



Bangladesh Bank
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Motijheel, Dhaka-1000
Bangladesh
website: www.bb.org.bd

Supervisory Policy and Coordination Department

SPCD Circular No: 02

Date: 07 Kartik 1432
23 October 2025

Managing Directors/Chief Executive Officers
All Scheduled Banks in Bangladesh

Dear Sir,

**Implementation of Risk Based Supervision (RBS):
Supervisory Expectations and Banks' Preparedness**

To strengthen the bank supervision system in the context of the growing complexity of the financial landscape and to align with global standards and best practices, Bangladesh Bank (BB) has decided to implement Risk Based Supervision (RBS) across the banking sector from January 2026. The transition from the existing compliance based supervisory approach to RBS aims to ensure the resilience and soundness of the banking system and promote overall financial stability through enhanced risk management, proactive supervisory engagement, and timely interventions.

02. Risk Based Supervision (RBS), in contrast to the traditional compliance-based supervision, adopts a forward-looking and process-based approach for enabling early identification and mitigation of key risks. It assumes a dynamic and flexible supervisory process focusing on the assessment of inherent risks and the effectiveness of internal controls and overall risk governance within the banks to determine their composite risk profile, and level of supervisory intensity tailored to their unique risk profile. Therefore, under RBS framework, banks are expected to demonstrate sound risk management and governance capabilities in major risk areas and meet key supervisory expectations as outlined in the **Annexure**. The supervisory expectations will form the foundation for effective supervisory engagement under the RBS environment and lead to a positive evaluation if banks show a strong commitment to address those expectations.

03. To ensure smooth and effective transition, all banks are required to take preparatory measures and align their risk governance, internal control structures, management information systems and supervisory reporting mechanisms with RBS principles. Banks are advised to undertake the activities, as outlined in the table, within the stipulated timeline to ensure readiness for Risk Based Supervision framework:

Table: Bank Preparedness for Implementation of Risk Based Supervision

SL. No.	Particulars	Tasks	Timeline
1	Formation of RBS Coordination Committee	Establish a cross-functional team responsible for overseeing RBS preparedness to address the supervisory expectations.	October, 2025
2	Gap Analysis and Readiness Diagnostic	Assess current risk management practices, governance, internal control, data infrastructure and reporting system to identify the gap with supervisory expectations under RBS framework outlined in the annexure of this circular.	November, 2025
3	Development of Bank-Specific Action Plan	Prepare a structured Action Plan to address identified gaps against supervisory expectations with clear responsibilities, milestones and timelines, and get it approved by the Board of Directors.	November, 2025
4	System & Data Preparedness	Upgrade MIS to align with RBS related data requirements as per the Rationalized Input Template (RIT) already provided under the pilot program.	December, 2025
5	Awareness Programs on RBS	Arrange awareness programs for the Board of Directors, Senior Management and other officials on RBS principles, processes, and supervisory expectations.	December, 2025
6	Documentation Update	Update all the risk management policies, manuals, standard operating procedures, and internal control frameworks to align with RBS framework.	December, 2025
7	Organizational Structure Alignment	Realign roles, responsibilities, and reporting lines to ensure independence of risk management, compliance and internal audit functions to align with the RBS framework.	December, 2025
8.	Submission of Self-Assessment Report	Self-assess the final readiness against the supervisory expectations and preparatory measures identified in this circular, prepare a report and submit the same to Bangladesh Bank along with an updated Board of Directors approved Action Plan.	December, 2025

5. Bangladesh Bank will conduct targeted supervisory reviews to assess progress made by the banks against the submitted Action Plan to address the gap against supervisory expectations, and consider these efforts in future risk profiling and supervisory planning. Banks are encouraged to treat the supervisory expectations as both a regulatory expectation and an institutional development opportunity.

6. The activities outlined in the table are intended to enhance banks' preparedness for the requirement under the RBS framework. Banks are advised to ensure adherence to the RBS preparedness milestones as per the timeline mentioned in the table. Failure to exhibit satisfactory preparedness may be subject to enhanced supervisory attention or remedial directives as deemed appropriate.

