

Appendix - 1

Chronology of Major Policy Announcements : FY06

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1. Money Market Development

- July 2005 | Pensioner Savings Certificate Rules 2004 have been revised in order to reduce complexities regarding investment in pensioner savings certificate. According to the revised rules, money received from the provident fund and gratuity by the persons i.e. the honourable justice of the supreme court, members of Defense Personnel's enjoying LPR/already retired and the family pension holders i.e. Husband/Wife/Son or Daughter of deceased service holders can also be invested together in pensioner savings certificate where the maximum amount is Tk. 25 (twenty five) lakh. This has become effective from 4 July 2005.
- July 2005 | It has been decided that at the time of submission of bids for treasury bills and treasury bonds, the authority has also to be given to BB by the banks and NBFIs for the upfront deduction of income tax at the time of issue on interest or discount to be given alongside deduction of value of government securities or securities approved by the government, with effect from 1 July 2005.
- July 2005 | Annual agricultural credit/rural credit programme for FY06 has been kicked off effective from 1 July 2005 and the programme will end up on 30 June 2006. Concerned banks will chalk out their respective agricultural credit programme themselves keeping in view the actual credit demand and will take necessary arrangement for timely disbursement of credit. The amount of credit prescribed in the guidelines can be decreased/increased up to 10 percent in view of farmers' actual demand for agricultural credit.
- August 2005 | With a view to creating automatic opportunity for reinvestment on savings certificate, Sanchayapatra Rules 1977 (amended up to 30 June 2002) have been revised with effect from 10 August 2005. According to the revised rule, the maximum permissible limit of holding of each Sanchayapatra shall be Tk. 25.00 lakh (Twenty five lakh) for any one person and Tk. 50.00 lakh (fifty lakh) for two persons jointly. Profit earned on Sanchayapatra(s) can also be reinvested, which shall not be subject to the above maximum limit. On maturity the principal amount along with the profit accrued thereon shall be treated as reinvested for another term only in case the certificates are not encashed and the profit payable for the extended period shall be at the rate prevailing on the day the renewal is made.
- August 2005 | Statutory Liquidity Ratio (SLR) for the scheduled banks with the Bangladesh Bank has been adjusted upward to 18 percent from 16 percent of total demand and time liabilities including an upward revision of Cash Reserve Requirement (CRR) from 4.5 percent to 5 percent with effect from 1 October 2005. Banks are required to maintain CRR daily at the rate of 5 percent on the average on bi-weekly basis provided that the CRR would not be less than 4 percent in any day.

- October 2005 | With a view to ensure wider application of fair value accounting of Government Securities and encouraging secondary trading after issuance of these securities, some changes have been made vide BRPD circular no. 15 dated 31 October 2005 in the note no 4(kha) of the first schedule of section 38 of the Bank Company Act 1991. As per the circular, the securities, held for the fulfillment of Statutory Liquidity Requirement (SLR) by a banking company, will be treated as Held to Maturity (HTM). The gain/loss due to the revaluation will be taken to Capital Account and disclosed in the 'Statement of Changes in Capital', and Government treasury bills and bonds in excess of SLR will be treated as Held For Trading (HFT). The portion of securities in Held for Trading should be revaluated at least on weekly basis based on marking to market or at current market prices. The banking company will show the gain/loss due to this revaluation in the Profit and Loss Account of the concerned period. The weekly revaluation based on marking to market for the portion of securities held for trading by the banks will be compulsory from 1 February 2006.
- December 2005 | The rates of interest and upper limits of investment for the savings schemes have been re-fixed. According to latest revision, the interest rates on 5-year Bangladesh Sanchayapatra, 3-year Tin Mash Antar Munafa Vittik Sanchayapatra, Pensioner Sanchayapatra and 3-year Post Office Savings Bank Account (Term Deposit) have been re-fixed at 12.00 percent, 11.50 percent, 12.50 percent and 12.00 percent respectively. The upper limits of investment in 5-year Bangladesh Sanchayapatra, 3-year Tin Mash Antar Munafa Vittik Sanchayapatra and 3-year Post Office Savings Bank Account (Term Deposit) have also been re-fixed for single name at Tk. 50.00 lakh or for joint name at Tk. 1.00 core and the upper limit of investment in Pensioner Sanchayapatra has been re-fixed at Tk. 30.00 lakh. The re-fixed rate of interest and upper limits of investment for the savings schemes have become effective from 4 December 2005.

