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**Bangladesh Bank**  
(Central Bank of Bangladesh)  
Head Office  
Motijheel, Dhaka-1000  
Bangladesh

**Banking Regulation & Policy Department**

BRPD Circular No - 17

20 Agrahayan 1430

Date: -----

05 December 2023

Managing Directors/CEOs  
All scheduled bank companies working in  
Bangladesh

Dear Sir,

**Prompt Corrective Action (PCA) Framework**

As a part of promoting financial stability and maintaining public confidence in the financial system, it is imperative to identify problems of a bank company at an early stage before they become acute. Early action is critical to prevent adverse impact or systemic adverse impact of problem bank/banks in the banking system, and economic disruption. In addition, closing of a bank company is costly and painful process. In this context, prompt corrective action is necessary to address the problems of weak bank/banks promptly. Accordingly, Bangladesh Bank (BB) is introducing the Prompt Corrective Action (PCA) Framework, as detailed in Annex-1 to this circular, with the objective of enabling regulatory/supervisory intervention at an appropriate time. The PCA Framework requires a bank and the bank's board of directors to carry out prescribed corrective actions to restore the bank's deteriorated financial and operational conditions to a normal state within a reasonable time.

02. Under the PCA Framework, the concerned bank shall have to carry out a schedule of corrective actions directed by BB based on selected parameter indicators i.e., Capital to Risk weighted Assets Ratio (CRAR), Tier 1 capital ratio, Common Equity Tier 1 (CET1) ratio, Net Non Performing Loan (NPL) and Corporate Governance. The trigger points/indicators, which will be used for identifying the banks as Category 1, 2, 3 or 4 are prescribed in this circular in Annex-2. An illustrative list of mandatory and discretionary corrective actions/measures/restrictions envisaged under the PCA Framework is described in Annex-3 and Annex-4.
03. A bank company shall be subject to the PCA Framework when any of its prescribed parameter indicators within the specified range, or in case unacceptable quality of corporate governance, or other issues, are observed, as noted in Annex-2. Such PCA will be imposed with the approval of the Board of Directors of BB. The PCA Framework is applicable to all scheduled bank companies operating in Bangladesh, including foreign banks operating through branches.

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04. The provisions of the PCA framework will be effective from 31 March 2025, based on the annual audited financials of the period ended as at 31 December 2024. The audited annual financial statements and onward periodic supervisory returns submitted by the banks to BB, including with the ongoing on-site and off-site supervisory assessment conducted by BB will be the primary source of information for operationalizing the PCA Framework. The PCA Framework will be subject to review, as and when considered necessary.
05. This circular is issued in exercise of the powers conferred under section 77Ka of the Bank Company Act (BCA), 1991 (amended up to 2023). However, nothing in this circular impedes BB from taking any action under the BCA, 1991 and Bangladesh Bank Order, 1972 as BB considers appropriate at any time in addition to corrective actions/measures/restrictions stipulated in the PCA Framework. The Memorandum of Understanding (MoU) executed by BB with the scheduled banks will cease to be operative whenever any of those banks comes under the PCA Framework.
06. Please bring the contents of this circular to the attention of the bank's board of directors in the next board meeting.

Attachment: as stated above (Annex 1 to 4)

Yours faithfully,



(Md. Harun-Ar-Rashid)  
Director (BRPD)  
Phone-9530095

## Prompt Corrective Action (PCA) Framework

A bank company will generally be placed under the PCA Framework by Bangladesh Bank (BB) at any time in the year if it falls under any of the Categories as set out in Annex-2 of this circular including migration from one Category to another. When a bank company is placed under PCA, the bank company shall have to carry out/abide by the prescribed and directed corrective actions/measures/restrictions as set out in Annex-3 and Annex-4 within the stipulated time.

