

Banking Regulation & Policy Department
Bangladesh Bank
Head Office
Dhaka

07 October, 2003

BRPD Circular No-17

Date-----

22 Ashwin, 1410

Chief Executive
All Scheduled Banks in Bangladesh

Dear Sir,

"Guidelines on "Managing Core Risks in Banking".

You are well aware that banking industry is unique in some ways and one of the features that sets it apart from other business is the diversity and complexity of the risks it is exposed to. Deregulated regimes alongwith globalization of business has opened new frontiers that warrants risk management an even greater priority. The failure to adequately manage these risks exposes banks not only to business losses but may also result in circumstances that they can not remain in business. Therefore at the heart of good governance of this business is effective management of these risks to ensure sustainable performance.

Although rapid developments are taking place internationally in this area, banks in Bangladesh have not yet put in place a robust and structured framework for risk management. In recognition of the importance of an effective risk management system, Bangladesh Bank undertook a project to review the global best practices in this area and examine in the possibility of introducing these in the banking industry of Bangladesh. The five'core' risk areas of banking have been identified which 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.

Four Focus Groups' were formed with participation from Nationalised Commercial Banks, Private Commercial Banks & Foreign Banks with representatives from the Bangladesh Bank as team coordinators to look into the practices of the best performing banks both at home and abroad and produce a document that would be a basic risk management model for each of the selected five core risk areas.

These groups have produced documents for each of the five core risk areas which have been delivered to you in CD-Rom on 30 September, 2003. These documents are the manuals/guidelines which are not complete in themselves but can form the basis on which banks can either produce more sophisticated risk management models or follow these as a minimum starting point and develop them further as they progress.

Banks are, therefore, advised to put in place an effective risk management system by December, 2003 based on the guidelines sent to them. These guidelines are flexible in the sense that banks can adopt and adapt them in line with the size and complexity of their business. Arrangement is being made by Bangladesh Bank to train the trainers of the banks on each of these manuals. It is expected that these trained personnel will help implement whatever the banks decide in their interest to incorporate as chosen process in their own banks. Besides, Bangladesh Bank will also monitor the progress of implementation of these manuals/guidelines through its on site inspection teams during routine inspection.

Please acknowledge receipt.

Yours faithfully,

Sd/-
(Md. Jahangir Alam)
Deputy General Manager
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