintain a complete statement of eligible collateral on a separate sheet in the concerned loan file. Information such as a description of eligible collateral, their assessment by a recognized firm, marketability of the commodity, control of the bank, and reasons for considering eligible collateral etc. will have to be included in that sheet.

POLICY ON SINGLE BORROWER EXPOSURE [27]

In order to comply with the section–26(Kha) of the Banking Companies Act, 1991 and to improve bank's credit risk management further, Bangladesh Bank has issued BRPD Circular No. 02/2014 consolidating all instructions issued so far on the subject and has made some amendments.

1) **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 Banking Companies Act, 1991.

   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 at reporting date;

      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"** – defined in Paragraph-2(b)(i) of this circular as per Clause (2) of Section-26Kha of the Banking Companies Act, 1991.

   c) **"Non-conforming Exposure"** – if an exposure is within the limit [limit set forth in Paragraph-2(a)] when made but subsequently exceeds the limit, the exposure will be treated as 'non-conforming' which may arise from any of the following circumstances:

      i) the bank's capital declines;

      ii) the borrower merges or forms a common enterprise with another borrower;

      iii) the bank merges with another bank which also holds exposures to the borrower;

      iv) capital rules or the lending limits undergo changes;

   d) **"Person"** – means a natural person or a legal person i.e., company, corporation, associate, trust, joint venture, partnership or other business enterprise etc.

[27] BRPD Circular No. 02 dated January 16, 2014

e) **"Group"** – two or more persons shall be deemed to be a group if one person has the ability, directly or indirectly, to control the other person(s) or to exercise significant influence over the financial and operating decisions of the other person(s), or if both persons are subject to common control or common significant influence. Group exists if at least one of the following criteria is satisfied:

   i) **Control Relationship:** When one person, directly or indirectly, has control over the other(s). To assess connectedness through control, the criterion is met automatically if one person owns more than 50% of the voting rights of another person. However, control can also be assumed when one person has significant influence (owns 20% or more but less than 50% of the voting rights) on the other person. In addition to establishing connectedness based on control, banks shall consider, at a minimum, the following criteria:
      (1) Voting agreements (e.g. control of a majority of voting rights pursuant to an agreement with other shareholders);
      (2) Significant influence on the appointment or dismissal of an entity's administrative, management or supervisory body, such as the right to appoint or remove a majority of members in those bodies, or the capacity to appoint a majority of members solely as a result of the exercise of an individual entity's voting rights;
      (3) Significant influence on senior management, e.g. one person has the power, pursuant to a contract or otherwise, to exercise a controlling influence over the management or policies of another person (e.g. through consent rights over key decisions);
      (4) Banks are also expected to refer to criteria specified in appropriate internationally recognized accounting standards for further qualitatively based guidance when determining control.

   ii) **Economic Interdependence:** Economic dependence of one party on another or more other parties results in all of them being considered connected. That is, if one of them were to experience financial problems, in particular funding or repayment difficulties, the other or all of the others would, as a result, also be likely to encounter funding or repayment difficulties. For guidance on establishing connectedness based on economic interdependence, banks shall consider, at a minimum, the following qualitative criteria:
      (1) When 50 percent or more of one counterparty's gross receipts or gross expenditures (on an annual basis) is derived from transactions with the other counterparty;
      (2) When one counterparty has fully or partly guaranteed the exposure of the other counterparty, or is liable by other means, and the exposure is so significant for the guarantor that it is likely to default if a claim occurs;

(3) When the expected source of repayment for each loan is the same and neither counterparty has another source of income from which the loan may be fully repaid;
(4) Where it is likely that the financial problems of one counterparty would cause difficulties for the other counterparties in terms of full and timely repayment of liabilities;
(5) Where the insolvency or default of one of them is likely to be associated with the insolvency or default of the other(s).

2) **Exposure Limits –** The following limits shall apply:

a) **Single Person/Counterparty or Group:**

i) The outstanding amount of exposure, both funded and non-funded, to a single person/counterparty or a group shall not exceed 35% of the capital at any point of time.

ii) The aggregate outstanding principal amount of funded exposures shall not exceed 15% of the capital at any point of time.

iii) In case of export financing, the outstanding amount of exposure, both funded and non-funded, at any point of time to a single person/counterparty or a group shall not exceed 50% of the capital. However, the aggregate outstanding principal amount of funded exposures shall not exceed 15% of the capital at any point of time.

b) **Large Loan:**

i) 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.

ii) The banks may sanction large loans as per the following limits set against their respective classified loans:

Rate of Net Classified Loans	Large Loan Portfolio Ceiling against Bank's Total Loans & Advances
Upto 5%	56%
More than 5% but upto 10%	52%
More than 10% but upto 15%	48%
More than 15% but upto 20%	44%
More than 20%	40%

In order to determine the above Large Loan Portfolio Ceiling of any bank, 50% credit equivalent of all non-funded credit facilities shall be included in the Total Loans and Advances (i.e., 100%

funded exposures plus 50% non-funded exposures). However, the entire amount of non-funded credit facilities shall be included in the Large Loan Portfolio.

For example, let a bank's Net Classified Loans is 5%. According to the large loan policy, the bank may have large loan exposures up to 56% of its total Loans & Advances whereas total Loans & Advances is calculated as 100% funded exposures plus 50% non-funded exposures. However, while calculating Large Loan Portfolio both funded and non-funded credit facilities will be considered as 100% credit equivalent. So, the large loan portfolio ceiling formula for the bank is as follows:

$$\frac{(\text{Total Funded Large Loan Exposure}*100\% + \text{Total Non-funded Large Loan Exposure}*100\%)}{(\text{Bank's Total Funded Exposure}*100\% + \text{Banks Total Non-funded Exposure}*50\%)} \leq 56\%$$

3) **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:

   a) A public limited company, which has 50% or more public shareholdings, shall not be considered as an enterprise/organization of any group.

   b) In case of credit facilities provided to the government or against government guarantees and AAA rated Multilateral Development Banks' (MDBs) guarantee, the aforementioned restrictions set forth in Paragraph-2(a) shall not be applicable.

   [Note: Multilateral Development Banks (MDBs) include: the World Bank Group comprising the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC), the Asian Development Bank (ADB), the African Development Bank (AfDB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IADB), the European Investment Bank (EIB), the European Investment Fund (EIF), the Nordic Investment Bank (NIB), the Caribbean Development Bank (CDB), the Islamic Development Bank (IDB) and the Council of Europe Development Bank (CEDB).]

   c) In case of credit facilities sanctioned by the banks to the borrowers in order to produce, transmit and distribute electricity against any award provided by the Power Division of the Ministry of Power, Energy and Mineral Resources or the institutions controlled by the said division [such as – Bangladesh Power Development Board (BPDB), Rural Electrification Board (REB), Power Grid Company of Bangladesh (PGCB), Electricity Generation Company of Bangladesh (EGCB), Dhaka Power Distribution Company (DPDC), Dhaka Electric Supply Company Limited (DESCO), Ashuganj Power Station Company Limited (APSCL), West Zone Power Distribution Company (WZPDCO), North West Zone Power Distribution Company Limited (NWZPGC)], the aforementioned restrictions set forth in Paragraph-2(a) shall not be applicable.

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(a) and Paragraph-2(b) shall not be applicable.

e) In case of loans backed by cash and encashable securities (e.g. FDR of the same bank), the aforementioned restrictions set forth in Paragraph-2(a) and Paragraph-2(b) shall not be applicable and the actual financing facilities shall be determined by deducting the amount from the outstanding of principal balance of the loans.

4) **Prudential Norms:**

a) Banks shall collect the loan information on their borrowers from Credit Information Bureau (CIB) of Bangladesh Bank before sanctioning, renewing or rescheduling loans in order to ensure that credit facilities are not being provided to defaulters.

b) Banks must assess credit risk by adopting Credit Risk Grading (CRG) before sanctioning or renewing large loans. If the rating of a CRG turns out to be "Marginal", banks shall not sanction the large loan, but it can consider renewal of an existing large loan taking into account other favorable conditions and factors. However, if the result of a CRG is “Special Mention Account (SMA)”, neither sanction nor renewal of large loans can be considered.

c) While sanctioning or renewing of large loans, banks should assess their borrower's overall debt repayment capacity by taking into consideration the borrower's liabilities with other banks and financial institutions.

d) Banks shall examine their borrower's Cash Flow Statement, Audited Balance Sheet, Income Statement and other financial statements to make sure that their borrower has the ability to repay the loan.

e) Sanctioning, renewing or rescheduling of large loans shall be approved by the Board of Directors in case of local banks. Such decisions will be taken by the Chief Executive in case of foreign banks. However, while approving proposals of large loans, among other things, compliance with this circular must be ensured.

f) When two or more banks collectively provide credit to a borrower under a common loan facility (e.g. a syndicated loan), the loan limits in Paragraph 2(a) apply only to the funds provided by each bank and represent that bank’s pro rata share of the total loan.

g) The group of counterparties poses a “single risk”, akin to that of a single counterparty. Such a group is referred to as a group of connected counterparties. Banks shall evaluate the relationship amongst clients, with reference to Paragraph (1.e.i.) and Paragraph (1.e.ii), in order to assess the existence and the extent of a single risk. However, banks must exercise a reasonable degree of due diligence including the 'Know Your Customer (KYC)' principle in obtaining sufficient information on their customers to determine interconnectedness.

h) If an exposure becomes 'non-conforming' for any reason as mentioned in Paragraph-1(c) the Chief Executive of banks are required to act promptly to bring the exposure into compliance unless doing so would be inconsistent with prudent banking practices and adversely affect the ultimate recovery of the exposure. Such non-conforming exposures may be renewed, have their maturity extended or be restructured without violating this circular provided –
   i) there is no increase in the amount of the exposure, either direct or indirect;

   ii) security collateral, if any, shall not be released;

   iii) there is no change in the borrower with the exception of changes resulting from a merger of the borrower with another person;

   iv) the renewal, extension or reschedule is not otherwise designed to avoid the requirements of existing policies, rules & regulations as determined by Bangladesh Bank;

   v) Banks shall report such exposure, if any, to the Department of Off-site Supervision of Bangladesh Bank.

5) **Risk Management Expectations:**

   a) Banks shall follow the instructions regarding Credit Risk Management Guidelines, Risk Management Guidelines for Banks and all other related policies issued by Bangladesh Bank from time to time.

   b) Although certain types of exposures and counterparties are excluded from the single borrower limit [as specified in Paragraph 3], these exposures are not risk-free. Banks should have adequate procedures and controls in place to monitor these exposures. In addition, banks shall also ensure that its portfolios are not overly concentrated in large loans.

6) Each bank shall submit the periodic statement of large loan, in specified format, to the Department of Off-site Supervision of Bangladesh Bank as per instructions given by the department (DOS).