7. This directive is issued under section 45 of the Bank Company Act, 1991.

Attachment: 7 pages

Yours Faithfully,



(Mohammad Abdur Rab)

Director (SPCD)

Phone: 9530173

**Indicative Guidance on Supervisory Expectations and Banks’
Preparatory Measures for RBS Implementation**

Bangladesh Bank (BB) as the supervisory authority, expects banks to embed risk-based supervision (RBS) principles into their strategies, governance, risk management and decision-making processes. The supervisory expectations have been developed by taking into consideration of the global standards and best practices for RBS principles, and the framework followed by renowned international supervisory authorities and BB, along with its existing guidelines. However, they do not intend to supersede any laws, regulations and circulars in force in Bangladesh, and therefore, should be interpreted as complementing the current legal framework.

The key supervisory expectations that BB has from banks under the RBS framework are outlined as follows:

A. Governance and Leadership

- **Ultimate Responsibility for Risk Oversight:** Board of Directors and Senior Management shall bear the ultimate accountability for risk oversight. They shall strengthen their oversight of risk management and have clearly delineated roles and responsibilities for risk oversight and accountability;
- **Tone at the Top:** The Board of Directors and Senior Management shall set and maintain a demonstrable commitment to prudent risk-taking, ethical conduct, and strict adherence to supervisory expectations;
- **Risk Culture Development:** Bank shall establish and reinforce a strong risk culture promoting transparency, accountability, and proactive and sound risk management across all functions and levels of staff;
- **Whistle Blowing Mechanisms and Incentive Structures:** Bank shall adopt an effective whistle blowing mechanism and align annual performance evaluations and incentive structures with prudent risk-taking and long-term sustainability, thereby supporting the implementation of a sound risk culture;
- **Establishment of Effective Risk Management Architecture:** Bank shall establish an effective Risk Management Architecture comprising of Risk Governance, Risk Management Structure, Risk Reporting Framework, including development of Risk Repository and Incident Reporting System;
- **Three Lines of Defense:** Bank shall ensure an effective Risk Governance structure encompassing three lines of defense, with a clear allocation of powers, responsibilities and accountabilities for each function.

B. Risk Appetite, Strategies and Policies

- **Strategic Plan:** Bank shall have a Board of Directors approved strategic plan reflecting its vision, mission, strategic objectives and key stakeholders' aspirations, and the plan shall be aligned with the bank's capacity to manage risk;
- **Risk Appetite and Risk Limit:** Bank shall ensure a clear and documented Risk Appetite Framework (RAF), which shall be approved and regularly reviewed by the Board of Directors. The Risk Appetite Framework shall be in line with the strategic plan and within the constraints of legal and regulatory obligations, while the risk limits shall be cascaded down to business units, products, and portfolios;
- **Risk Management Policies:** Bank shall review and strengthen its all relevant risk management policies, including credit, market, operational, liquidity, legal and regulatory, strategic, ML/TF, technology risk related policies.

C. Comprehensive Risk Identification & Assessment

- **Upgradation of Risk Management System:** Bank shall strengthen and upgrade its risk management system to ensure comprehensive identification, measurement, monitoring and prioritizing all material risks including credit, market, liquidity, operational, legal & regulatory, strategic and other risks;
- **Integration of Emerging Risks:** Bank shall integrate management of various emerging risks, including cyber risk, climate risk, ML/TF risk, third-party risk, fintech-related risk in its risk management framework, and shall continuously monitor technology and external environment changes;
- **Stress Testing and Vulnerability Analysis:** Bank shall incorporate forward-looking assessments to anticipate changes in the risk environment and use/strengthen stress testing, scenario analysis, early warning indicators and other tools, including VAR to assess vulnerabilities;
- **Development and Review of Recovery Plan:** Bank shall develop a Recovery Plan following the respective guidelines issued by BB. It should be reviewed and approved by the Board of Directors on periodical basis;
- **Review of Business Continuity Plan and the Disaster Recovery Plan:** Bank shall regularly review, update and test the Business Continuity Plan and Disaster Recovery Plan for ensuring operational continuity of the bank.

D. Capital & Liquidity Adequacy

- **Maintenance of Adequate Capital Buffer:** Bank shall maintain adequate capital. It shall conduct ICAAP and stress test, and link the results to capital adequacy planning;
- **Liquidity Management:** Bank shall maintain adequate liquidity in alignment with LCR, NSFR and stress testing outcome. It shall regularly review and test the contingency funding plan.

