

Appendix - 1

Chronology of Major Policy Announcements : FY07

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1. Financial Sector Development

- July 2006
- The issue of Credit Rating of the banks has been reviewed further and with a view to safeguard the interest of the prospective investors, depositors and creditors and also the bank management as a whole for their overall performances in each relevant areas including core risks of the bank, it has been decided to make it mandatory from January 2007 for all banks to have themselves credit rated by a Credit Rating agency. Banks have been advised to take necessary measures from now on so that they can have their credit ratings in all relevant areas as well as the bank management. Banks have been instructed to complete their credit rating by 30 June 2007. The credit rating will be an ongoing process i.e. credit rating should be updated on a continuous basis from year to year, within six months from the date of close of each financial year.

The rating report completed in all respects be submitted to Bangladesh Bank and made public within a period of one month of the notification of rating by the credit rating agency. Banks will disclose their credit rating prominently in their published annual & half yearly financial statements.

Non-compliance to these instructions shall render the banks and official(s) concerned liable to action under the relevant provisions of the Banking Companies Act, 1991.
- July 2006
- Credit norms for different crops have been formulated by the ACSPD (Agricultural Credit and Special Programmes Department) of Bangladesh Bank for the year 2006-07 on the basis of crop production norms prepared by the Directorate of Agricultural Extension under Ministry of Agriculture. In general, banks will follow these guidelines in determining the eligibility of borrowers and amount of credit thereof, disbursement and repayment schedule, use of respective passbook etc. In consideration of actual credit demand of the farmers the amount of loan is determined on the basis of the guidelines. Banks however, may increase/decrease the loan amount by 10 percent maximum on the basis of individual credit requirement. Banks formulate their own agricultural credit programme by setting the target in the light of actual credit demand and will take necessary action to disburse credit in time accordingly.
- July 2006
- In term of Finance Act 2006, regulations have been made for collection of 3 percent Income Tax at source on credit bills for Credit Card users through the addition of new article 53GGG to the Income-Tax Ordinance, 1984. The users of credit card will have to pay advance income tax @ 3 percent on his total credit bill at the time of payment. Collection of advance tax will have to be ensured by the bank that will collect the bills of credit card.

- August 2006 ● Constituents of Supplementary Capital (Tier-2) have been reviewed and it has been decided to replace "General provision (1 percent of Unclassified loans)" by "General provision maintained against Unclassified loans". As such the components of Supplementary Capital now stands as: (a) General provision maintained against Unclassified loans, (b) Assets Revaluation Reserves, (c) All other Preference Shares, (d) Perpetual Subordinated debt and (e) Exchange Equalization Account.
- October 2006 ● Guidelines have been issued for disbursement and recovery of agricultural credit at 2 percent interest rate and for compensation of financial loss of banks for credit disbursed at concessionary interest for crops like pulses, oil seeds, spices and maize. As per the guideline, credit norms for the above mentioned crops as formulated by Directorate of the Agricultural Extension under Ministry of Agriculture and the Bangladesh Bank will be applicable for determination of maximum and minimum credit ceiling on the basis of production cost per acre, credit disbursement season etc. The guidelines also provide that, after examining claims for reimbursement of compensation by banks, Ministry of Finance will finalize reimbursement amount and will make repayment arrangement accordingly via Bangladesh Bank. These guidelines have been in effect since 1 July 2005.
- October 2006 ● Banks have been advised to submit also their management report (confidential part) along with audited financial statement prepared by the external audit team to the Department of Off-site Supervision of Bangladesh Bank as per clause 40 of Banking Companies Act, 1991.
- October 2006 ● Branch expansion policy of banks has been reviewed and it has been decided that private banks will submit to Bangladesh Bank Annual Branch Expansion Plan of a particular calendar year within the month of November of preceding year instead of 60 days after the commencement of calendar year as stipulated in the BRPD circular No. 7 dated 18 March 2003.
- November 2006 ● Recently, it has been observed that, some banks while facilitating some loan defaulters for rescheduling their loans are not following the policies issued by Bangladesh Bank properly which is a punishable offence. In this regard all scheduled banks have been advised again to ensure strict compliance of policies issued by Bangladesh Bank for rescheduling of defaulted/classified loans.
- December 2006 ● It has been observed that, by submission of writ petition in the Honorable High Court loan defaulters of different banks and financial institutions are availing further loans and other facilities after obtaining stay order on showing their names as loan defaulter with the Credit Information Bureau (CIB) of Bangladesh Bank. In these circumstances, banks have been advised to take legal steps to get stay order vacated by engaging senior and efficient lawyer as well as by taking other legal steps so that loan defaulters cannot avail such facilities by using stay order of the Honorable High Court. The concerned bank authorities have been confirmed to be liable for any kind of negligence/laxity in this regard.