2. Financial Sector Development

- July 2005 | In order to enhance and widen the opportunity for refinance scheme in small enterprise sector, BB has created a Fund equivalent to 30 million US dollar under "Small and Medium Enterprise Sector Development Project" introduced by the government with the financial assistance from ADB. The refinance facility under the Fund will be extended to banks/financial institutions who are engaged in financing small enterprise sector. The industrial unit/business enterprise that has maximum fixed assets amounting to Taka one core will be treated as small enterprise. Maximum 100 percent refinance facility will be provided to banks/financial institutions against the disbursement of loan amounting to Tk. 2.00 lakh to Tk. 50.00 lakh given as term or working capital to a single borrower in small enterprise sector. Prevailing bank rate will be applicable as interest rate for refinance facility provided by BB and market rate of interest will be applicable to banks/financial institutions at customer level.
- July 2005 | Necessary instructions have been given to the non-bank financial institutions, leasing companies and housing finance companies to impose 10 percent tax at source on interest or profit received on deposits by them with effect from 1 July 2005.

- July 2005 | It has been decided that financial institutions can receive deposits of minimum 6-month tenure only in case of institutional deposits effective from 19 July 2005. Prior to this instruction, financial institutions were not allowed to receive deposits of less than one-year tenure.
- July 2005 | Banks/financial institutions have been instructed to formulate and implement specific programme for performing KYC procedure as per the specified format supplied by the Anti-Money Laundering Department of BB keeping in line with the Guidance Notes on Prevention of Money Laundering.
- August 2005 | Some amendments have been made in the policy on loan classification and provisioning. As per amendments banks will be required to make General Provision @ 5 percent on the outstanding amount of loans kept in the 'Special Mention Account' (SMA) after netting off the amount of Interest Suspense and the status of the SMA loan should be reported to the Credit Information Bureau (CIB) of BB. This instruction will be effective from 31 December 2005.
- August 2005 | In view of the problems faced by some banks in financing the consumer and small enterprise sector some amendments have been made in the prudential guidelines as prescribed earlier. According to the revised guidelines, in case of proprietorship concern, spouse's guarantee other than the personal guarantees of the owners may be taken. For loan amounting to Taka 10 (ten) lakh and above, registered mortgage over immovable properties will be required and for loan below Tk. 10 (Ten) lakh banks are free to determine security requirements. One of the five loan classification categories, namely 'Unsatisfactory' has been rescinded. However, interest on Special Mention Account should be credited to 'Interest Suspense Account' instead of Income Account. Banks will be required to maintain 2 percent General Provision against unclassified loan amount. As regards credit card PP guideline, the restriction on minimum interest free period i.e. 15 days has been withdrawn. The maximum tenure of the auto loan finance shall not exceed six years. The banks shall not allow auto loan (including insurance) exceeding Tk. 2 million for every individual under this head. Regarding housing finance it has been instructed that housing finance for real estate business and commercial complex such as super market and shopping mall etc. shall be excluded from the consumer finance category. Loan exposure under housing finance category should not exceed 10 percent of the bank's total loan portfolio.
- September 2005 | Financial institutions (non-bank) have been advised to put in place an effective risk management system by June, 2006 based on the guidelines prepared by the three 'Focus Groups'. It may be mentioned that three 'Focus Groups' were formed with participation from financial institutions (non-bank) with representatives from the Bangladesh Bank as team coordinators to look into the industry best practices both at home and abroad and produce a document that would be a basic risk management model for each of the selected three core risk areas (Credit Risk, Assets & Liability /Balance Sheet Risks and Internal Control and Compliance Risks).
- September 2005 | In order to ensure discipline in management of human resources in the Financial Institutions sector, FIs are advised to comply with some policy guidelines regarding appointment of officials/staffs from one financial institution/bank to

another financial institutions/bank such as: 1. Resignation letter of any employee/officer should be accepted within 7(seven) days provided no disciplinary case against his/her remains pending. If any disciplinary case is pending against any employee, it must be settled within one month as per service rule; 2. If any officer of FI is dismissed from the service on the charge of misappropriation of fund, corruption, forgery or moral turpitude, he will not be eligible for appointment in future service of any financial institution.

