



# Bangladesh Bank

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Bangladesh  
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## Banking Regulation & Policy Department

BRPD Circular No. 06

25 April 2023  
Date: -----  
12 Baishakh 1430

Managing Director/Chief Executives  
All Scheduled Banks in Bangladesh.

Dear Sir,

### **Policy on Off-Balance Sheet (OBS) Exposure**

Please refer to BRPD Circular No. 14 dated 25 June 2003 regarding the First Schedule of the Bank Companies Act, 1991 and BRPD Circular No. 14 dated 23 September 2012, BRPD Circular No. 07 dated 21 June 2018, BRPD Circular No. 13 dated 18 October 2018 on Loan Classification and Provisioning.

2. Banks were instructed to maintain General Provision @1% on the 'Off-Balance Sheet' (henceforth OBS) exposures vide BRPD Circular No. 14/2012. Later the provision requirement for the bills for collection and the bank guarantees with counter-guarantee of Multilateral Development Banks/International Banks have been modified respectively through BRPD Circular No. 07/2018 and BRPD Circular No. 13/2018. The OBS items are being illustrated in tables (as recommended through BRPD Circular No. 14/2003) of the first schedule of the Bank Company Act, 1991.
3. The OBS exposures are contingent claims or contracts that generate fee income for a bank. While a loan is an asset on a bank's balance sheet, a promise to make a loan is a contingent liability which creates a potential funding obligation in the future. Hence, it does not affect the balance sheet until exposed as funded. Indeed, a bank has limited control over its obligation of commitments of funds. Thus, certain types of portfolio risk are involved with OBS activities of the banks; i.e. credit risk, interest rate risk, exchange rate risk, liquidity risk, etc.
4. With a view to strengthening risk management of escalating OBS business operations of banks and thereby further enhancing the stability of banking sector, the following instructions shall be followed:

## 5. Components of Off-Balance Sheet Exposure:

### A. Contingent Liabilities:

- i) **Acceptances & Endorsements:** 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. (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 credit derivatives (selling credit protection), 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).
- ii) **Letters of Guarantee:** 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 standby letters of credit in relation to a non-monetary obligation of counterparty under a particular transaction. This also includes potential credit exposures arising from the issue of guarantees.
- iii) **Irrevocable Letters of Credit:**
  - 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.
  - Others including LC used as guarantee or confirmation.
- iv) **Bills for Collection:** Bills for Collection are instruments designed for the settlement of a payment obligation between a buyer and a seller. As opposed to LC, Bills for Collection do not constitute any commitment or obligation on the part of the Bank to pay the seller if the buyer does not have available funds to effect payment.
- v) **Other Contingent Liabilities:**
  - Other contingent liabilities not listed above.

### B. Other Commitments:

- i) Documentary credits and short term trade-related transactions;
- ii) Forward assets purchased and forward deposits placed;
- iii) Undrawn note issuance and revolving underwriting facilities;
- iv) Undrawn formal standby facilities, credit lines and other commitments.

## 6. Provisioning Requirements:

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

### A. Contingent Liabilities-

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

ii) **Letters of Guarantee:**

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

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

iii) **Irrevocable Letters of Credit:**

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

iv) **Bills for Collection:** NIL

v) **Other Contingent Liabilities:**

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

### B. Other Commitments :

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

### C. Additional provisioning:

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

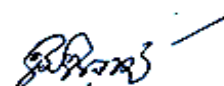
Criteria		Additional provisioning requirement (%)
OBS exposures remaining overdue for-	03 (three) months or beyond but less than 12 (twelve) months.	1%
	12 (twelve) or beyond but less than 24 (twenty four) months.	2%
	24 (twenty four) months or beyond.	5%

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

#### 7. Monitoring & Reporting:

- i) Bank shall have proper monitoring system to measure and control the risks of its OBS exposures.
  - ii) Banks are required to review the adequacy of the provisions for OBS exposures on a continuous basis to ensure that the provisions set aside are reflective of their potential losses.
  - iii) Each bank shall continue to submit quarterly statement of OBS to the Banking Regulation and Policy Department of Bangladesh Bank as per instructions of BRPD Circular No. 14/2012 and subsequent relevant Circulars/Circular letters.
8. Instructions of BRPD Circular No. 14/2012 and subsequent all Circulars/Circular letters on the captioned subject hereby stand superseded by this circular.
9. This directive has been issued by Bangladesh Bank in exercise of its power conferred on it under Section 45 of the Bank Company Act, 1991, as amended.
10. This circular will come into force immediately.

Yours faithfully,



(Md. Ali Akbar Faraji)  
Director (BRPD)  
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