POLICY FOR RESCHEDULING OF LOANS[28]

Bangladesh Bank recognizes that in some cases, a legitimate banking practice may allow for the renewal of a continuous loan or line of credit. Occasionally, even a term loan is renewed or extended under unfortunate circumstances that are beyond the control of the borrower and do not signify that the borrower's willingness or ability to repay has deteriorated the loan. However, Bangladesh Bank is concerned that rescheduling (also known as "prolongation" or "evergreening") may sometimes result in an overstatement of capital, when loans that have a low probability of repayment are carried at full value on banks' balance sheets. Bangladesh Bank is hereby issuing this circular in order to communicate its policy stance that rescheduling should be done only in limited circumstances and under restrictions.

01. GUIDELINES FOR CONSIDERING APPLICATION FOR LOAN RESCHEDULING:

Banks shall comply with the following instructions while considering application for loan rescheduling of non-performing loan (loans classified as Sub-standard, Doubtful and Bad/Loss):

a) The bank must have a policy approved by its Board of Directors in place that defines the circumstances and conditions under which a loan may be rescheduled, consistent with this circular. These conditions may be stricter than those contained in this circular and cannot be lenient in any case. The policy must include controls to avoid the routine rescheduling and repeat rescheduling of loans in those cases where borrowers are experiencing financial difficulty or there is doubt that the full amount of the loan will be recovered. In particular, the policy should place strict limits, or even prohibit, rescheduling of loans to business enterprises in unproductive sectors, or unprofitable business enterprises in productive sectors. If exceptions are made for certain sectors/business enterprises that do not meet the above guidelines, those sectors/business enterprises should be identified in the policy and a justification for rescheduling should be given.

b) When a borrower asks for rescheduling of loan, the bank shall meticulously examine the causes as to why the loan has become non-performing. If it is detected from such review that the borrower has diverted funds elsewhere or the borrower is a habitual loan defaulter, the bank shall not consider the application for loan rescheduling and shall take/continue all legal steps for recovery of the loans.

c) If a borrower while applying for rescheduling, pays the required down payment in cash at a time, the bank must address the application within 03 (three) months upon receipt. If the borrower gives any cheque, pay order or any other instrument against down payment, the bank must ensure encashment of such instrument before processing of the rescheduling case. Any previous payment from time to time shall not be treated as a down payment.

d) Banks while considering loan rescheduling, must consider overall repayment capability of the borrower taking into account the borrower's liability position with other banks and financial institutions.

[28] BRPD Circular No. 15 dated September 23, 2012.

e) Banks shall review the borrower's cash flow statement, audited balance sheet, income statement and other financial statements in order to ensure whether the borrower would be able to repay the rescheduled installments/existing liability or not.

f) If required, bank officers shall conduct spot inspections of the borrower's company/business place to ensure that the concerned company/business enterprise would be able to generate a surplus to repay the liability of rescheduling. Banks shall preserve such reports in their branches for Bangladesh Bank's inspection.

g) If a bank is satisfied after due diligence as mentioned above that the borrower will be able to repay, the loan may be rescheduled. Otherwise, bank shall take all legal steps to realize the loan and make necessary provision.

h) Rescheduling of any loan must be justified in written statement by the bank's Credit Committee. The statement must give reasons why the rescheduling is beneficial to the long-run profitability and capital adequacy of the bank, including the factors that cause the Credit Committee to believe that the loan will ultimately be repaid in full. The statement must also explain the impact of this rescheduling on the bank's liquidity position and the needs of other customers.

02. TIME LIMIT FOR RESCHEDULING:

The rescheduling shall be for a minimum reasonable period of time. Time limit for rescheduling of different categories of loans will be as follows:
(Note: These time limits are absolute maximums only, and banks are encouraged to establish shorter time limits in their internal policies. Each loan that is being considered for rescheduling should be evaluated on its own merits and not automatically rescheduled for the maximum time period or rescheduled for the maximum number of three (03) times.)

a) Time limit for rescheduling Continuous Loan:

The loan account in which transactions may be made within certain limit and have an expiry date for full adjustment will be treated as Continuous Loan:

Frequency	Classified as Sub-standard	Classified as Doubtful	Classified as Bad/Loss
First Rescheduling	Maximum 18 (eighteen) months from the date of rescheduling	Maximum 12 (twelve) months from the date of rescheduling	Maximum 12 (twelve) months from the date of rescheduling
Second Rescheduling	Maximum 12 (twelve) months from the date of rescheduling	Maximum 09 (nine) months from the date of rescheduling	Maximum 09 (nine) months from the date of rescheduling
Third Rescheduling	Maximum 06 (six) months from the date of rescheduling	Maximum 06 (six) months from the date of rescheduling	Maximum 06 (six) months from the date of rescheduling

Conditions: During the rescheduled period all required principal and interest payments must be made. Rescheduled amount should be repaid in monthly installments. If the amount of defaulted installments is equal to the amount of 3(monthly) installments, the loan will be classified as Bad/Loss.

b) Time limit for rescheduling Demand Loan:

The loan which becomes repayable on demand by the bank is treated as Demand Loan. If any contingent or any other liabilities are turned to forced loan (i.e. without any prior approval as regular loan) those too will be treated as Demand Loans.

Frequency	Classified as Sub-standard	Classified as Doubtful	Classified as Bad/Loss
First Rescheduling	Maximum 12 (twelve) months from the date of rescheduling	Maximum 09 (nine) months from the date of rescheduling	Maximum 09 (nine) months from the date of rescheduling
Second Rescheduling	Maximum 09 (nine) months from the date of rescheduling	Maximum 06 (six) months from the date of rescheduling	Maximum 06 (six) months from the date of rescheduling
Third Rescheduling	Maximum 06 (six) months from the date of rescheduling	Maximum 06 (six) months from the date of rescheduling	Maximum 06 (six) months from the date of rescheduling

Conditions: During the rescheduled period all required principal and interest payments must be made. Rescheduled amount should be repaid in monthly installments. If the amount of defaulted installments is equal to the amount of 3(monthly) installments, the loan will be classified as Bad/Loss.

c) Time limit for rescheduling Fixed Term Loan[29]:

The loan which is repayable within a specified time period under a prescribed repayment schedule is treated as Term Loan. In case of rescheduling of any classified Fixed Term Loan, following time-limit may be added with the expiry date/repayment date of last installment to determine the repayment schedule which will be started from the date of rescheduling. If the loan is rescheduled after the expiry date, the following time-limit will be applicable from the date of rescheduling:

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[29] BRPD Circular No. 06 dated May 29, 2013

Frequency	Classified as Sub-standard	Classified as Doubtful	Classified as Bad/Loss
First Rescheduling	Maximum 36 (thirty six) months	Maximum 24 (twenty four) months	Maximum 24 (twenty four) months
Second Rescheduling	Maximum 24 (twenty four) months	Maximum 18 (eighteen) months	Maximum 18 (eighteen) months
Third Rescheduling	Maximum 12 (twelve) months	Maximum 12 (twelve) months	Maximum 12 (twelve) months

Conditions: During the rescheduled period all required principal and interest payments must be made. Rescheduled amount should be repaid in 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.

d) Time limit for rescheduling for Short-term Agricultural and Micro-Credit[30]

In case of rescheduling of any classified Short-term Agricultural and Micro-Credit, 6 months may be added with following time-limit from the day after the expiry date/repayment date of last installment to determine the repayment schedule which will be started from the date of rescheduling. If the loan is rescheduled after the expiry date, the following time-limit will be applicable:

First Rescheduling	Repayment time limit for rescheduling should not exceed 2 (two) years from the expiry date of loan.
Second Rescheduling	Maximum 1(one) year from the date of 1st rescheduling.
Third Rescheduling	Maximum 6(six) months from the date of 2nd rescheduling.

e) If the loan becomes default after third rescheduling, the borrower will be treated as a habitual loan defaulter and the bank shall not consider for further loan rescheduling.

f) Loans sanctioned at Managing Director/Board of Directors level cannot be rescheduled without the approval of the Board of Directors. Loan sanctioned or approved below Managing Director level cannot be rescheduled without the approval of the Board of Directors or Executive Committee of the Board.

[30] BRPD Circular No. 06 dated May 29, 2013

At the time of placing the rescheduling proposal before the Board of Directors or Executive Committee, the bank shall apprise the Board or the Executive Committee, as the case may be, in details, implications of such loan rescheduling on the income and other areas of the bank. Such appraisal reports should be placed before the Board of Directors or Executive Committee as an attached memo signed by the concerned branch manager and Managing Director of the bank.

03. DOWN PAYMENT OF TERM LOANS:

a) Application for first time rescheduling will be taken into consideration upon receiving cash payment of at least 15% of the overdue installments or 10% of the total outstanding amount of loan, whichever is less;

b) Application for second time rescheduling will be considered upon receiving cash payment of minimum 30% of the overdue installments or 20% of the total outstanding amount of loan, whichever is less.

c) Application for rescheduling third time will be considered upon receiving cash payment of minimum 50% of the overdue installments or 30% of the total outstanding amount of loan, whichever is less.

d) The rate of down payments for Short-term Agricultural and Micro-Credit will be same as above.

Explanation: If any loan is rescheduled for one time before issuance of this circular, the conditions set forth in this circular for second time rescheduling of such loans shall be applicable. Likewise, the terms for third time rescheduling as per this circular for rescheduling of any loan, which has already been rescheduled twice or more shall be applicable.

04. DOWN PAYMENT OF DEMAND AND CONTINUOUS LOAN:

a) If a Demand or Continuous Loan is converted into a Term loan, first rescheduling may take place against down payment on the basis of loan amount in the following manner.

Amount of Overdue Loan	Rate of Down payment
Up to Tk.1.00 (one) crore	15%
Above Tk.1.00(one) crore and up to Tk.5.00(five) crore	10% (but not less than Tk.15.00 lac)
Above Tk. 5.00(five) crore	5% (but not less than Tk.50.00 lac)

Application for rescheduling will be taken into consideration only after the amount for the down payment is paid in cash as narrated in 01(c).

b) If any Continuous or Demand Loan is rescheduled for the second time (first time after being converted partly or wholly into Term Loan) and the repayment installments are fixed, the application for rescheduling of such loans shall be considered upon receiving cash payment of minimum 30% of the overdue installments or 20% of the total outstanding amount of loan, whichever is less. Similarly, for third rescheduling (second time after being converted partly or wholly into Term Loan) minimum 50% of the overdue installments or 30% of the total outstanding amount of loan, whichever is less, shall have to be repaid in cash.