02. **Bank Category:** Bank companies are classified into Category-1, Category-2, Category-3, and Category-4 depending on the criteria/parameter indicators as set out in Annex-2 of this circular.
03. **Initiation of PCA for a bank company**
  - 3.1 If BB identifies a bank company under any Category based on the criteria as set out in Annex-2 of this circular, the bank will be informed by BB with a written notice of its determination. In case a bank company simultaneously falls under more than one Category in the identification process, the Category of the bank will be determined as the worst of all such Categories.
  - 3.2 Upon initiation of PCA, a directive with corrective actions/measures/restrictions as set out in Annex-3 and Annex-4, hereafter called “Directives of Bangladesh Bank” or “DOBB” to the bank company will be issued for the improvement of the bank’s deteriorated financial and operational conditions to a normal state within specified time frame, ideally within 1 (one) year.
  - 3.3 The board of directors of the concerned bank company shall have to provide a guarantee, in a standard format as prescribed by BB, that the bank shall carry out/implement all the corrective measures and instructions contained in the DOBB to upgrade the indicators to the standard level.
  - 3.4 If the bank company under PCA achieves normal condition in the relevant indicators and maintains that status for four consecutive quarters, and the Board of Directors of BB is satisfied with the status of the bank company’s compliance, the obligation of PCA Framework for that bank company will be lifted.
  - 3.5 In order to monitor the compliance and implementation of the corrective actions/measures, the concerned bank shall submit periodic progress reports to the Director, Banking Regulation and Policy Department (Division-2) of Bangladesh Bank thereof, at a frequency that may be specified by BB in the aforesaid DOBB.
  - 3.6 BB may conduct special inspection apart from regular on-site inspection under the PCA Framework. Also, BB may require the bank company to conduct special audit by the enlisted Chartered Accountants firm of BB to verify the compliance report of the said bank at its own cost.
04. If the concerned bank fails to comply with the DOBB, and/or agreed action plan/plans for restoring normalcy of that bank, and/or its chairman, director, managing director or official of senior management continues activities detrimental to the interests of its depositors, Bangladesh Bank, under section 77Ka of the BCA, 1991 (amended up to 2023), in order to protect the interest of its depositors or to secure the proper management of the bank company in the public interest, may initiate penal measure(s), and/or compulsory merger with any other bank company, or any one or more special measures considered appropriate relating to bank restructuring, subject to provisions of section 77 of the BCA, 1991 (amended up to 2023) and provisions of the Bangladesh Bank Order, 1972.

**The Matrix of PCA Framework****Parameters and indicators: Capital and net NPL trigger point/level**

<b>Parameters and indicators (minimum requirement)</b>	<b>Bank Category-1</b>	<b>Bank Category-2</b>	<b>Bank Category-3</b>	<b>Bank Category-4</b>
CRAR incl. 2.5% CCB (capital conservation buffer) (12.5%)	12.5% > CRAR ≥ 10%	10% > CRAR ≥ 8%	8% > CRAR ≥ 5%	CRAR < 5%
Tier 1 capital ratio (6%)	6% > Tier1 ≥ 5.5%	5.5% > Tier1 ≥ 4.5%	4.5% > Tier1 ≥ 3%	Tier 1 < 3%
CET1 capital ratio (4.5%)	4.5% > CET1 ≥ 3.5%	3.5% > CET1 ≥ 2.5%	2.5% > CET1 ≥ 1.5%	CET1 < 1.5%
Net NPL (net of interest suspense and actual provisions)	5% < Net NPL ≤ 8%	8% < Net NPL ≤ 11%	11% < Net NPL ≤ 14%	14% < Net NPL
	Banks having one or more than one parameter lying in the range stated above for a period of 6 months will fall under this Category.	Banks having one or more than one parameter lying in the range stated above for a period of 12 months will fall under this Category.	Banks having one or more than one parameter lying in the range stated above for a period of 18 months will fall under this Category.	Banks having one or more than one parameter lying in the range stated above for a period of 24 months will fall under this Category.

**Other parameters and indicators: trigger point/level**

<b>Parameters (minimum requirement)</b>	<b>Bank Category-1</b>	<b>Bank Category-2</b>	<b>Bank Category-3</b>	<b>Bank Category-4</b>
Liquidity, Corporate governance, and other issues	<p>If a bank company fails to maintain minimum required liquidity ratios i.e., CRR (Cash Reserve Ratio) as per article 36 of the Bangladesh Bank Order, 1972, SLR (Statutory Liquidity Ratio) as per section 33 of the Bank Company Act, 1991, LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio) as per BB's circulars thereof, and if the deficiency is not corrected, and continues failing to comply with BB's directions, BB may deem the board of directors to be engaging in an unsafe and unsound activities. These indicators are to be considered under the PCA Framework as BB considers appropriate.</p> <p>Also, lack of corporate governance, poor risk management practices or market related issues such as significant dealing loss, failure to pay off-balance sheet obligations, repeated non-compliance with policies/procedures/rules/regulations/circulars of BB, fraud/forges, and finding of unsound and unsafe activities of the board of directors, etc., shall invoke the PCA Framework as BB deems appropriate.</p>			

**Illustrative mandatory and discretionary corrective actions/measures/restrictions  
envisaged under the PCA Framework**