- October 2005 | IT guideline of 'minimum' security standards for scheduled banks and financial institutions has been prepared and forwarded to the banks through CD-ROM. Banks are advised to follow the Guideline in their IT area and implement all the security standards by May 15, 2006.
- October 2005 | Financial institutions were directed to send the statement regarding classification and provisioning of their invested assets like lease, loan, housing loan and other assets on quarterly basis instead of half-yearly basis effective from 1 January 2006.
- November 2005 | Some changes have been made in the guidelines on disposal of resignation letter of employee/officer of scheduled banks. As per revised guidelines, if any employee/officer of a bank submits resignation letter and no decision given within 3 (three) months of submission of the letter, the employee/officer will be treated as released automatically at the end of the period. If any case against the employee/officer is pending in a court, then the issue will be settled on the basis of the verdict of the court.
- December 2005 | Time limit for repayment of overdue agricultural loans (principal amount not exceeding Tk. 5000/-) for availing of the interest remission facility by the small and marginal farmer and share cropper has been extended up to 30 March 2006 under previous terms and conditions.
- December 2005 | With the aim to fully implement a Risk Grading System, an Integrated Credit Risk Grading Manual has been developed and forwarded to the banks in the form of CD-ROM. Banks are advised to implement Credit Risk Grading (as described in the manual) by 31 March 2006 for all exposures (irrespective of amount) other than those covered under Consumer and Small Enterprises Financing Prudential Guidelines and also under the Short-Term Agricultural and Micro-Credit. Banks are also advised to submit a compliance report by 15 April 2006 to the effect that the Credit Risk Grading has been put in place. Risk Grading Matrix provided in the Manual will be the minimum standard of risk rating and banks may adopt and adapt more sophisticated risk grades in line with the size and complexity of their business. Arrangement will be made by Bangladesh Bank, if necessary, to train the trainers of the banks in this regard. Bangladesh Bank will monitor the progress of implementation of the manual/guideline through its on-site inspection teams during routine inspection.
- December 2005 | Customs Houses/Tariff Stations having no arrangement to pay tariff/taxes through Sonali Bank under ASYCUDA++ facility have been directed to pay tariff/taxes through bank draft/pay-order instead of chalan. Officers in-charge of those tariff stations have to verify these instruments every after three months.
- December 2005 | It has been decided that the effective date for maintaining 5 percent General

Provision against unclassified loan amount for Consumer Financing shall be from 1 January 2006.

- December 2005 | It has been decided that loans will have to be classified into 8 (eight) categories: 1. Superior (SUP), 2. Good (GD), 3. Acceptable (ACCPT) 4. Marginal/Watch list (MG/WL), 5. Special Mention Account (SMA) 6. Substandard (SS), 7. Doubtful (DF) 8. Loss (BL) instead of the existing four categories Guidelines containing revised classification and provisioning for consumer financing and small enterprise financing have been provided to banks for compliance.
- December 2005 | Commercial banks have been directed to submit Cash Transaction Report (CTR) to Bangladesh Bank in the prescribed format for both deposit and withdrawal amounted to Tk. 5.0 (five) lakh or above in a single account after reviewing daily transactions with effect from 1 January 2006. However, this submission requirement has been made optional for the reporting period of January- March, 2006 for those banks who could not yet bring all the branches under automation.
- December 2005 | In order to ensure security in IT setup as well as in IT operation and to protect the interest of the clients, Bangladesh Bank has issued a guideline on information and communication technology for financial institutions (Non-bank). Financial institutions are advised to follow the guideline and implement all the security standards by May 15, 2006. The Bangladesh Bank has already sent the guideline through CD-ROM, which will be the base to develop financial institutions' own IT policy and security standards. Besides, the financial institutions have been advised to submit a compliance report to the Financial Institutions Department (FID). Bangladesh Bank will monitor the progress of implementation of these security standards through its on-site inspection team during routine inspection.
- July 2005 and February 2006 | Financial institutions whose capital and reserve have risen to Tk. 25.00 core on 31 December 2004 and did not yet issue IPO, they have to issue IPO of minimum Tk. 5 core before 31 December 2005. If any institution would fail to issue IPO in due time, Bangladesh Bank may instruct them to issue IPO at an increased amount. Further the time limit for issues of IPO has been extended up to 30 June 2006.
- February 2006 | Banks/Financial Institutions have been advised to follow the guidelines stated below at the time of submission of proposal to Bangladesh Bank regarding the salary-allowances and other facilities of the chief executive.
- i) For determining salary and allowances of the chief executive, Bank's/Financial Institution's financial condition, area of operations, business volume and earning capacity, qualification, age and experience of the person concerned and salary-allowances paid to the persons holding the same position in peer banks/financial institutions shall have to be taken into consideration.
 - ii) Total salary shall be comprised of direct salary covering 'basic pay' and 'house rent' and allowances as 'others'.
 - iii) Terms of salary-allowances as specified in the terms and conditions of