05. CLASSIFICATION AND INTEREST SUSPENSE OF RESCHEDULED LOANS:

Rescheduled loans may be put into any category of classification by the bank considering the existing financial soundness and repayment capacity of the borrower, subject to the accumulated amount in interest suspense account not being taken into income account, unless actually realized. Upon classification, applicable provisions have to be maintained, according to the Master Circular: Loan Classification and Provisioning (BRPD Circular No. 14/2012). These classifications will be reviewed by Bangladesh Bank inspectors. However, regardless of the classification category into which the loan is placed by the bank, 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) [read with section 5(GaGa)] of the Banking Companies Act, 1991, unless such loan has not been repaid after reaching the maximum number of allowable reschedulings.
Interest accrued on rescheduled loans will be subject to the accounting treatment that is appropriate for the classification category of the loan, in line with the Master Circular: Loan Classification and Provisioning (BRPD Circular No. 14/2012) just as if the loan had not been rescheduled.

06. NEW LOAN FACILITY AFTER RESCHEDULING:

a) The borrower whose credit facility has been rescheduled may avail a new loan facility or enhance existing credit facility subject to fulfillment of the following conditions:-

i. The borrower must pay at least 15% of the “Outstanding Balance” (outstanding amount after excluding the down payment on rescheduling) to avail any further credit facility from the rescheduling bank.

ii. In case of borrowing from other banks, the same rule will be applicable, i.e. the borrower must pay at least 15% of the "Outstanding Balance" (outstanding amount after excluding the down payment on rescheduling), then, will be allowed to take regular facility from other banks subject to the submission of No Objection Certificate (NOC) from the rescheduling bank or financial institution.

b) Exporters may be granted further credit facility (after being identified as not-a-willful defaulter), if required, subject to settling at least 7.5% of the "Outstanding Balance" (outstanding amount after excluding the down payment on rescheduling). They will be allowed to take the regular facility from other Banks subject to the submission of a NOC from the rescheduling bank or financial institution.

c) Prior approval of Bangladesh Bank shall have to be obtained if the loan is related to the director of any bank.

d) Information on such rescheduled loan accounts shall be reported to the Credit Information Bureau (CIB) of Bangladesh Bank.

e) While reporting to the CIB, the rescheduled loans/advances should be shown as RS-1 for first time rescheduling, RS-2 for second time rescheduling and RS-3 for third time rescheduling. If rescheduling facility is availed through interest waiver, reporting should be RSIW-1 for first time rescheduling, RSIW-2 for second time rescheduling and RSIW-3 for third time rescheduling.

f) Number of rescheduling should be mentioned in the sanction letter as well as in the date column of sanction/last renewal/rescheduling in the basic CL form as RS-1/RS-2/RS-3 or RSIW-1/RSIW-2/RSIW-3.

07. SPECIAL CONDITIONS FOR LOAN RESCHEDULING

a) If a loan account of an export-oriented garments industry or knit garments factory becomes adversely classified due to stock lot, the loan may be rescheduled without the required down payment. However, the sales/export proceeds from the stock lot must be used to repay the loan. If any such loan account remains unadjusted even after repaying the loan with sales/export proceeds of the stock lot, the loan may be rescheduled without the required down payment based on recovery probability and banker-customer relationship.

The above mentioned facilities will not be applicable to forced loan, project loan or term loan in this sector. Only such forced loans, which are backed up with stock lot may avail such facilities.

After rescheduling, new loan facility or loan expansion application will be considered only after paying at least 7.5% of the "Outstanding Balance". New loan facility from other banks is subject to the obtaining of NOC from the rescheduling bank.

b) If a loan account of fertilizer importers becomes adversely classified due to delay in government subsidy receipts and payment of subsidy bill, the loan may be rescheduled without the required down payment. However, the receivable government subsidy must be used to repay the loan. If any such loan account remained unadjusted even after repaying the loan with a government subsidy, the loan may be rescheduled without the required down payment on the basis of recovery probability and banker-customer relationship.

c) For rescheduling as above no prior approval of Bangladesh Bank will be required; unless there is a requirement from Bangladesh Bank in the context of large loan or related to the director of the bank.

08. RESTRICTION ON EXTENDING THE TERM TO MATURITY OF A TERM LOAN:

The term to maturity of a term loan may be extended subject to the following conditions and restrictions:

a) The loan must be performing (Unclassified: Standard or SMA)
b) The decision should be made at the level where the loan was originally sanctioned
c) The maturity date may be extended by a period of time not exceeding 25% of the current remaining time to maturity.

POLICY FOR LOAN WRITE-OFF[31]

In course of conducting credit operations by banks the quality of a portion of their loan portfolio, in many cases, deteriorates and uncertainty arises in realizing such loans and advances. These loans are adversely classified as per existing rules and necessary provision has to be made against such loans. Writing off bad loans having adequate provision is an internationally accepted normal phenomenon in banking business. Owing to the reluctance of banks in Bangladesh in resorting to this system their balance sheets are becoming unnecessarily and artificially inflated. In this context the following policies for writing off loans are being issued for compliance by banks:

- Banks may, at any time, write off loans classified as bad/loss for which 100% provisions have been kept and cases have been filed in the court of law. However, banks may write-off default loans below Tk 50,000 without filing suit against the borrowers.[32]. Under the process the oldest bad/loss classified loans should be considered first for written off.
- Banks may write off loans by debit to their current year's income account where 100% provision kept is not found adequate for writing off such loans.
- All out efforts should be continued for realizing written off loans. Cases must be filed in the court of law before writing off any loan for which no legal action has been initiated earlier.
- A separate "Debt Collection Unit" should be set up in the bank for recovery of written off loans.
- In order to accelerate the settlement of law suits filed against the written off loans or to realize the receivable written off loans any agency outside the bank can be engaged. A separate ledger must be maintained for written off loans and in the Annual Report/Balance Sheet of banks there must be a separate "notes to the accounts" containing amount of cumulative and current year's loan written off.
- Inspite of writing off the loans the concerned borrower shall be identified as defaulter as usual. Like other loans and advances, the writing off loans and advances shall be reported to the Credit Information Bureau (CIB) of Bangladesh Bank.
- Prior approval of Bangladesh Bank shall have to obtained in case of writing off loans sanctioned to the director or ex-director of the bank or loans sanctioned during the tenure of his directorship in the bank to the enterprise in which the concerned director has interest (as per explanation contained in section 27(2) of the Bank Company Act, 1991).

[31] BRPD Circular No. 02 dated January 13, 2003
[32] BRPD Circular No. 13 dated November 07, 2013

CORPORATE GOVERNANCE IN BANK MANAGEMENT

Board of Directors of a bank should be comprised with competent and professionally skilled persons with a view to formulating policy-guidelines and supervising business activities of the bank efficiently as well as ensuring good governance in the bank management. The responsibilities of the board of directors of a bank-company are more important than those of other companies; because in case of a bank-company it is essential to earn and maintain confidence of the depositors as its business is mainly run with the depositors' money.

FORMATION OF BOARD OF DIRECTORS[33]

1. Appointment of New directors:

Every banking company, other than specialized banks, at the time of taking prior approval from Bangladesh Bank for appointing/reappointing directors should furnish the following documents along with the application:

a) Personal information of the nominated person;
b) Nominated person's declaration;
c) 'Declaration for confidentiality' by the nominated person;
d) In case of Independent director, the approval letter from Security and Exchange commission;
e) In case of Independent director, a declaration of the directors concern;
f) CIB report of the nominated person;
g) Updated list of the directors.

2. Vacation of office of Director:

a) The office of director shall be vacated according to the instructions specified in section 108(1) of the Companies Act, 1994. Besides, when a bank director becomes defaulter and does not repay the loan within two months after getting a notice under the section 17 of the Bank Company Act, 1991; provides false statement at the time of appointment; or fails to fulfil the minimum eligibility criteria, the office of the director will be vacated.

b) If the office of a director is vacated by a notice under the section 17 of the BCA, the person will not be eligible to become a director of the bank or any other bank or any financial institution for one year from the date of repayment of the total amount due to the bank. It is mentionable here that the dues can be adjusted with the shares held by the director in that bank. When a director receives a notice under section 17 of the BCA, 1991, he/she can't transfer his/her shares of that bank until he/she repays all the liabilities of the noticed bank or financial institution.

[33] BRPD Circular No. 11 dated October 27, 2013

c) Besides, Bangladesh Bank can remove a director or chairman of a bank, except state owned banks, for conducting any kind of activities that is detrimental to the interest of the banks depositors or against the public interest under Section 46 and can supersede the board of a banking company under Section 47 of the BCA, 1991.

3. Removal of Directors from office:

According to section 108(2) of the Companies Act, 1994, with the prior approval of Bangladesh Bank, a bank director other than specialized banks can be removed from his office for the reason specified in its Articles of Association. For this purpose, the reason and grounds of the dismissal/removal and copy of the decision of the board and list of directors should be submitted to Bangladesh Bank. In this case, the removal will be effective from the date of Bangladesh Bank's approval.

4. Appointment of Alternate Director:

Subject to compliance of section 101 of the Companies Act, 1994, an alternate director can be appointed to act for a director during his absence for a continuous period of not less than three months from Bangladesh. In this context, the following instructions should be followed:

a) Bank has to collect and properly maintain the documentary evidences relating to departure and arrival of the original director. If there is any exception, the chief executive officer should immediately inform it to Bangladesh Bank.

b) The copy of the decision of the board regarding appointment of alternate director, with original director's probable returning date from abroad should be sent to Bangladesh Bank within 7 days of taking the decision and the director's arrival date must be intimated to Bangladesh Bank immediately after his return.

c) Any loan defaulter or any person who is not eligible to become a director as per any rules & regulation will not be appointed as an alternate director.

d) As appointment of alternate director is a temporary measure; therefore, he/she will not be included in any kind of committee constituted by the board.

e) While in the office, an alternate director or his/her affiliated organization will not get any kind of loan facilities from his bank. In case of previous loan, enhancement of limit or extension of time period or any kind of exemption or interest waiver will not be allowed. Moreover, all restrictions applicable to directors according to rules & regulations will also be applicable to the alternate director.

5. Depositor Director:

As the previous provisions regarding appointment of Depositor Directors of the Banking Companies Act, 1991 has been amended; appointment of director from depositors is no longer required. But, after complying regulation under sec 15(9) of the Bank Company Act, 1991 bank can consider the tenure of existing depositor director or may appoint them as independent director.

6. Information regarding Directors:

Banks are advised to take the following steps regarding director information:

a) Every bank should keep an updated list of bank directors,

b) Banks should send a directors' list to other banks or financial institutions immediately after the appointment or release of director.

c) Banks should display a list of directors in the website and update it on a regular basis.

RESPONSIBILITIES AND AUTHORITIES OF BOARD OF DIRECTORS[34]

To ensure good governance in the bank management it is essential to have specific demarcation of responsibilities and authorities among controlling bodies over bank affairs. In the Bank Company Act, 1991 the newly included Section 15(kha) & (ga) give responsibility to the board of directors for establishing policies for the bank company, for risk management, internal controls, internal audit and compliance and for ensuring their implementation.