**Annex-3**

<b>Bank's Category</b>	<b>Mandatory actions/measures/restrictions</b>	<b>Other actions/measures/restrictions</b>
<b>Category-1</b>	<ol style="list-style-type: none"> <li>1. To activate previously approved recovery plan or to submit an action plan based on the identified indicators with the parameters;</li> <li>2. To conserve capital, the bank shall not distribute cash dividends (remittances of profit in case of foreign banks). The bank may distribute stock dividend with the prior approval of BB unless the bank could achieve at least the minimum required capital adequacy ratio in a time specified by BB;</li> <li>3. To conserve capital, the bank shall not increase growth in risk-weighted assets (on and off-balance sheet items) beyond 10% per calendar year;</li> <li>4. The growth of operational cost shall be limited to 8% of the previous year;</li> <li>5. The bank shall be under close monitoring as to its compliance, and periodical review of restrictions and requirements of BB.</li> </ol>	<p>The mandatory actions/measures/restrictions of the Category-2, Category-3 and Category-4 banks, and/or the discretionary actions/measures/restrictions, as set out in Annex-4, may be imposed on the Category-1 bank, if BB considers such actions/measures/restrictions are necessary or appropriate.</p>
<b>Category-2</b>	<p>In addition to mandatory actions/measures/restrictions for Category-1 bank above:</p> <ol style="list-style-type: none"> <li>1. The bank shall not <ul style="list-style-type: none"> <li>- distribute dividend/effect remittances of profit to raise retained earnings;</li> <li>- increase growth in risk-weighted assets (on and off-balance sheet items) beyond 8% per calendar year;</li> </ul> </li> <li>2. The growth of operational cost shall be limited to 5% of the previous year.</li> </ol>	<p>The mandatory actions/measures/restrictions of the Category-3 and Category-4 banks, and/or the discretionary actions/measures/restrictions, as set out in Annex-4, may be imposed on the Category-2 bank, if BB considers such actions/measures/restrictions are necessary or appropriate.</p>
<b>Category-3</b>	<p>In addition to mandatory actions/measures/restrictions for Category-2 bank above:</p> <ol style="list-style-type: none"> <li>1. The bank shall not <ul style="list-style-type: none"> <li>- increase growth in risk-weighted assets (on and off-balance sheet items) beyond 5% per calendar year;</li> <li>- engage in any new transactions with any related person of the bank;</li> <li>- engage in any new business activities under section 7 of the BCA, 1991 without prior approval of BB;</li> <li>- open new branches, sub-branches, or subsidiaries - domestic, and/or overseas;</li> <li>- increase investment in subsidiaries - domestic, and/or overseas;</li> <li>- engage in capital expenditure except for automation/-technological development;</li> </ul> </li> <li>2. The growth of operational cost shall be limited to 3% of the previous year.</li> </ol>	<p>The mandatory actions/measures/restrictions of the Category-4 bank, and/or the discretionary actions/measures/restrictions, as set out in Annex-4, may be imposed on the Category-3 bank, if BB considers such actions/ measures/restrictions are necessary or appropriate.</p>
<b>Category-4</b>	<p>In addition to mandatory actions/measures/restrictions for Category-3 bank above:</p> <p>The bank shall not</p> <ul style="list-style-type: none"> <li>- accept any new deposits without prior approval of BB;</li> <li>- extend/grant new cash/non-cash loans/investments to certain high-risk individuals, institutions, and sectors.</li> </ul>	<p>Distinctive regulatory/supervisory actions/measures/restrictions along with the other discretionary actions/measures/restrictions, as set out in Annex-4, may be imposed on the Category-4 bank, if BB considers such actions/measures/restrictions are necessary or appropriate.</p>