appointment cannot be changed during the tenure. In case of renewal proposal may be made for re-fixation of salary considering the job performance of the incumbent chief executive.

- iv) Banks/Financial Institutions shall not pay income tax in favour of the chief executive, i.e. the chief executive so appointed shall have to pay it.
- v) No person crossing the age of 65 years shall hold the post of chief executive.

February 2006 | The rate of General Provision has been reduced from 5 percent to 2 percent on the unclassified amount for Housing Finance and Loans for Professionals to setup business under Consumer Financing Scheme.

February and March 2006 | Policy for rescheduling of loans has been reviewed and it has been decided that the borrowers whose credit facility has been rescheduled will get new loan facility subject to the fulfillment of the following conditions:

- i) The defaulting borrower who has availed interest waiver must settle at least 15 percent of the compromise amount (excluding the down payment on rescheduling as per present guidelines) to avail any further credit facility from any bank. In case of borrowing from other banks, the same rule will be applicable i.e. the borrower will have to submit NOC from the rescheduled bank.
- ii) Export borrowers may be granted further credit facility (after being identified as not a willful defaulter), if required, subject to settle at least 7.5 percent of the compromise amount (excluding the down payment on rescheduling as per present guidelines) being paid.
- iii) Prior approval of Bangladesh Bank shall have to be obtained if the loan is related to the director/ex-directors of a Bank Company.
- iv) Information on the loan accounts rescheduled shall be reported to the Credit Information Bureau (CIB) of Bangladesh Bank.
- v) If any such issue is already there (such fresh facility has already been allowed after allowing waiver the same will not fall under purview of this circular.

May 2006 | Financial Institutions (FIs) in Bangladesh have been instructed to classify non-performing loan/lease based on a time frame. It has been decided that a loan/lease will be put into the 'Special Mention Account' (SMA) in the following ways:

Period of Loan/Lease	Overdue Period
Loan/Lease period up to 5 years	3 months or equivalent
Loan/Lease period above 5 years	6 months or equivalent
Housing Loan for any period	9 months or equivalent

It has also been decided that interest accrued on such loan/lease put into SMA will be credited to Interest Suspense Account, instead of crediting the same to Income Account. FIs will be required to make General Provision @ 5 percent on the outstanding amount of loans kept in the 'Special Mention Account' after netting off the amount of Interest Suspense. The status of the loan/lease (SMA) should be reported to the Credit Information Bureau (CIB) of Bangladesh Bank. As such there will be five categories of loan/lease classification status instead of existing four for reporting to CIB. However, loan/lease in the SMA will not be

treated as default loan. This instruction has been made effective from 30 June 2006.

- June 2006 | In order to strengthen credit discipline and bring classification policy in line with international standards, Bangladesh Bank from time to time has revised its prudential norms for loan classification and provisioning. As part of the process, a Master Circular has been issued on 5 June 2006 in order to enable the banks to have all existing instructions on the subject at one place. This circular also includes a few new instructions as well as new formats for loan classification and provisioning. More concentration has been given on Short-term Micro-Credit by enhancing its limit from Taka 10,000/- (ten thousand) to Taka 25,000/- (twenty five thousand). Banks having Offshore Banking Unit (OBU) have been brought under the purview of loan classification and provisioning with a view to bringing transparency of OBU transactions of EPZ (Export Processing Zone) enterprises and thereby reporting to BRPD and CIB of Bangladesh Bank for cross information purposes.