1. Work-planning and strategic management:

i. The board shall determine the objectives and goals and to this end shall chalk out strategies and work-plans on annual basis. It shall specially engage itself in the affairs of making strategies consistent with the determined objectives and goals and in the issues relating to structural change and reformation for enhancement of institutional efficiency and other relevant policy matters. It shall analyze/monitor, at quarterly rests, the development of implementation of the work-plans.

ii. The board shall have its analytical review incorporated in the Annual Report as regards to the success/failure in achieving the business and other targets as set out in its annual work-plan and shall apprise the shareholders of its opinions/ recommendations on future plans and strategies. It shall set the Key Performance Indicators (KPIs) for the CEO & officers immediate two tiers below the CEO, and have it evaluated from time to time.

[34] BRPD Circular No. 11 dated October 27, 2013

2. Credit and risk management:

i. The policies, strategies, procedures etc. in respect of appraisal of loan/investment proposal, sanction, disbursement, recovery, reschedule and write-off thereof shall be made with the board's approval under the purview of the existing laws, rules and regulations. The board shall specifically distribute the power of sanction of loan/investment and such distribution should desirably be made among the CEO and his subordinate executives as much as possible. No director, however, shall interfere, direct or indirect, into the process of loan approval.

ii. The board shall frame policies for risk management and get them complied with and shall monitor the compliance at quarterly rests and review the concerned report of the risk management team and shall compile in the minutes of the board meeting. The board shall monitor the compliance of the guidelines of Bangladesh Bank regarding key risk management.

3. Internal control management:

The board shall be vigilant on the internal control system of the bank in order to attain and maintain satisfactory qualitative standard of its loan/investment portfolio. The board will establish such an internal control system so that the internal audit process can be conducted independently from the management. It shall review the reports submitted by its audit committee at quarterly rests regarding compliance of recommendations made in internal and external audit reports and the Bangladesh Bank inspection reports.

4. Human resources management and development:

i. Policies relating to recruitment, promotion, transfer, disciplinary and punitive measures, human resources development etc. and service rules shall be framed and approved by the board. The chairman or the directors shall in no way involve themselves or interfere into or influence over any administrative affairs including recruitment, promotion, transfer and disciplinary measures as executed under the set service rules. No member of the board of directors shall be included in the selection committees for recruitment and promotion to different levels. Recruitment, promotion, transfer & punishment of the officers immediate two tiers below the CEO shall, however, rest upon the board. Such recruitment and promotion shall have to be carried out complying with the service rules i.e., policies for recruitment and promotion.

ii. The board shall focus its special attention to the development of skills of bank's staff in different fields of its business activities including prudent appraisal of loan/investment proposals, and to the adoption of modern electronic and information technologies and the introduction of effective Management Information System (MIS). The board shall get these programmes incorporated in its annual work plan.

iii. The board will compose Code of Ethics for every tier and they will follow it properly. The board will promote healthy code of conducts for developing a compliance culture.

5. Financial management:

i. The annual budget and the statutory financial statements shall be finalized with the approval of the board. It shall at quarterly rests review/monitor the positions in respect of bank's income, expenditure, liquidity, non-performing asset, capital base and adequacy, maintenance of loan loss provision and steps taken for recovery of defaulted loans including legal measures.

ii. The board shall frame the policies and procedures for bank's purchase and procurement activities and shall accordingly approve the distribution of power for making such expenditures. The maximum possible delegation of such power of expenditures shall rest on the CEO and his subordinates. The decision on matters relating to infrastructure development and purchase of land, building, vehicles etc. for the purpose of bank's business shall, however, be adopted with the approval of the board.

iii. The board will review whether an Asset-Liability Committee (ALCO) has been formed and it is working according to Bangladesh Bank guidelines.

6. Appointment of Chief Executive Officer (CEO):

In order to strengthen the financial base of the bank and obtain confidence of the depositors, one of the major responsibilities of the board of directors is to appoint an honest, efficient, experienced and suitable CEO or Managing Director. The Board of directors will appoint a suitable CEO with the approval of the Bangladesh Bank.

7. Other responsibilities of the Board:

The board should follow and comply with the responsibilities assigned by Bangladesh Bank.

8. Meeting of Board:

Board of directors may meet once or more than once in a month if necessary. But Board of directors shall meet at least once in every three months. Excessive meetings are discouraged.

RESPONSIBILITIES OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

1. As the chairman of the board of directors or chairman of any committee formed by the board or any director does not personally possess the jurisdiction to apply policy making or executive authority, he/she shall not participate in or interfere into the administrative or operational and routine affairs of the bank.

2. The chairman may conduct on-site inspection of any bank-branch or financing activities under the purview of the oversight responsibilities of the board. He may call for any information relating to bank's operation or ask for investigation into any such affairs; he may submit such information or investigation report to the meeting of the board or the executive committee and if deemed necessary, with the approval of the board, he shall effect necessary action thereon in accordance with the set rules through the CEO. However, any complaint against the CEO shall have to be apprised to Bangladesh Bank through the board along with the statement of the CEO.

3. 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.

FORMATION OF COMMITIES FROM BOARD OF DIRECTORS[35]

Each bank company can form 1(one) executive committee, 1(one) audit committee and 1(one) risk management committee with the directors. Board can't form any other permanent, temporary or sub- committee except the above mentioned three committees.

EXECUTIVE COMMITTEE

Executive committee should be formed with the members of the board to continue the urgent and daily or routine works between the intervals of two board meetings. Executive committee will perform according to their terms of reference determined by the board of directors.

a) Organizational structure:

i. Members of the committee will be nominated by the board of directors from themselves;
ii. The executive committee will comprise of maximum 07 (seven) members;
iii. Members may be appointed for a 03 (three)-year term of office;
iv. Chairman of the Board of Directors can be the chairman of executive committee;
v. Company secretary of the bank will be the secretary of the executive committee.

[35] BRPD Circular No. 11 dated October 27, 2013

b) Qualifications of the Members:

i. Integrity, dedication, and opportunity to spare time in the functions of committee will have to be considered while nominating a director to the committee;
ii. Each member should be capable of making valuable and effective contributions in the functioning of the committee;
iii. To perform his or her role effectively each committee member should have adequate understanding of the detailed responsibilities of the committee membership as well as the bank's business, operations and its risks.

c) Roles and Responsibilities of the Executive Committee:

i. The executive committee can decide or can act in those cases as instructed by the Board of directors 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 decision or can approve cases within power delegated by the board of directors.
iii. All decisions taken in the executive committee should be ratified in the next board meeting.

d) Meetings:

i. The executive committee can sit any time as it may deem fit.
ii. The committee may invite Chief Executive Officer, Head of internal audit or any other Officer to its meetings, if it deems necessary;
iii. To ensure active participation and contribution by the members, a detailed memorandum should be distributed to committee members well in advance before each meeting;
iv. All decisions/observations of the committee should be noted in minutes.

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 review the financial reporting process, the system of internal control and management of financial risks, the audit process, and the bank's process for monitoring compliance with laws and regulations and its own code of business conduct.

a) Organizational structure:

i. Members of the committee will be nominated by the board of directors from the directors;
ii. The audit committee will comprise of maximum 05 (five) members, with minimum 2 (two) independent director;
iii. Audit committee will comprise with directors who are not executive committee members;
iv. Members may be appointed for a 03 (three) year term of office;
v. Company secretary of the bank will be the secretary of the audit committee.

b) Qualifications of the Member:

i. Integrity, dedication, and opportunity to spare time in the functions of committee will have to be considered while nominating a director to the committee ;
ii. Each member should be capable of making valuable and effective contributions in the functioning of the committee;
iii. To perform his or her role effectively each committee member should have adequate understanding of the detailed responsibilities of the committee membership as well as the bank's business, operations and its risks.
iv. Professionally Experienced persons in banking/financial institutions specially having educational qualification in Finance, Banking, Management, Economics, Accounting will get preference in forming the committee.

c) Roles and Responsibilities of the Audit Committee

(i) Internal Control:

1. Evaluate whether management is setting the appropriate compliance culture by communicating the importance of internal control and the management of risk and ensuring that all employees have clear understanding of their roles and responsibilities;

2. Review management's actions in building computerization of the bank and its applications and bank's Management Information System (MIS);

3. Consider whether internal control strategies recommended by internal and external auditors have been implemented by the management;

4. Consider reports relating to fraud, forgery, deficiencies in internal control or other similar issues detected by internal and external auditors and inspectors of the regulatory authority and place it before the board after reviewing whether necessary corrective measures have been taken by the management.

(ii) Financial Reporting:

1. Audit committee will check whether the financial statements reflect the complete and concrete information and determine whether the statements are prepared according to existing rules & regulations and standards enforced in the country and as per relevant prescribed accounting standards set by Bangladesh Bank;
2. Discuss with management and the external auditors to review the financial statements before its finalization.

(iii) Internal Audit:

1. Audit committee will monitor whether internal audit working independently from the management.
2. Review the activities of the internal audit and the organizational structure and ensure that no unjustified restriction or limitation hinders the internal audit process;
3. Examine the efficiency and effectiveness of internal audit function;
4. Examine whether the findings and recommendations made by the internal auditors are duly considered by the management or not.

(iv) External Audit

1. Review the performance of the external auditors and their audit reports;
2. Examine whether the findings and recommendations made by the external auditors are duly considered by the management or not.
3. Make recommendations to the board regarding the appointment of the external auditors.

(v) Compliance with existing laws and Regulations:

Review whether the laws and regulations framed by the regulatory authorities (central bank and other bodies) and internal regulations approved by the board are being complied with.

(vi) Other Responsibilities:

1. Submit compliance report to the board on quarterly basis on regularization of the omission, fraud and forgeries and other irregularities detected by the internal and external auditors and inspectors of regulatory authorities;
2. External and internal auditors will submit their related assessment report, if the committee solicit;
3. Perform other oversight functions as desired by the Board of Directors and evaluate the committee's own performance on a regular basis.

d) Meetings:

1. The audit committee should hold at least 4 meetings in a year and it can sit any time as it may deems fit;
2. The committee may invite Chief Executive Officer, Head of internal audit or any other Officer to its meetings, if it deems necessary;
3. To ensure active participation and contribution by the members, a detailed memorandum should be distributed to committee members well in advance before each meeting;
4. All decisions/observations of the committee should be noted in minutes.