- January 2007 ● As per appeal of Bangladesh Bank the government has declared moratorium on the activities of The Oriental Bank Limited for 6 (six) months effective from 25 January 2007 except some important activities such as: maximum Taka 10 thousand of monthly withdrawal facility of the depositors, settlement of liabilities regarding L/C opened before moratorium, business activities in favour of export oriented institutions, withdrawal facility against foreign remittances, issuance of DD/Pay Order only for 100 percent cash deposit etc.
- February 2007 ● With a view to ensure balanced and organized industrial development in the country, a decision has been taken to allocate minimum 10 percent of total fund of Small and Medium Enterprises (SMEs) provided by Bangladesh Bank for women entrepreneurs of SMEs in order to provide more institutional credit facility at easy terms and conditions.
- Credit disbursed by banks/financial institutions as term loan or working capital for single borrower from Taka 1.00 lakh to Taka 50.00 lakh will be provided maximum 100% refinance facility at bank rate by Bangladesh Bank. Fund allocated for women entrepreneurs will be used at revolving way for refinance.
- February 2007 ● As per clause 5(I) of the 'Bank Deposit Insurance Act, 2000' and with the approval of the Government the following risk based premium rate will be applicable for all scheduled banks in the country. This instruction will be effective from the half year January-June 2007.

Sl. No.	CAMEL rating/category	Premium rate
1.	Private Commercial Banks under Problem Bank category	0.09%
2.	Private Commercial Banks outside the Problem Banks	0.07%
3.	Nationalized Commercial Banks (NCBs)	0.07%

- February 2007 ● Chief Executives of all the banks have been advised to immediately introduce, under their direct supervision, an internal control system more effective, accountable and accurate in order to ensure that proper banking norms are meticulously followed by respective bank officials in course of banking transactions related to issue and purchase of the instruments viz. P.O., T.T., DD etc. and no such risky situation for the bank does occur for non-compliance thereof and to take stern internal disciplinary and legal measures against the bank officials/persons found liable for such non-complying/violative situation. After introduction of the oversight measures, the chief executive shall submit a statement to the Banking Regulation and Policy Department of Bangladesh Bank on the summary of findings obtained in transactions of above accounts regularly on quarterly basis before the respective 15th proximo.
- February 2007 ● The investigation teams of the law enforcing agencies in course of detection of crimes, framing of charges and filing of suits in connection with corruption cases, are now engaged in examining transaction of accounts in banks and financial institutions allegedly maintained by the suspects. The investigation teams of the law enforcing agencies will be deemed empowered by the Bangladesh Bank under section 5 of the Money Laundering Prevention Act, 2002.

Freezing or attachment order imposed by Magistrate Class-1 or Metropolitan Magistrate, as the case may be, upon the balance of the accounts of the accused or suspects shall be complied forthwith.

- March 2007
- With the opening of the economies, the business environment is undergoing a change and is becoming competitive. As part of this process, banks and financial institutions are restructuring their business based on their commercial wisdom. As the central bank of the country, Bangladesh Bank has a statutory duty to be satisfied that such restructuring does not adversely affect the interest of the depositors/clients and is also not detrimental to the financial discipline or to the interest of the country. In this respect, Bangladesh Bank has issued guidelines for the banks/financial institutions which should be followed uniformly with a view to structure and discipline the process of merger/amalgamations of banking companies/financial institutions.
- March 2007
- It has been observed that, loans/leases are being rescheduled in different ways by different financial institutions. For this, actual position of classification and provisioning of loans/leases of financial institutions are not reflected. In this respect, financial institutions have been directed to follow the guidelines given below with a view to bring discipline in loans/lease rescheduling.
 1. Appeal for first rescheduling of loan will be considered after repayment of minimum 15 percent of overdue or 10 percent of total outstanding loan in cash which one is lower.
 2. Appeal for second rescheduling will be considered after repayment of minimum 30 percent of overdue or 20 percent of total outstanding loan in cash which one is lower.
 3. Appeal for rescheduling more than twice will be considered after repayment of minimum 50 percent of overdue or 30 percent of total outstanding in cash which one is lower.

