

Banking Regulation & Policy Department
Bangladesh Bank
Head Office
Dhaka.

BRPD Circular No. 10

24 November 2002
Dated: -----
11 Agrahayan 1409

All Scheduled Banks in Bangladesh

Master Circular on Capital Adequacy of Banks.

Dear Sir,

Bangladesh Bank vide BRPD Circular No.1 dated 08-01-1996 introduced new arrangements for assessing the capital adequacy of banks on the basis of **Risk-weighted Assets** replacing **Capital-to-Liabilities** approach for assessing capital adequacy. Certain amendments have also been made thereto from time to time. In order to enable the banks to have all existing instructions on the subject at one place this Master Circular has been prepared by incorporating all instructions issued from time to time. It may also be mentioned here that the Master Circular also includes a few new instructions.

Definition of Capital

For the purpose of supervision, capital will be categorised into two tiers: Tier 1 i.e. Core Capital comprising the highest quality capital elements and Tier 2 i.e. 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. The constituents of core capital and supplementary capital are enclosed at Annexure-I.

Minimum Capital Standards

Each bank will maintain a ratio of capital to risk weighted assets of not less than 9% with at least 4.5% in core capital and this requirement will have to be achieved by 30 June 2003. However, the minimum capital requirements of Tk. 40 crore for locally incorporated banks and an amount equivalent to USD 10 million for banks incorporated outside Bangladesh will remain unchanged until further instructions.

Risk-weighted Assets

Both balance sheet assets and off-balance sheet exposures are to be weighted according to their relative risk. Presently, there are 4(four) categories of risk weights- 0, 20, 50 and 100 percent. For the purpose of assessing capital adequacy, weights for particular items are given in Annexure-II.

Off-balance sheet transactions are to be converted into balance sheet equivalents for the purpose of assessing the capital adequacy before assigning a risk weight as shown in section 10(a) of Annexure-II. Four categories of credit equivalents of 0, 20, 50 & 100 percent will apply. Details are shown in Annexure-III.

Implementation

Banks are advised to assess their capital position on half-yearly basis i.e. on 30 June and 31 December each year and report the same to the Department of Banking Operation and Development (DBOD) of Bangladesh Bank within one month from the end of respective half-year.

Banks are also advised to contact Banking Regulation and Policy Department (BRPD) of Bangladesh Bank in case of any confusion or ambiguity.

Please acknowledge receipt.

Encl.: As above.

Yours faithfully,
(Rafiul Alam)
General Manager
Phone: 7117825

CONSTITUENTS OF CAPITAL

CORE CAPITAL (TIER-1)

- 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 Equalisation Account

SUPPLEMENTARY CAPITAL (TIER-2)

- A. General provision (1% of Unclassified loans)
- B. Assets Revaluation Reserves
- C. All other Preference Shares
- D. Perpetual Subordinated debt
- E. Exchange Equalisation Account

Note 1: Core Capital must be equal to or more than 4.5% of the risk-weighted assets.

Note 2: Reserves created by periodic revaluation of banks' assets can be included as a Component of Tier-2 capital only if the revaluation is formally conducted by professionally qualified valuation firm. Such reserves will be eligible up to 50% for the treatment as Supplementary Capital provided that the rationale of the re-valued amount is duly certified by the external auditors of the bank. Such revaluation may be done once in a year.