RISK MANAGEMENT COMMITTEE

To play an effective role in mitigating impending risks arising out from strategies and policies formulated by the Board and to carry out the responsibilities efficiently, a risk management committee will be formed. After identifying and assessing several risk factors like credit risks, foreign exchange risks, internal control and compliance risks, money laundering risks, information and communication risks, management risks, interest risks, liquidity risks etc.; the risk management committee will scrutinize whether appropriate risk management measures are being put in place and applied and whether adequate capital and provision is being maintained against the risks identified.

a) Organizational Structure:

1. Members of the committee will be nominated by the board of directors from themselves;
2. The Risk Management Committee will comprise of maximum 05 (five) members;
3. Members may be appointed for a 03 (three) year term of office;
4. Company secretary of the bank will be the secretary of the Risk Management Committee.

b) Qualifications of the Member:

1. Integrity, dedication, and opportunity to spare time in the functions of committee will have to be considered while nominating a director to the committee;
2. Each member should be capable of making valuable and effective contributions in the functioning of the committee;
3. To perform his or her role effectively each committee member should have adequate understanding of the detailed responsibilities of the committee membership as well as the bank's business, operations and its risks.

c) Roles and Responsibilities of the Risk Management Committee:

i) Risk identification & control policy :

Formulation and implementation of appropriate strategies for risk assessment and its control is the responsibility of Risk Management Committee. Risk Management Committee will monitor risk management policies & methods and amend it if necessary. The committee will review the risk management process to ensure effective prevention and control measures.

ii) Construction of organizational structure:

The responsibility of Risk Management Committee is to ensure an adequate organizational structure for managing risk within the bank. The Risk Management Committee will supervise formation of separate management level committees and monitor their activities for the compliance of instructions of lending risk, foreign exchange transaction risk, internal control & compliance risk, money laundering risk, information & communication risk including other risk related guidelines.

iii) Analysis and approval of Risk Management policy:

Risk management policies & guidelines of the bank should be reviewed annually by the committee. The committee will propose amendments if necessary and send it to the Board of Directors for their approval. Besides, other limits including lending limit should be reviewed at least once annually and should be amended, if necessary.

iv) Storage of data & Reporting system:

Adequate record keeping & reporting system developed by the bank management will be approved by the risk management committee. The committee will ensure proper use of the system. The committee will minute its proposal, suggestions & summary in a specific format & inform the Board of Directors.

v) Monitoring the implementation of overall Risk Management Policy:

Risk Management Committee will monitor proper implementation of overall risk management policies. They will monitor whether proper steps have been taken to mitigate all risks including lending risk, market risk, and management risk.

vi) Other responsibilities:

1. Committee's decision and suggestions should be submitted to the Board of Directors quarterly in short form.
2. Comply instructions issued time to time by the controlling body.
3. Internal & external auditor will submit respective evaluation report whenever required by the committee.

d) Meetings:

1. The risk management committee should hold at least 4 meetings in a year and it can sit any time as it may deems fit;
2. The committee may invite Chief Executive Officer, Chief Risk Officer and any other Officer to its meetings, if it deems necessary;
3. To ensure active participation and contribution by the members, a detailed memorandum should be distributed to committee members well in advance before each meeting;
4. All decisions/observations of the committee should be noted in minutes.

e) Training for the Directors:

The directors shall make themselves fully aware of the banking laws and other related rules and regulations for performing his duties properly.

APPOINTMENT AND RESPONSIBILITIES OF CHIEF EXECUTIVE OFFICER[36]

The issue of good governance is very important in bank management. In order to strengthen the financial base of the bank and obtain confidence of the depositors, appointing honest, efficient, experienced and suitable chief executive is one of the responsibilities of the Board of Directors. In order to ensure good governance, bank should follow the guidelines enumerated below while appointing the CEO and in devising the role-responsibilities and authorities of the CEO:

- **Rules and regulations for appointing CEO:-**

1. **Moral Integrity**: In case of appointment to the post of Chief Executive, satisfaction in respect of the concerned person should be ensured to the effects that:

i. He has not been convicted by any Criminal Court of Law;

ii. He has not been punished for violating any rules, regulations or procedures/norms set by any Controlling Authority;

iii. He was not associated with any such company/organization, registration or licence of which has been cancelled.

[36] BRPD Circular Letter No-18 dated October 27, 2013

2. Experience and Suitability:

i. For appointment as chief executive, the concerned person must have experience in banking profession for at least 15 (fifteen) years as an active officer and at least 02 (two) years experience in a post immediate below the chief executive of a bank.

ii. He must at least have a Masters degree from any recognized university. Higher academic education in the field of Economics, Banking and Finance or Business Administration will be treated as additional qualification for the concerned person.

iii. In respect of service, the concerned person should have excellent record of performance.

iv. Satisfaction should be ensured that the concerned person was not dismissed from service when he was chairman/director/official of any company;

v. Any director of any bank or financial institution or any person who has business interest in the bank concerned will not be eligible for appointment to the post of chief executive.

3. Transparency and Financial Integrity: Before appointment as chief executive, satisfaction should be ensured to the effects that:

i. The concerned person was not involved in any illegal activity while performing duties in his own or banking profession;

ii. He has not suspended payment to creditors or has not compromised with his creditors to be relieved from debt or he is not a loan defaulter;

iii. He is not a tax defaulter;

iv. He has never been adjudicated an insolvent.

4. Age limit: No person crossing the age of 65 years shall hold the post of CEO of a bank.

5. Tenure: The tenure of the chief executive shall be for at least 03 (three) years, which is renewable. If the candidate has less than 3 years left to attain 65 years, he/she can be appointed for that period.

6. Guidelines in fixing the salary and allowances: Banks are required to follow the guidelines stated below while determining the salary and allowances of the CEO and submitting such proposal to Bangladesh Bank:-

i. In fixing the salary and allowances of the chief executive, financial condition, scope of operation, business-volume and earning capacity of the bank; qualifications, achievement of the candidate in the past, age and experience and the remuneration paid to the persons occupying same position in the peer banks shall have to be taken into consideration.

ii. Total salary shall be comprised of direct salary covering 'Basic Pay' and 'House Rent' and allowances as 'Others'. The allowances (e.g., provident fund, utility bill, leave-fare assistance) in 'Others' head should be specified in amount/ceiling. Besides, other facilities (e.g., car, fuel, driver etc.), as far as possible, shall have to be monetized and thus determining monthly total salary, it shall have to be mentioned in the proposal to be submitted to Bangladesh Bank. In the proposal, Basic Pay, House Rent, Festival Allowance, other allowances and other facilities shall have to be specified in Taka amount.

iii. Without improving the bank's major economic indicator like- CAMELS annual salary increment will not be payable.

iv. Terms of salary-allowances and other facilities as specified in the terms and conditions of appointment cannot be changed during the tenure. In case of renewal, proposal may be made for re-fixation of the salary considering the job performance of the incumbent chief executive.

v. The Chief Executive so appointed shall not get any other direct or indirect facilities (e.g., dividend, commission, club expense, etc.) other than the salary-allowances and other facilities as enumerated in clause (b) above.

vi. The bank shall not pay any income tax for the chief executive, i.e., the chief executive so appointed shall have to pay it.

7. Incentive Bonus: Subject to the payment of incentive bonuses to all stuffs/employees, the CEO will be eligible to get such bonus. However, the amount of CEO's incentive bonus will not cross Taka 10.00 (ten) lacs per year.

8. Honorarium for Board Meeting: As CEO is a salaried official of the bank, he will not get any honorarium for attending the Board meeting or the meeting of any Committee formed by the Board.

9. Evaluation Report: While reappointing CEO, an evaluation report approved by the board of directors should be submitted to Bangladesh Bank by the chairman of the Board.

10. Prior approval from Bangladesh Bank: Prior approval from Bangladesh Bank is mandatory before appointing CEO as per section 15(4) & (5) of Bank Company Act 1991 (Amended upto 2013). For processing such approval, along with the proposal signed by the chairman of the board, the selected person's complete resume, offer letter (mentioning the direct & indirect remuneration and facilities) and copy of board's approval must be submitted to Bangladesh Bank. The selected person must also submit declarations as per Appendix-Ka & Appendix-Kha to Bangladesh Bank.

11. Decision of Bangladesh Bank regarding appointment of CEO will be treated as final and such appointed CEO cannot be dismissed, released and removed from his office without prior approval from Bangladesh Bank.

- **Duties and Responsibilities of CEO:**

The CEO of the bank, whatever name called, shall discharge the responsibilities and affect the authorities as follows:

i. In terms of the financial, business and administrative authorities vested upon him by the board, the CEO shall discharge his own responsibilities. He shall remain accountable for achievement of financial and other business targets by means of business plan, efficient implementation thereof and prudent administrative and financial management.

ii. The CEO shall ensure compliance of the Banking Companies Act, 1991 and other relevant laws and regulations in discharging routine functions of the bank.

iii. At the time of presenting any memorandum in the Board Meeting or Board Committee Meeting, the CEO must point out if there is any deviation from Banking Companies Act, 1991 and other relevant laws and regulations.

iv. The CEO shall report to Bangladesh Bank any violation of the Banking Companies Act, 1991 or of other laws/regulations.

v. The recruitment and promotion of all staff of the bank except those in the two tiers below him shall rest on the CEO. He shall act in such cases in accordance with the approved service rules on the basis of the human resources policy and sanctioned strength of employees as approved by the board.

vi. The authority relating to transfer of and disciplinary measures against the staff, except those at two tiers below the CEO, shall rest on him, which he shall apply in accordance with the approved service rules. Besides, under the purview of the human resources policy as approved by the board, he shall nominate officers for training etc.

APPOINTMENT OF ADVISOR AND CONSULTANT[37]

Sometimes banks need to appoint advisor and consultant on contractual basis in addition to the permanent posts in the organisation structure for performing any special or specific task. It is desirable to conduct such contractual appointments under specific guidelines. Therefore, banks are instructed to follow the guidelines stated below while appointing advisor/consultant:

A) Appointment of Advisor:

1. Experience and Suitability: For appointment as advisor, the concerned person will have to fulfil 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.

2. 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.

3. 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 per Appendix-Ka. This declaration must be also submitted to Bangladesh Bank.

4. Remuneration and other facilities: The post of advisor is not a fixed or substantive post in the bank's organisation structure. Advisor will not be entitled to salaries and allowances as regular employee except gross amount of remuneration, transport and telephone facilities.

[37] BRPD Circular Letter No.19 dated October 27, 2013

Remunerations inconsistent with terms of reference of the advisor will not be considered as acceptable by Bangladesh Bank.

5. 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.

6. Appointment of Ex-officials: For good governance any former director, chief executive or any official will not be eligible to become an advisor in the same bank immediately after their retirement or resignation. But, after 1 year from such retirement or resignation he/she will be eligible for appointment as advisor.

B) Appointment of Consultant:-

1. Terms of Reference: Consultant can be appointed for specialised 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.

2. 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 can not exercise any kind of power in bank operation or can not participate in the decision making process.

3. 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.

4. 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.

5. 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.