If irrationally loans/leases rescheduling are done repeatedly, then loans/lease will be classified on the basis of quality of the loans/leases. Prior approval of Bangladesh Bank is not required for rescheduling under these guidelines but prior approval of Board of Directors is required. A statement on rescheduled loans/leases in every month should be sent to the Department of Financial Institutions & Markets of Bangladesh Bank by 10th of the following month.
- March 2007
- While financing to large institutions or group of companies and extending credit facilities by more than one bank without consortium arrangements, banks are advised to take into cognizance the inter-bank consultation and arrangement, verification of audited financial statements, borrowers rating by a credit rating agency and the issues such as: capital size, business volume, ownership structure etc. to ensure proper monitoring/control over credit exposure.
- March 2007
- Some guidelines have been issued for compliance of financial institutions in writing off loans/leases.
 1. Those loans/leases have been classified as bad/loss and 100% provision have been preserved will be considered as eligible for write off.
 2. Approval of Board of Directors is required for writing off.
 3. All efforts for recovery of write off loans/leases shall remain in force.
 4. If legal steps were not taken earlier for loans/leases selected for write off, case must be filed in court before write off.

5. Financial institutions may appoint external institution to expedite the settlement of the cases filed against write off loans/leases or to recover the written off amount.
6. A separate ledger should be maintained for write off loan/lease accounts.
7. Amount of accumulated and current year's written off loans/leases should be mentioned separately in the Annual Report/Balance Sheet as 'notes to the accounts'.
8. In spite of writing off loans/leases, concerned borrower will be treated as usual. It will be required to report write off loans/leases in CIB of Bangladesh Bank like other loans/leases.
9. Approval of Bangladesh Bank will be required for write off loans/leases received by directors of financial institutions or institutions those are related to the directors.

A statement on writing off loans/leases in every month should be submitted in the Department of Financial Institutions & Markets of Bangladesh Bank by 10th of the following month.

April 2007

- Despite being contrary to the Memorandum and Articles of Association of the Company, without the presence of the representative of banks/Financial institutions, quorum of the Board Meeting shall not be fulfilled. Board meeting of the company shall have to be convened at least once in every quarter. The concerned bank/financial institution shall monitor the project implementation and commercial activities of the company and inform the EEF Unit progress made in this respect within 7 days of the following month.
While enjoying EEF facility, representative of the concerned bank/financial institutions shall represent Bangladesh Bank in the Board Meeting, Extra Ordinary General Meeting and Annual General Meeting of the Company. It shall be the responsibility of concerned banks/financial institutions to appoint the representative in question.
Representative of the bank/financial institution who will be present in the meeting of the Board of Directors is not required to hold share of the company in his/her personal name and shall not be required to offer personal guarantee for payment of the company's liability and also he/she shall not be deemed as defaulter on account of defaulted loan of the company concerned. Necessary amendments in this respect shall have to be incorporated in the Memorandum and Articles of Association of the company.

May 2007

- With a view to strengthening the capital base of banks and make them prepare for the implementation of Basel II Accord, it has been decided that henceforth banks will be required to maintain Capital to Risk-Weighted Assets Ratio 10 percent at the minimum with core capital not less than 5 percent. This requirement will have to be achieved by 31 December 2007.

2. Monetary Sector Development

June 2007

- It has been decided that 9 percent of savings deposit will be treated as demand deposit and the rest amount will be treated as time deposit. In this respect, scheduled banks are advised to follow the new ratio regarding demand and time deposits at the time of submission of their statements to Bangladesh Bank.