E. Data, Reporting and MIS Readiness

- **Upgradation of Management Information System:** Bank shall upgrade its Management Information System (MIS) so that it can generate granular, accurate, timely and consistent data across all risk areas, and can support stress testing, risk modeling and reporting;
- **Data Aggregation and Reporting System:** Bank shall ensure a robust risk data aggregation and reporting system to provide supervisory authority, Board of Directors and Senior Management with a holistic view of risks;
- **Data Compatibility with BB Requirement:** Bank shall strengthen its MIS to ensure data compatibility with BB's RBS related data requirement.

F. Supervisory Engagement & Transparency:

- **Proactive Engagement:** Bank shall provide supervisors with accurate, timely, and complete information and engage proactively with them during reviews, assessments, and follow-up actions;
- **Immediate Notification:** Bank shall immediately notify supervisors in case of any relevant event that can have a significant adverse impact on the bank's risk profile, liquidity or capital situation, earnings or operational continuity.

G. Functional Supervisory Expectations

- **Operational Management:**
 - Satisfactory departmental/divisional/sectional/unit organization structure shall be in place with clearly defined reporting lines, adequate allocation of powers, segregated roles and responsibilities and accountabilities of staffs at operational and management levels of lending, investment, treasury and other operational activities for proper management of different risks, including credit, market, operational and other risks;
 - Adequate policies, procedures and limits shall be in place and adherence to those policies, procedures and limits by the staff should be ensured;
 - Adequate staff in terms of numbers, expertise, experience and trainings shall be ensured for effective risk management;
 - Robust MIS and adequate procedures for compliance monitoring for timely and effective detection, reporting and prevention of material errors, irregularities and weaknesses shall be in place.
- **Board of Directors Oversight:**
 - Board of Directors shall regularly review and approve appropriate risk management strategy, policies, procedures and risk appetite in regard to relevant risks and oversee their implementation and follow up;

- Board of Directors shall establish an appropriate organizational structure and define the role and authority for itself, Senior Management and for those responsible for business, risk management and control functions;
- Board of Directors shall ensure the independence of risk management, compliance and internal audit functions, and provide adequate, skilled and experienced resources;
- Board of Directors shall ensure that top management possesses sound knowledge and expertise and hold them accountable for breaches of and non-adherence to law, regulations, internal policies, procedures, and risk limits;
- Board of Directors shall regularly review the bank's financial health, portfolio quality and ensure maintenance of adequate provisions and capital commensurate with the risk profile of the bank;
- Board of Directors shall ensure adequate and robust IT and MIS for risks to be identified, measured, assessed, and reported in a timely and accurate manner;
- Board of Directors and its committees shall review various internal and external reports, take appropriate decisions for risk mitigations and ensure follow up of those decisions for proper implementation;
- Board of Directors shall ensure governance at bank in accordance with corporate governance principles;
- The Board of Directors shall actively oversee the integration of supervisory expectations in the bank's existing framework and practices, review the implementation of the Action Plan designed for the integration of supervisory expectations under RBS framework, and hold Senior Management accountable for deficiencies.

- **Senior Management Oversight:**

- Senior Management shall translate strategic direction and policy set by the Board of Directors into proper procedures and operational standards and ensure management and control of risk in accordance with the policies keeping in view of the strategic direction and risk appetite specified by the Board of Directors;
- Senior Management shall ensure segregation of duties, transparency and accountability across the organization for staffs, ensure adherence to the delegation of authority, and preserve the effectiveness and independence of bank's internal control and audit functions;
- Senior Management shall adequately oversee the officials they manage and ensure that their activities are consistent with business strategy, risk appetite and the policies approved by Board of Directors;

- Senior Management shall keep the Board of Directors regularly and adequately informed of material issues, including changes in business strategy, bank's performance and financial condition, breaches of risk limits or compliance requirements, internal control failures, legal or regulatory concerns.
- **Risk Management Function:**
 - Risk management function shall remain independent with direct reporting lines to the Board of Directors and have Chief Risk Officer (CRO) with adequate expertise, stature and authority;
 - Risk management function must be well-resourced and capable of identifying, assessing, measuring, monitoring, and mitigating all material risks, including credit, market, liquidity, operational, legal & regulatory, strategic, technology and other risks;
 - Risk management function shall develop and test different models and observe their use to assess and measure risks along with the assessment of risks involved in new products and services;
 - Risk management function shall conduct stress testing, scenario analysis, and use early warning indicators and other tools to identify vulnerable areas and also incorporate forward-looking assessments to anticipate changes in the risk environment;
 - Risk management function shall monitor on an ongoing basis if the risk-taking activities and risk exposures are in line with the Board of Directors approved risk appetite, risk limit and corresponding capital or liquidity needs;
 - Risk management function shall report to the Senior Management and Board of Directors if any material deficiency is observed along with its recommendations to ensure maintenance of adequate capital.
 - Anti-money Laundering Department and Chief Anti-money Laundering Compliance Officer of bank shall ensure the effective management of ML/TF risk in line with applicable laws, regulations and the bank's relevant risk management policies, and shall closely coordinate with the Risk Management Department in this regard.
- **Internal Audit Function:**
 - Internal audit function shall be independent with sufficient stature and authority within the bank, for enabling the internal auditors to carry out objective assessment of business units and risk control functions;
 - Internal audit function shall have sufficient resources and staff with relevant expertise and experience to understand and evaluate the business activities and associated risks;