6. Appointment of Ex-officials: For ensuring good governance any former director, chief executive or any official will not be eligible to become a consultant in the same bank immediately after their retirement or resignation. But, after 1 year from such retirement or resignation he/she will be eligible for appointment as consultant.

RESTRICTION ON LENDING TO DIRECTORS OF PRIVATE BANKS

The following instructions on the above subject have been issued rescinding the previous one in this regard with the authority vested under Section 45 of the Banking Companies Act, 1991 in public interest and for the interest of the depositors with immediate effect: -

1. Any loan facility or guarantee or security provided to a Director of a bank or to his relatives must be sanctioned by the Board of Directors of the bank and has to be specifically mentioned in the Balance sheet of the bank. However the total amount of the loan facilities extendable to a Director or to his relatives should not exceed 50% of the paid-up value of the shares of that bank held in Director's own name.

2. If the total amount of loan facilities already extended to a Director or to his relatives exceeds 50% of the paid-up value of the shares of the bank held in Director's own name, the amount in excess should be repaid within the time approved by Bangladesh Bank. Under no circumstances, renewal or extension of time of the loan facilities in excess of that 50% can be made.

3. No such loan wherein the borrower is exempted fully or partially from bearing the loss including Mudaraba or Musharaka systems of loan can be extended to any Director or any relatives of him.

4. Subject to compliance of the conditions mentioned in paragraph No.1 above, loan facilities in excess of Tk.10 lacs for funded loan and Tk.50 lacs (funded and non-funded) in favor of any Director or his relatives or proprietorship or partnership firms and private or public limited companies wherein those persons have interests, can be extended subject to obtaining no-objection from Bangladesh Bank.

5. If any Director of a bank without being apparently involved in any industrial /commercial organization, conducts or directs accounts thereof or otherwise has control thereupon or extends collateral security or guarantee against any loans thereof, he will be treated to have interest in that organization/loan account.

6. Bank loan of any public limited company will be treated as liability of a Director of the bank in proportion of the amount (percentage) of shares of that company held by him.

7. If any Director extends guarantee against any loan for any specific amount, his liability will remain limited up to that specific amount.

8. In case of extending loan facilities in favor of the organization wherein the Director has interest, all kinds of legal formalities have to be properly executed as per norms.
9. Respective rules and regulations of the Banking Companies Act, 1991 regarding loan facilities in general and other instructions of Bangladesh Bank should be followed as usual.

10. For the purpose of extending loan facilities, the explanation as given under Sub-section 27(2) of Banking Companies Act, 1991 will be applicable to define the term `Director', i.e., it will include his/her spouse, father, mother, son, daughter, brother, sister and all his dependants.

11. If any loans availed in the names of the Directors or organizations wherein they have interests, turn to defaulted ones, legal action has to be initiated instantly and inter alia the Directors have to be served with the notice under Section 17 of the Banking Companies Act, 1991.

12. The quarterly statement of liabilities of the Directors and Ex-Directors of the bank as defined in the latest amendment of the Banking Companies Act, 1991, will have to be submitted to Bangladesh Bank in the format as enclosed with the BRPD Circular Letter No. 8 dated 19 June, 1997.

13. Any change/cancellation/return of security, collateral security, guarantee etc, provided against the loan of any Director or Ex-Director of a bank will require prior permission from Bangladesh Bank.

14. Any change of the conditions of any loans of any Director or Ex-Director of a bank will require prior permission from Bangladesh Bank. Copies of sanction-letters of all loans of the Director or Ex-Director have to be submitted to Bangladesh Bank. Copies of the sanction-letters of existing loans have to be submitted within September 30, 1999 to Banking Regulation and policy Department. In future, copies of the sanction-letters will have to be submitted to the said Department within 1(one) week from the date of sanction of the loan with the no-objection from Bangladesh Bank but before the disbursement of the loan.

15. The above rule will also be applicable in case of those loans extended in favor of any organizations wherein any Director/ex-Director of the bank has interest or he/she was once proprietor, partner, director or guarantor thereof; i.e., any change of the security, collateral security, guarantee provided against the loans of those organizations or of the conditions of sanction will require prior permission from Bangladesh Bank. Copies of sanction-letters of such loan-accounts will have to be submitted to Banking Regulation and policy Department within October 15, 1999.

16. No remission facilities (including A/C blocking) to any loan accounts wherein bank's Director or Ex-Director has interest can be allowed without prior permission from Bangladesh Bank. However, in case of the Ex-Directors who are at present not holding any share of the bank including the Govt.-nominated Directors, the issue of waiver of interest on loans availed before they were Directors of the bank or after they ceased to be the Directors, with the permission of the Board of Directors of the bank will not require prior permission from Bangladesh Bank.

17. If re-scheduling is required in case of loans extended before the issuance of BRPD Circular No. 07 dated 5, August 1999 in favor of Director or any organization wherein he has interest, time of repayment in case of term loan can be extended for maximum 03(three) years and in case of working capital latest up to 31st December, 2001. The proposal of rescheduling has to be approved by the Board of Directors of the bank and will come into effect after obtaining no-objection from Bangladesh Bank. If the history of past repayment of loan accounts of the Director or wherein they have interests, is good and at the same time repayment is not being possible for reasons beyond control and temporary inconvenience, only those accounts will be considered for rescheduling as per above procedure.

INTEREST RATES ON DEPOSIT AND LENDING

Banks in general are free to charge/fix their deposit and lending rate. However, the maximum rate of interest rate on pre-shipment export credit is 7%[38] and the maximum rate of interest on agriculture loan is 13%[39]. Banks are advised to limit the difference between lending rate and weighted average rate of interest on deposit or intermediation spread within lower single digit in different sectors other than high risk consumer credit (including credit card) and SME loans[40].

The key features of interest rate on deposit and lending are as follows:

- Banks must submit returns on rate of interest on deposit and lending to Bangladesh Bank within 7 days of the respective month.
- Banks are allowed to change their deposit and lending interest rate only once in a month and that has to be uploaded on their respective websites along with informing Bangladesh Bank.[41]
- In case of Fixed Term Loan and Continuous Loan, interest will be calculated on the basis of the product of the day end balance but interest must be charged on quarterly basis.
- Banks are allowed to charge penal interest.
- The loan accounts under the Prudential Guidelines for Consumer Financing and Small Enterprise Financing will be repaid according to Equal Monthly Installment (EMI) method.
- Banks have been advised not to pay/charge any interest beyond their announced rate of interest on deposit and lending as per existing interest rate policy.
- No additional charges shall be collected along with the rate of interest/profit on loans other than the announced Schedule of Charges.
- Banks are allowed to differentiate interest rate up to a maximum of 3% considering comparative risk elements involved among borrowers in same lending category. With progressive deregulation of interest rates, banks have been advised to announce the mid-rate of the limit (if any) for different sectors and they may change interest 1.5% more or less than the announced mid-rate on the basis of the comparative credit risk.
- In cases where the maximum interest rate has been fixed by Bangladesh Bank, Banks shall report their own maximum cap. Banks have also been advised to upload their deposit and lending interest rate on their respective website and display the same in all of their head offices and branches where it can be easily visible.

[38] BRPD Circular No. 01 dated January 10, 2004
[39] BRPD Circular No. 04 dated April 19, 2009
[40] BRPD Circular Letter No. 01 dated January 22, 2012
[41] BRPD Circular Letter No. 02 dated February 29, 2012

OPERATION OF SPECIAL NOTICE DEPOSIT (SND) ACCOUNT

Banks have been advised to comply with the following rules with a view to removing ambiguity and ensuring uniformity in the operation of (SND) account[42]:

1. All the accounts like Short Term Deposit/SND/Call Accounts shall only be termed as Special Notice Deposit (SND) account.
2. Minimum 7 days prior notice from the depositor will be required to withdraw money from the SND account.
3. Cheque book must be issued against this account to facilitate direct withdrawal.
4. Interest on the SND account will be calculated on the day end balance and accumulated interest will be credited to the same account on a half yearly basis/at the time of closing the account.
5. As this account doesn't have any fixed term, rate of interest may only vary for different amount/range of deposits. However, banks shall not differentiate rate of interest among the customers belong to same range.
6. No minimum balance fee/ incidental charge/ ledger fee/ service charge can be imposed on this account. Only account maintenance fee and account closing charge at the time of closing the account can be imposed. No charge above Taka Five Hundred as account maintenance fee on six monthly basis and no charge above Taka three hundred as account closing charge at the time of closing the account can be imposed.
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.
8. No rate of interest beyond published/announced rate can be offered.
9. Banks shall upload published/offered rate of interests on their respective websites and must submit the returns in the revised BR-15 format on a monthly basis within 7 days of the respective month.

BANK 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 circular incorporating necessary instructions for rationalization of different service charges received by banks. Banks have also 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[43].

[42] BRPD Circular No. 20 dated May 16, 2010
[43] BRPD Circular No. 19 dated December 21, 2009

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 Five Thousand (BDT 5,000/-). It has also been decided that Taka One Hundred (BDT. 100/-) at maximum may be imposed as account maintenance fee on six monthly basis for average deposit balance up to Taka Twenty Five Thousand (BDT 25,000/-)[44]. Taka Three Hundred (BDT. 300/-) at maximum may be imposed as account maintenance fee on six monthly basis for average deposit balance above Taka Twenty Five Thousand (BDT 25,000/-)[45].

No additional service charge can be imposed on any type of loans including Export Credit since interest and service charge are included in the Rate of Interest on loans[46].

GUIDELINES ON MANAGING CORE RISKS IN BANKING

Due to deregulation and globalization of banking business, banks are now exposed to diversified and complex risks. As a result, effective management of such risks has been core aspects of establishing good governance in banking business in order to ensure sustainable performance. In recognition of the importance of an effective risk management system, Guidelines on Managing Core Risks in banking has been issued in 2003 and the five core risks that have been advised to manage in these guidelines are: a) Credit Risks, b) Asset and Liability/Balance Sheet Risks, c) Foreign Exchange Risks, d) Internal Control and Compliance Risks and e) Money Laundering Risks[47]. A document (interpretation to measure risks using Gap Analysis) has been issued for the banks which may help banks to measure and manage their Liquidity Risk, Interest Risk and Foreign exchange risk and minimize their losses.

Guidelines on Information & Communication Technology for Scheduled Banks has been introduced to manage another core risk for the banks to take adequate measures to prevent the information from unauthorized access, modification, disclosure and destruction so that customers' interest is fully protected[48]. This guideline has recently been updated and renamed as Guideline on ICT Security for Banks and Financial Institutions, 2010[49].

With a view to managing various risks in a prudent manner, scheduled banks are instructed to follow the Risk Management Guidelines for Banks[50]. The document should be treated as supplement to, and not a substitute for, existing core risks guidelines, i.e., Risk Based Capital Adequacy, Stress Testing and Managing banking risks in six core areas.