Bank's Category	Directory of discretionary actions/measures/restrictions
All Categories	<p data-bbox="292 241 1059 275"><b>Distinctive regulatory/supervisory actions/measures/restrictions</b></p> <ul style="list-style-type: none"> <li data-bbox="308 293 1070 327">(i) Superseding the Board under section 47 of the BCA, 1991;</li> <li data-bbox="308 331 1378 365">(ii) Removing director(s) or managing director/CEO under section 46 of the BCA, 1991;</li> <li data-bbox="308 369 1414 403">(iii) Requiring the bank to bring in changes in senior management, and/or new management;</li> <li data-bbox="308 407 1516 481">(iv) Changing, reducing, or ceasing any activity, undertaken by the bank or its subsidiaries to mitigate risk;</li> <li data-bbox="308 486 1042 519">(v) Conducting special inspections and scrutiny of the bank;</li> <li data-bbox="308 524 1516 598">(vi) Requiring the bank company to get a special audit conducted by the enlisted Chartered Accountants firms;</li> <li data-bbox="308 602 1516 676">(vii) Initiating liquidation of any subsidiary or reduction of bank's stake in subsidiary that BB determines is causing a significant risk to the bank, or has the potential of doing so;</li> <li data-bbox="308 680 1516 754">(viii) Initiating procedure to make moratorium order on the banking activities under provisions of section 77 of the BCA, 1991;</li> <li data-bbox="308 759 1516 864">(ix) Initiating resolution procedure of the bank by merger/amalgamation with any other bank company, or restructuring, under provisions of section 77, or any one or more special measures under provisions of the BCA, 1991;</li> <li data-bbox="308 869 1516 936">(x) Imposing other actions/measures/restrictions under provisions of the BCA, 1991 and the BB Order, 1972.</li> </ul> <p data-bbox="292 965 863 999"><b>Recapitalization actions/measures/restrictions</b></p> <ul style="list-style-type: none"> <li data-bbox="308 1021 1294 1055">(i) Requiring the bank to increase equity capital within the time specified by BB;</li> <li data-bbox="308 1059 1516 1133">(ii) Requiring the bank to implement the board-approved capital restoration plan; or requiring the bank to submit a new time-bound capital restoration plan;</li> <li data-bbox="308 1137 1516 1211">(iii) Requiring the bank to curtail or limit the high-risk exposure to the sectors which impact conserving capital;</li> <li data-bbox="308 1216 903 1249">(iv) Imposing restrictions on capital expenditure;</li> <li data-bbox="308 1254 1449 1288">(v) Other actions/measures/restrictions to bring about improvement of quality earnings/capital.</li> </ul> <p data-bbox="292 1328 1449 1361"><b>NPL reduction, Liquidity management, Business improvement actions/measures/restrictions</b></p> <ul style="list-style-type: none"> <li data-bbox="308 1384 1374 1417">(i) Requiring the bank to implement the previously board-approved NPL recovery plan;</li> <li data-bbox="308 1422 1516 1496">(ii) Requiring the bank to reduce loan concentrations, particularly in certain sectors, companies, or borrowers;</li> <li data-bbox="308 1500 1516 1574">(iii) Requiring the bank to reduce ADR (Advance to Deposit Ratio) to a level within the time as specified by BB;</li> <li data-bbox="308 1579 1516 1684">(iv) Requiring the bank to liquidate/sell assets, assign dedicated persons and create specialized Recovery Task Forces, and prepare time-bound action plan to recover bad asset(s) from certain sectors, companies, or borrowers within the time and amount as specified by BB;</li> <li data-bbox="308 1688 1516 1762">(v) Imposing restrictions on increasing investment portfolios, apart from investment in Government securities/other High-Quality Liquid Investments;</li> <li data-bbox="308 1767 1516 1841">(vi) Requiring the bank to review and adhere to its policies and procedures as to loan approval, appraisal, disbursement, and its monitoring, administration, recovery and risk grading;</li> <li data-bbox="308 1845 1461 1879">(vii) Requiring the bank to review its business model in line with sustainability, profitability etc.;</li> <li data-bbox="308 1883 1516 1957">(viii) Requiring the bank to maintain cash flow projections to avoid mismatch of cash inflow-outflow for proper fund management;</li> <li data-bbox="308 1962 1516 2036">(ix) Imposing restrictions on transferring any interest against classified loan to income account without actual recovery;</li> </ul>

<b>Bank's Category</b>	<b>Directory of discretionary actions/measures/restrictions</b>
<b>All Categories</b>	<p>(x) Imposing restrictions on taking over any loans/non-performing loans, and increasing off-balance sheet exposures;</p> <p>(xi) Imposing restrictions on paying higher interest rates on new/existing deposits or discouraging high-cost term deposits while encouraging bringing low-cost current or savings deposits to maintain a sustainable deposit mix to reduce cost of deposits;</p> <p>(xii) Other actions/measures/restrictions as necessary.</p> <p><b>Operational activities, Corporate Governance improvement actions/measures/restrictions</b></p> <p>(i) Imposing restrictions on increasing business of overseas branches/subsidiaries, or requiring the bank to reduce business in overseas branches/subsidiaries;</p> <p>(ii) Requiring the bank to take effective measures to transform all loss-incurring branches into profitable one within a time specified by BB;</p> <p>(iii) Requiring the bank to improve its management and board of directors' various committees by rearranging/changing, or employing qualified senior executives, and directors;</p> <p>(iv) Requiring the bank to improve its risk management, management of financials and reporting, internal control and compliance, internal policies, procedures, operation of business procedures, human resources management, etc.;</p> <p>(v) Imposing restrictions on material change in accounting methods;</p> <p>(vi) Imposing restrictions on paying high salaries to the senior management;</p> <p>(vii) Imposing restrictions on paying excessive bonuses;</p> <p>(viii) Imposing restrictions on the use of bank's motor vehicle pool and related expenses;</p> <p>(ix) Other actions/measures/restrictions to bring about improvement of operational activities and corporate governance.</p>
<b>All Categories</b>	Any other actions/measures/restrictions that BB determines to be necessary for the concerned bank to restore it to normal operating condition under provisions of the BCA, 1991.

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