RISK WEIGHTS APPLICABLE FOR BALANCE-SHEET ITEMS

	<u>Items</u>	<u>Risk Weights</u>
1.	<u>Cash in hand and with banks (except banks abroad)</u>	
	a) Bangladesh Bank notes	0%
	b) Government notes and coins	0%
	c) Balances with Bangladesh Bank	0%
	d) Balances with Sonali Bank as agent of Bangladesh Bank	0%
	e) Balances with Deposit Money Banks including Sonali Bank	0%
	f) Balances with Other Financial Institutions (OFIs)-Public	0%
	g) Balances with Other Financial Institutions (OFIs)-Private	20%
2.	<u>Money at call and short notice</u>	
	a) Deposit Money Banks (DMB)	0%
	b) Other Financial Institutions (OFIs)-Public	0%
	c) Other Financial Institutions (OFIs) -Private	20%
3.	<u>Foreign currency balances held</u>	
	a) Foreign currency notes in hand	0%
	b) Balances with banks abroad	0%
	c) Foreign currency clearing account balances with Bangladesh Bank	0%
	d) Bilateral trade credits	50%
	e) Wage Earners' (WES) accounts	0%
4.	<u>Export and other Foreign Bills</u>	
	a) Export bills	50%
	b) Other foreign bills	50%
5.	<u>Foreign Investment</u>	
	a) Organisation of Economic Co-operation and Development (OECD) countries	20%
	b) Other countries	50%
6.	<u>Import and Inland Bills</u>	
	a) Government	
	1) Ministry of Food	0%
	2) President's Office, Prime Minister's office, Parliament, Judiciary & Non-Food Ministries	0%
	3) Autonomous & Semi-Autonomous Bodies	20%
	b) Other Financial Institutions	
	1) Other Financial Institutions-Public	20%
	2) Other Financial Institutions-Private	20%
	c) Major Non-financial Public Enterprises	50%
	d) Other Non-financial Public Enterprises	50%
	e) Local Authorities	20%
	f) Private Sector	100%
	g) Deposit Money Banks	20%
7.	<u>Advances</u>	
	a) Government	
	1) Ministry of Food	0%
	2) President's Office, Prime Minister's Office, Parliament, Judiciary & Non-Food Ministries	0%
	3) Autonomous & Semi-Autonomous bodies	20%
	b) Other Financial Institutions:	
	1) Other Financial Institutions-Public	20%
	2) Other Financial Institutions-Private	50%
	c) Major Non-financial Public Enterprises	50%
	d) Other Non-financial Public Enterprises	50%
	e) Local Authorities	20%
	f) Private Sector	100%

	g) Deposit Money Banks	20%
8.	<u>Investment (as per book value)</u>	
	a) President's Office, Prime Minister's Office, Parliament, Judiciary & Non-Food Ministries	
	1) Treasury Bills (28 days, 91 days etc.)	0%
	2) Treasury Bills (Long-term)	0%
	3) Government Savings Certificate (Bangladesh Sanchaya Patra, 3 month's profit basis Sanchaya Patra etc.)	0%
	4) Prize bonds/Income tax bonds	0%
	5) Other Securities of Government	0%
	b) Autonomous & Semi-Autonomous Bodies	20%
	c) Other Financial Institutions	
	1) Other Financial Institutions-Public	20%
	2) Other Financial Institutions-Private	50%
	d) Major Non-financial Public Enterprises	50%
	e) Other Non-financial Public Enterprises	50%
	f) Local Authorities	20%
	g) Private Sector	100%
	h) Deposit Money Banks	20%
	i) Negotiable Certificates of Deposits	20%
9.	<u>Head Office and Inter Branches Adjustments</u>	0%
10.	<u>Other Assets</u>	
	a) Contingent Assets as per contra (Off-balance sheet items)	
	1) Letter of Credit and Letter of Guarantee issued on account of Government	0%
	2) Deposit Money Banks	20%
	3) Others	50%
	b) Fixed Assets	50%
	c) Valuation adjustments	50%
	d) Expenditure Account	0%
	e) Other	100%

Note -1: Claims fully secured by cash/quasi-cash, which is lodged with the bank itself
Will have zero weight. All claims should be calculated net of such securities.

Note -2: Claims on borrowers other than Government or bank, which are guaranteed by
The Government or a bank will carry the weight appropriate for the guarantor.

Note -3: Netting may also be done in respect of assets where provisions for depreciation
Or for bad and doubtful debts have been made.

CREDIT CONVERSION FACTORS FOR SELECTED OFF-BALANCE SHEET ITEMS

<u>Instruments</u>	<u>Credit Conversion Factors</u>
1. Direct credit substitutes, including financial guarantees, standby letters of credit serving as guarantees and bills endorsed under bill endorsement lines (which are not accepted by or have the prior endorsement of another bank)	100%
2. Sale and repurchase agreements, forward assets purchases and placement of forward deposits	100%
3. Transaction related contingent items including performance bonds, bid bonds, warranties and stand-by letters of credit related to a particular transaction	50%
4. All note issuance facilities and revolving underwriting facilities; other commitments (e.g. formal standby facilities) with a residual maturity exceeding one year	50%
5. Short-term self liquidating trade related contingencies (e.g. documentary letters of credit and other trade financing transactions)	20%
6. Commitments with a residual maturity not exceeding one year, or which can be cancelled or revoked at any time (e.g. un-drawn overdraft and credit card facilities)	0%

Note: For items not included above, credit conversion factors to be used, should be