[44] BRPD Circular No. 19 dated May 13, 2010
[45] BRPD Circular No. 19 dated December 21, 2009
[46] BRPD Circular No. 19 dated May 13, 2010
[47] BRPD Circular No. 17 dated October 07, 2003
[48] BRPD Circular No. 14 dated October 23, 2005
[49] BRPD Circular No. 21 dated May 20, 2010
[50] DOS Circular No. 02 dated Feb 15, 2012

CREDIT RATING[51]

It is mandatory for the banks to have themselves credit rated to raise capital from capital market through IPO. To protect the interest of the prospective investors, depositors and creditors and also the bank management as a whole for their overall performances in each relevant areas including core risks of the bank, it is also mandatory for all banks to have themselves credit rated by a Credit Rating Agency[52]. Banks had been advised to take necessary measures from that time so that they could have their credit ratings in all relevant areas as well as the bank management.

IMPLEMENTATION OF CREDIT RISK GRADING MANUAL

With the aim to fully implement a Risk Grading System, an Integrated Credit Risk Grading Manual has been developed and forwarded to the banks. Banks were advised to implement Credit Risk Grading (as described in the manual) by March 31, 2006 for all exposures (irrespective of amount) other than those covered under Consumer and Small Enterprises financing Prudential Guidelines and also under The Short-Term Agricultural and Micro-Credit. Banks were also advised to submit a compliance report by April 15, 2006 to the effect that the Credit Risk Grading has been put in place. Risk Grading Matrix provided in the Manual is the minimum standard of risk rating and banks may adopt and adapt more sophisticated risk grades in line with the size and complexity of their business. Bangladesh Bank monitors the progress of implementation of the manual/guideline through its on-site inspection teams during routine inspection.

Banks have been advised to adopt the credit risk grading system outlined in the other two separate manuals (Credit Risk Grading Manual-Bank, Credit Risk Grading Manual-NBFI) for assessing credit risk in case of taking exposure on another Bank/NBFI.

Banks have been advised to continue their regular monitoring to ensure the proper utilization of the loan/investment as stipulated in the loan application.

PRUDENTIAL GUIDELINES FOR CONSUMER FINANCING AND SMALL ENTERPRISE FINANCING

Prudential Guidelines on Consumer Financing and Small Enterprise Financing has been issued by Bangladesh Bank containing the minimum set of regulations[53]. Due to significant increase in credit disbursement in the arena of Consumer Financing and encouraging credit flow in the Small Enterprise Financing sector in the recent time, two separate guidelines have been issued to the banks for better management of credit in those two sectors where-in loans will have to be

[51] BRPD Circular Letter No. 05 dated May 29, 2004
[52] BRPD Circular Letter No. 06 dated July 05, 2006
[53] BRPD Circular No. 07 dated November 03, 2004

classified into 8(eight) categories (in light of Credit Risk Grading Manual). Bangladesh Bank monitors the progress of implementation of these Regulations/Guidelines through its on-site inspection teams through routine inspection.

PRUDENTIAL REGULATIONS FOR CONSUMER FINANCING

With a view to achieving targeted economic growth through increasing credit flow to productive sector by reducing credit flow from consumer credit, it has been decided that growth of consumer credit must not exceed the average growth of total credit of the bank.[54]

PROHIBITION ON BANK LOAN FOR PURCHASING LAND

The value of land has been increasing abnormally due to increasing trend of purchasing and demands for land. There has been a negative impact over the economy because of increasing flow of credit from banks to such unproductive sector. In this context, it has now been decided that banks shall not provide any loan/credit facility for purchasing land[55].

All the scheduled banks are instructed to refrain from disbursing any loan to private housing projects which are not approved by statutory government organizations. This instruction aims at stopping the ongoing practice of disbursing bank loans for unapproved private housing projects which poses high credit risk as well as environmental risk. Banks are to comply with conditions specified in the `Private Housing Project Land Development Rule, 2004' while disbursing loans for land development project. It is also suggested that banks should arrange field visits for the confirmation that loan proceeds are being used for the cited projects only. The circular notified that banks can allocate money to any individual, government, semi-government and private projects that are approved by City Corporation on the basis of sections 35, 36 of the Local Government (City Corporation) Act, 2009[56].

Banks are also required to comply with the related acts, rules and codes and take approval of proper authorities before financing any residential or commercial building, establishment or construction or land development and building, apartment or floor space purchase[57].

[54] BRPD Circular No. 05 dated April 25, 2012
[55] BRPD Circular No. 16 dated April 27, 2010
[56] BRPD Circular No. 02 dated April 17, 2013
[57] BRPD Circular Letter No. 08 dated April 28, 2013

ACCEPTANCE AND PURCHASE OF INLAND BILL[58]

The banks are required to obtain prior approval from their respective head offices instead of taking branch-level decision on inland bill purchase (IBP) in both foreign and local currencies. The banks are allowed to issue bills of acceptance against local letters of credit (LCs) or make payment for purchase of goods under the conditions that the concerned banks ensure that such purchases are actual, not fake.

GUIDELINES ON ISLAMIC BANKING

In view of some basic differences in Shariah based Islamic Banking and interest based banking BB has introduced guidelines on Islamic Banking to bring greater transparency and accountability and therefore governance to the Islamic Banking[59].

MAINTAINING ADEQUATE SECURITY OF LOCKERS

Bangladesh Bank has issued detail guidelines on maintaining adequate security of lockers. Accordingly, Banks are now to observe the minimum safety and security measures at branches/places where safe deposit lockers facilities are offered to general public so that the security procedures are well documented and the concerned staff/officers are well trained about the procedures. Banks are also to carry out proper due diligence process on the security agencies, as well as guards posted at their branches. Besides, corporate group insurance as per categories and sizes of lockers are to be maintained by the banks so that in case of any loss arising due to breakage/damage to the lockers could be paid to the locker holders[60].

DISCLOSURE REQUIREMENTS FOR BANKS

The forms of financial statements of banks and directives for preparation thereof have been amended in line with International Accounting Standards with a view to providing the investors, depositors and stakeholders with transparent and adequate idea about the bank[61].

[58] BRPD Circular No. 13 dated September 09, 2012
[59] BRPD Circular No. 15 dated November 11, 2009
[60] BRPD Circular No. 02 dated January 31, 2008
[61] BRPD Circular No. 14 dated June 25, 2003

MAINTENANCE OF DEFFERED TAX ACCOUNTS[62]

Asset and Liabilities in the financial statements banks are instructed to follow the rules as mentioned below:

1. Deferred Tax Asset may be recognized complying with the Bangladesh Accounting Standards (BAS) on the expenses for which, according to the income tax law, a future tax benefit will be received. However, a description on Deferred Tax Asset should be provided in "Notes to the Accounts" section of the Financial Statements (i.e. basis and method of calculation, amount, expected time of adjustment etc.);
2. Deferred Tax Liabilities must be recognized for those items which are mentioned to recognize in Bangladesh Accounting Standards;
3. Following instructions are to be followed if Deferred Tax Asset is calculated and recognized based on the provisions against classified loan, advances or investments (in case of banks operating under Islamic Shariah):

a) Amount of the net income after tax increased due to recognition of deferred tax asset on such provisions will not be distributed as dividend;

b) The amount of deferred tax asset recognized on such provisions should be deducted while calculating the Regulatory Eligible Capital of the Statement of Capital Adequacy Requirement of Annual Financial Report and Statement submitted to Bangladesh Bank;

c) A description should be provided regarding deferred tax asset recognized on loan loss provisions in the Notes to the financial Statement section of the Financial Statements (i.e. amount, method of calculation, year of origin, amount recognized and realized in current year etc.).

PURCHASES OF FIXED ASSETS AND ACQUISITION OF IMMOVABLE PROPERTIES BY BANKS

Banks are restricted to purchase floor space/land/building or lease for a period greater than 10 years only for its Head office purpose. Purchasing of floor space for branch purpose is permissible within the territory of City Corporation only[63].

Banks cannot 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 are also instructed to increase their paid up capital proportionately and not to acquire any more fixed assets till reaching the mark[64].

[62] BRPD Circular No. 11 dated December 12, 2011
[63] BRPD Circular Letter No. 09 dated July 30, 2012
[64] BRPD Circular Letter No. 14 dated August 12, 2013

AVOIDANCE OF HIGH EXPENSE FOR LUXURIOUS VEHICLES AND DECORATION[65]

The banks will be able to purchase motor vehicles (sedan car) costing up to Tk 50 Lac, while Jeep (sports utility vehicle) up to Tk 1 Crore. However, bank companies can purchase security vehicles or similar ones used by security agencies for carrying remittances. Banks cannot purchase vehicles through lease financing from other bank companies and financial institutions. There should not be any inconsistency between the motor vehicles, purchased from the accounts of the bank company, and the number of officials and the expansion of offices and branches. The annual growth of such expenditure should be limited to 10 per cent. Banks' chairmen and chief executives will be able to replace their motor vehicles and other vehicles after minimum five years. Details on the purchase and use of vehicles for banks should be placed to the half-yearly meetings of boards of directors and at every annual general meeting for review and scrutiny.

The limit for acquisition of office space has been set to maximum 5000 square feet (sft) for urban-based new branches and expansion. For rural areas, space should not exceed 2000 square feet. For new branches, banks can spend maximum Tk 1500 per sft for purchase of equipment, except IT, including vault, interior decoration, office furniture, electric and electronic goods. However, the limit of cost for relocation of existing branches has been set at Tk 1000 per sft. Expenditure on purchase of IT equipment should be kept at a reasonable level. For purchase of furniture and other equipment, banks will have to focus on durability, and qualitative standard.

ESTABLISHMENT OF BUSINESS CENTERS BY BANKS[66]

In order to provide banking services to the under privileged people in 'unbanked' area the ratio of urban and rural branches will be 1 : 1. Branches opened or to be opened in City Corporation and all types of Municipalities will be treated as urban branches and outside of those area treated as rural branches. In case new Municipalities are declared/ existing areas are extended, then branches opened in those areas will be treated as urban branches[67].

Scheduled Banks are required to submit annual branch expansion plan by November. Based on overall performance, Banks are allotted a certain number of branches for the following year. Collection of license and commencement of branches must be completed within that aforementioned year. Note worthily, branches within city corporation/metropolitan/pourasava are treated as urban branches. Licenses are also provided for SME/Agro branches. Location wise, these SME/Agro branches need to be outside divisional cities and must invest 50% of its fund in agriculture/SME.

[65] BRPD Circular Letter No. 02 dated January 16 , 2014
[66] BRPD Circular No. 18 dated November 29, 2012
[67] BRPD Circular Letter No. 13 dated December 22, 2011

Permission must be taken for renting/leasing establishments as well as their renewals. Prior approval is also required for shifting/closure of branches, establishment of collection/electronic booths or any kind of business development centers. Advance payment for renting any such establishment is restricted to a maximum 36 months of rent.