3. External Sector Development

- July 2005 | In order to attract more investment "The US Dollar Premium Bond Rules 2002" and "The US Dollar Investment Bond Rules 2002" have been revised with effect from 3 July 2005. According to the revised US Dollar Premium Bond Rules and Investment Bond Rules, non-resident account holder means an individual of Bangladesh or foreign national residing abroad and holding a non-resident foreign currency account in a bank branch in Bangladesh with Authorized Dealership in foreign exchange.
- July 2005 | Deduction of income tax at source for export proceeds from knitwear and woven garments has been fixed at 0.25 percent by NBR. This instruction will be applicable to the export proceeds received on 1 July 2005 or thereafter.
- August 2005 | In order to ensure that banking system will not be used as a channel of money laundering, banks should be sure about the nature of business of respondent banks before delivering correspondent banking service.
- September 2005 | It has been decided that prior Bangladesh Bank approval will however not be required for Taka advances by way of purchase of cheques in freely convertible currencies drawn by foreign embassies/international organizations/foreign nationals employed therein on their bank accounts abroad, provided that (i) the Authorized Dealer is fully satisfied about collectibility of cheque proceeds in foreign currency within four weeks of purchase, (ii) the expected collection period is fully factored in while deciding the purchase price in Taka, and (iii) the purchases are with recourse to drawers of the cheques for any difficulty in collection.
- September 2005 | In pursuance of the guidelines on Managing Core Risks in Banking to be followed in case of foreign exchange risks for reconciliation of nostro accounts, banks are now required to submit a comprehensive review of all nostro accounts containing a complete list of all un-reconciled entries at the end of each quarter; the list is to be prepared by officials who have no involvement in the transaction and approval

process of the nostro accounts. Banks are also required to make provisions periodically for debit entries remaining un-reconciled for more than three months. In addition, review of June and December end must be accompanied with certification of the External Auditor of the bank concerned on correctness of the status of the un-reconciled entries mentioned in the review.

- November 2005 | It has been clarified that balance in the Non-resident Investors Taka Account (NITA) holds for investment in Bangladeshi shares and securities may be transferred to the Foreign Currency Account (FCA) of the same person with the respective AD without prior approval of Bangladesh Bank. Similarly, balance in the FCA may also be transferred to NITA without prior approval of Bangladesh Bank. However, in both the cases a written request of the account holder will be required.
- December 2005 | To attract investment in agro-based industry in Ishwardi EPZ it has been decided that subsidy facility will be given for the export of liquid glucose produced in this EPZ and the rate of subsidy will be 20 percent of net repatriated fob value. This facility will be applicable for liquid glucose shipped during 1 July 2005 to 30 June 2006.
- February 2006 | A decision has been taken by the government of Bangladesh that subsidy facility will be given against export of light engineering products (Carbon Rod for battery, UM-1/R-20/D size battery, UM-3/R-06/AA size battery and locally manufactured glassware, manufacturing machinery, moulds and parts) produced within the country. This facility will be applicable for the export products where shipment will be made during 1 July 2005 to 30 June 2006. If these products have value addition of more than 50 percent, then subsidy will be given at the rate of 10 percent of export earnings under prescribed conditions. In this connection, some guidelines have been issued to the ADs for compliance.
- March 2006 | Authorized Dealers are instructed that from now except bills of lading and Air Way Bills issued by the concerned carriers, negotiation of export bills may also take place against Forwarders' Cargo Receipts (FCRs) and House Air Way Bills (HAWBs) issued by freight forwarders provided that
- i) The export letter of credit and the export sale contract specifically provide for negotiation of export bill against FCR/HAWB (as the case may be) issued by a freight forwarder;
 - ii) The freight forwarder issuing the FCR/HAWB is operating in Bangladesh with authorization from the Bangladesh Bank under Section 18A of the FER Act 1947.
- May 2006 | Under Export Development Fund (EDF) pre-shipment credit facility in US Dollar was initially introduced for import of raw materials, accessories, spare parts and packing materials against export letter of credits on sight basis. Now it has also been extended for import of the same items on sight basis against export contract, provided that if any export proceeds becomes overdue for not being repatriated within four months after the shipment, the concerned exporter and/or business entity is not allowed to avail further facility under Export Development Fund. A single borrower exposure is up to a maximum of US\$ 1.00 million.