- Internal audit shall carry out its function in accordance with Risk Based Audit approach;
 - Internal audit shall independently review the adequacy and effectiveness of the bank's different risk management policies and processes, internal control system and compliance framework along with business units and operations, identify weaknesses and report the same to Senior Management and Board of Directors with recommendations of appropriate corrective measures;
 - Internal audit shall independently review the appropriateness of maintenance of provisions and capital, and adequacy of MIS;
 - Internal Audit must evaluate the adequacy of the bank's existing framework and practices against the supervisory expectations within its audit scope and report findings directly to the Audit Committee of the Board of Directors with timelines for corrective action.
- **Compliance Function:**
 - Compliance function shall have independence, sufficient authority and the right on its own initiative to communicate with any staff members and obtain access to any records or files related to business operations to investigate possible breaches with laws and regulations;
 - Compliance function shall have a separate compliance structure along with adequate resources, remain up to date of the changes in the laws, regulations, circulars, guidelines and other regulatory requirements (including regulatory reporting) and communicate the same with the concerned department/business units;
 - Compliance function shall conduct regular reviews on day-to-day activities of bank' relevant business units/departments/operational units to ensure full adherence to the applicable laws, regulations and guidelines and timely reporting of breaches to the Board of Directors and Bangladesh Bank.

H. Training, Awareness, and Capacity Building

- **Comprehensive Training Programs:** All employees shall undergo comprehensive training on RBS principles and supervisory expectations. Specialized modules should be designed for Senior Management, risk function heads and Board of Directors members;
- **Board of Directors Awareness Programs:** The Board of Directors shall participate in at least one formal RBS awareness program annually;
- **Role-specific Capacity Development:** Staff directly engaged in RBS-related functions (risk management, compliance, internal audit, operational risk, technology, ML/TF etc.) shall receive targeted technical training to enhance capacity, such as training on Basel norms, different types of risk, stress testing, risk modeling, regulatory compliance etc.

I. Gap Assessment, Reporting, Monitoring and Feedback

- **Gap Analysis and Action Tracking:** Bank shall conduct periodic gap assessments of existing framework against supervisory expectations under RBS with documented follow-up and corrective actions;
- **Regular Reporting to the Board of Directors:** Senior Management shall submit quarterly reports to the Board of Directors detailing the gaps identified against supervisory expectations, an Action Plan to address the gap and the progress achieved against the Action Plan;
- **Monitoring and Feedback by the Board of Directors:** The Board of Directors shall maintain documented oversight of RBS implementation, including timely review and approval of corrective action plans.

J. Committee and Coordination

- **Formation of RBS Coordination Committee:**
 - **Convener:** Focal Point Official for RBS
 - **Member Secretary:** Deputy Focal Point Official for RBS
 - **Members:** Heads of Internal Audit, Compliance, Credit Division/Department, Credit Risk Management, Credit Administration, ICT, International Division, MIS/Data Management, Central Accounts, Treasury, Law, Chief Operating Officer, Chief Financial Officer, and any other departments or equivalent executives relevant to RBS.
- **Mandate:** The Committee shall coordinate all RBS-related activities, monitor progress, review resource adequacy, and report quarterly to the Board of Directors and Bangladesh Bank proactively or upon request.
- **Position of Focal Point and Deputy Focal Point:**
 - Focal point shall be a Deputy Managing Director (DMD) or a higher position. If Chief Risk Officer is a DMD or higher-level official, he/she shall act as the Focal Point official.
 - Deputy Focal Point shall be a mid-level official.
- **Secretariat of the Coordination Committee:** Risk Management Department of the bank shall provide all secretarial services to the RBS Coordination Committee.