Lavish expenditure for civil works/internal decoration/furniture and fixtures for all the above-mentioned rental and purchasing instances is highly discouraged.

PRECAUTIONARY MEASURES TO ENSURE SAFETY OF THE BANK-VAULTS[68]

Banks have to set up security-tested doors for the vault's room and take certificate from civil engineers on the strengthening of the vault room's roof and floor. The banks will have to set up close circuit camera and maintain alarming system in the banks' vault room. The banks will require creating a connecting system between vault security system and central information system of the banks. The banks will have to set up automated fire extinguisher system in the vaults' room. The banks also have to take insurance cover of their vaults' money.

GUIDELINES FOR BANKING SERVICES AT CUSTOMER PREMISES[69]

For the sake of transparency in respect of the rights and obligations of customers, uniformity in approaches and putting proper risk management tools in place, it is felt that some general principles and broad parameters should be followed by banks while offering banking services at customer premises. Banks, therefore, are advised to prepare schemes for offering these services to their customers, in accordance with the guidelines stated hereinafter:

1. <u>Services:</u> Banks can offer the following services to their following class of customers at their premises by executing contract with them :

a) <u>Corporate, Government and Public Sector Customers:</u>
I. Pickup of cash and instruments;
II. Delivery of cash against cheques received at the bank counter;
III. Delivery of instruments.
b) <u>Individual Customers:</u>
I. Pickup of cash and instruments;
II. Delivery of instruments.

2. **<u>Service Providors:</u>** In addition to its' own employees, banks may provide pickup and delivery services through Agents at customer premises. Where banks engage agents for delivery of

[68] BRPD Circular Letter No. 03 dated June 27, 2014
[69] BRPD Circular No. 10 dated November 30, 2011

services, it should be ensured that all key risks in outsourcing like Operational Risk, Contractual Risk, Legal Risk, Compliance Risk, Reputation Risk, etc. are properly addressed.

3. **Service Process:** As a general rule, pickup and delivery process shall be:

a) serviced during regular banking hours and days only;

b) made using armoured cars, non-armoured cars can also be used provided these are equipped with dual control safe and supported with adequate security back-up;

c) Strictest measure of safeguards, control and confidentiality shall be adopted in providing the services;

d) Record/log book for each vehicle containing pick-up and delivery activities shall be maintained by the bank signed by a responsible officer of the bank;

e) Cash/instrument collection from the customer shall be duly acknowledged through a receipt on behalf of the bank;

f) In case of cash collection, customer's account shall be credited on the same day; if the collected cash reaches at bank counter after banking hours, it shall be credited within the first business hour of next working day;

g) Delivery of demand drafts/pay orders shall be done by debit to the account on the basis of cheque received or against cash received at the bank and not against cash or instruments to be collected at the customer premises.

h) Cash delivery services may be offered to the Corporate Clients, Government Departments or Public Sector Enterprises against receipt of cheques only at the bank. No such facility, however, shall be made available to individual customers except, through special agricultural credit disbursement programs. No cash delivery service against any kind of telephonic, electronic or faxed request can be made except in case of mobile banking or any such online banking solutions;

i) To reduce the risk in the cash pickup and delivery services must be adequately covered by insurance.

4. **Liability for the Services:** The agreement entered into with the customer shall clearly state that the services do not entail any legal or financial liability on the bank for failure to offer pick-up and delivery services under circumstances beyond its control. The services are a mere extension of banking services offered at the bank branch and the liability of the bank shall be the same as if the transactions were conducted at the bank branch.

5. **Transparency:** Charges to be imposed on the customer for pickup and delivery services shall be clearly stated in the agreement entered into with the customer. The charges should be prominently indicated on brochures offering pickup and delivery services and must be disclosed on bank's web-sites as laid down in BRPD Circular 19/2009, dated 22/12/2009.

6. **Other Conditions:** Pickup and delivery services shall be offered to only those customers in

whose case proper KYC procedures, as laid down in Circular/Direction/Guideline of Anti-Money Laundering Department. In addition :

a) The services shall be offered at either the residence or office/factory of the customer, the address of which should be clearly and explicitly mentioned in the agreement;

b) The agreement with the customer shall clearly specify that the bank will be responsible for the acts of omission and commission of its 'agent';

c) The bank shall avoid discrimination, so far as possible, providing these services and in collecting service charge from any particular client/customer within a class of customers;

d) The bank may coordinate the movements of the pickup and delivery vehicles with the law enforcing agencies to the extent possible;

e) The bank has to prepare a separate guideline enumerating the selection of clients, service charges, employing agent, qualification and experience of agent, limit of cash pickup and delivery etc. duly approved by Board of directors (competent authority in case of foreign banks) of the bank;

f) The bank shall not establish booth/counter for providing the services at the customer premises.

7. **Redressing Grievance:** Banks are advised to constitute an appropriate Grievance Redressing Mechanism for attending complaints about services rendered by its 'agents'. The name and telephone number of the designated officer of the bank should be made available to the customers.

Prior approval of Bangladesh Bank is not required before banks can engage in pickup and delivery services at customers' premises, provided the conditions mentioned above are complied with.

DURATION OF MATERNITY LEAVE FOR FEMALE BANK EMPLOYEES[70]

Banks are instructed to set the duration of maternity leave for any female bank employee 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.

AGE LIMIT FOR BANK-JOB APPLICANTS[71]

To keep the banks abreast of the governmental practice of limiting the fresh applicants' age at 30, 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.

[70] BRPD Circular Letter No. 01 dated March 28, 2013
[71] BRPD Circular No. 08 dated June 23, 2013

BANK DEPOSIT INSURANCE SCHEME

The Bank Deposit insurance Act, 2000 established the rules governing the role of insurer, the level of coverage provided and the laws governing the payments in event of a bank failure. Under the law deposits of all scheduled banks are insured up to BDT 100,000 per depositor. The Act is as under:-

01. Short title. - This Act may be called the Bank Deposit Insurance Act 2000.

02. Definitions. - In this Act, unless there is anything repugnant in the subject or context -
'Deposit' means in case of any scheduled bank, the summation of unpaid residue of its depositors' accounts;
'Trustee Board' means the Trustee Board of the fund as mentioned under Section 8 hereof;
'Scheduled Bank' means the Scheduled Bank as defined under Article 2(j) of the Bangladesh Bank Order, 1972 (P.O.No.127 of 1972);
'Fund' means the Trust Fund as preserved under Section 3 hereof;
'Auditor' means chartered accountant as defined under Article 2(1)(b) of the Chartered Accountants Order, 1973 (P.O.No.2 of 1973);
'Premium' means premium payable by the insured bank as specified under Section 5 hereof;
'Bangladesh Bank' means Bangladesh Bank established under Bangladesh Bank Order, 1972(P.O.No.127 of 1972);
'Insurance' means deposit insurance;
'Insured Bank' means bank insured under this Act.

03. Deposit Insurance Trust Fund.-

(1) Bangladesh Bank shall maintain a Fund in the name of Deposit Insurance Trust Fund and monies of the Fund can be invested by Bangladesh Bank in any approved sector.

(2) The following monies will be deposited in the Fund namely: -

Money received from insured bank;
(a) Return on investment of monies of the Fund;
Money received from the bank liquidated under Section 7 hereof;
(b) Income received from other sources.

(3) The Fund shall not be spent for any purposes other than for repayment of dues of the depositors of the bank liquidated under the provision of Section 7 hereof and for the cost of maintenance of the Fund;

(4) Nothing of Income Tax Ordinance 1984 (XXXVI of 1984) shall apply to the income of the Fund.

04. Insured Bank. - Notwithstanding anything contained in any other law for the time being in force,

(a) All scheduled banks existing on the date of enforcement of this Act shall be deemed to have been insured with the Fund from the same date; and

(b) All scheduled banks to be established after enforcement of this Act, shall be insured with the Fund.

05. Premium of the Insured Bank. –

(1) Each insured bank shall pay the premium to the Fund @ 0.07% per annum on such portion of its deposit as may be determined by Bangladesh Bank from time to time.

But provided that, Bangladesh Bank, with the prior approval (previous sanction) of the Government, shall have the power to increase or decrease the rate or premium.

(2) Insured bank shall pay its premium from its expenditure account.

(3) Premium shall have to be paid at such time and mode as specified by Bangladesh Bank.

(4) If any insured bank fails to pay its premium, Bangladesh Bank shall have the power to direct as to the deposit of such premium to the Fund by debiting the amount equal to that of the premium from the account of the said bank maintained with Bangladesh Bank.

06. Action against failure for more than once in payment of premium .- If any insured bank fails for more than once to pay the premium, Bangladesh Bank, allowing the chance of hearing and by notification in the Official Gazette, shall have the power to direct as to refraining any insured bank from accepting deposit for the time as specified in the notification .

07. Liability of the Fund.-

(1) If the order is passed for liquidation of any insured bank, Bangladesh Bank shall pay each of its depositors the amount equal to one's deposit, not exceeding maximum Tk. 01 (one) lac, from the Fund.

(2) If any depositor has more than one account in the liquidated bank and the balances of the accounts altogether even if stand more than Tk. 01 (one) lac, he shall not be paid back more than Tk. 01 (one) lac. The Official Liquidator against the net asset of the liquidated bank shall adjust such payment with the amount payable to the depositors.

(3) The Official Liquidator, whatever he might be termed, within less than 90 days after assuming his office, shall submit to Bangladesh Bank the list of deposits of the depositors in the form as specified by Bangladesh Bank.

(4) The Trustee Board shall arrange for payment from the Fund the amounts due to the depositors in terms of the provisions of Sub-section (1) within less than 90 days after receipt of the list as specified under Sub-section (3) hereof .

(5) If the amount of the deposited monies of the Fund falls short of the payable amount, Government shall, through Bangladesh Bank lend the Fund the amount of short-fall at Bank-Rate-based interest.

(6) Notwithstanding anything contained in this Section, the amount payable to any depositor shall be determined net of any claims of the insured bank legally due to it.

08. Trustee Board.- There shall be a Trustee Board for operation and administration of the Fund and the Board of Directors of Bangladesh Bank shall be the Trustee Board of the Fund .

09. Annual Report. - The Trustee Board shall submit to the Government the copy of annual accounts of the Fund certified by the Auditor and signed by the Governor of Bangladesh Bank and the Report on activities within 2(two) months from the date of preparation of such accounts.

10. Repeals and Savings. –

(1) The Bank Deposit Insurance Ordinance, 1984 (LIII of 1984) is hereby repealed.

(2) All monies of the Deposit Insurance Fund preserved under the repealed Ordinance shall be transferred to the Fund.

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Banking Regulation and Policy Department
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