3. External Sector Development

- August 2006
- To facilitate faster disposal also of term borrowing proposals of foreign owned/controlled firm/companies in Bangladesh it has been decided that term loans in Taka for capacity expansion/BMRE of foreign owned/controlled industrial firms may henceforth be extended/renewed by banks without prior Bangladesh Bank approval provided that: i) the term loan in Taka does not exceed, as percentage of total term borrowing, the percentage of equity of the firm/company held by Bangladesh nationals and firms/companies not owned or controlled by foreigners, and ii) total debt of the firm/company does not exceed the 50:50 debt equity ratio.
- The prevailing credit norms and regulatory provisions regarding lending including single party exposure limits etc. will have to be duly complied with, and the term loan facilities extended will have to be reported to General Manager, FEID, Bangladesh Bank, Head Office, Dhaka in the proforma prescribed at Appendix 5/76 of the GFET. Term borrowing proposals not conforming to the stipulations stated above may as before be forwarded to FEPD, Bangladesh Bank, Head office, Dhaka for consideration and specific decision.
- August 2006
- To encourage export trade, export subsidy/cash incentive will be payable by the Government like preceding years on net f.o.b value of the selected commodities shipped during 1 July 2006 to 30 June 2007 at various rates: 1. Local fabrics @ 5%, 2. Frozen shrimp and other fish @ 10%, 3. Leather goods @ 15%, 4. Commodities made of hogla, straw, coir of sugarcane etc. @ 15% -20%, 5. Tobacco @10%, 6. Potato @ 10%, 7. Bicycle @ 15%, 8. Crushed bone @ 15%, 9. Jute goods. @ 7.5%, 10. Hatching eggs and day old chick of poultry @15% and 11. Light Engineering Products @10%.
- August 2006
- It has been decided by the Government of Bangladesh that export subsidy will be provided on net fob value of agriculture commodities (vegetables/fruits) and agro processing commodities @ 20% during FY07. Minimum 70 percent local raw materials must be used in respect of agro-processing export commodities. This subsidy will be applicable for commodities shipped during 1 July 2006 to 30 June 2007.
- September 2006
- The Government of Bangladesh (GOB) has signed a Financing Agreement (FA) for SDR 34.9 million (equivalent US\$ 50.00 million) on 1 June 2006 with the International Development Association (IDA) in connection with implementation of the Investment Promotion and Financing Facility (IPFF) Project. The important objective of the project is to promote the infrastructure development through private sector entrepreneurs endorsed by the GOB. The GoB and Bangladesh Bank have signed an Administrative Agreement on 21 August 2006 empowering Bangladesh Bank to administer and implement the project on behalf of GOB. "Infrastructure Development Lending" is the main component of the project. It will supplement the resources of local financial markets to provide long-term finance for infrastructure projects beyond the capacity of the local financial institutions. The Facility will provide long-term financing to eligible financial institutions (banks and non-banks) while those financial institutions will finance the infrastructure project promoters.

The main features of the Financial Agreement are:

- % As co-finance government will provide USD 10.00 million.
- % One of the main features of the project is that the 30 percent cost of any approved project should be borne by the promoters, 20 percent cost of the remaining 70 percent will be provided by the participating financial institutions (PFIs) whereas the rest 56 percent will be financed from IPFF. The bank/financial institution will bear the credit risk associated with the concerned project.
- % Under the project different infrastructure sectors i.e. power generation, transmission and distribution and services, port development (sea, river and land), environmental, industrial and solid waste management, highways and expressways including flyovers, water supply and distribution, sewerage and drainage, industrial estates and park development etc. will be financed. However, highest priority will be given to the power sectors.
- % The bank/financial institution will bear the credit risk associated with financing the concerned project.

December 2006 ● With a view to encouraging export trade government has decided to provide 20 percent export subsidy on export of 'halal' meat. Meat of hen, duck, buffalo, cow, goat and lamb produced in own farms and slaughtered as prescribed by Islamic law will be under this subsidy facility. In all cases export subsidy will be calculated on net f.o.b values after repatriation of export proceeds in foreign currency.

June 2007 ● For implementation of Uniform Customs and Practice (UCP) 600 for documentary credits, the Authorized Dealers (ADs) are advised to explicitly mention that UCP 600 shall apply for all Letters of Credit (LCs) to be opened from 1 July 2007. Similarly, in case of exports from Bangladesh against LCs, the ADs must ensure that the terms of the LCs are in conformity with the rule of UCP 600. If otherwise, ADs shall get the LCs amended accordingly.