

Laws and Practice of General Banking (LPGB)

For JAIBB

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Suggestion:

- Read 4 star and 5 star marked chapter if you have time shortage to read all chapter.
- Must read short notes from all chapter.
- MetaMentor Center suggest to read whole note to find 100% common in exam. We cover everything in our note.

Important	Details	Number of Question common in previous years
*****	Module-A: Financial Institutions Related Laws	19
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*****All short note from all chapter and end of note *****		

Syllabus

Part- I

Module A: Financial Institutions Related Laws

- Bangladesh Bank Order, 1972; Bank Company Act, 1991; Financial Institutions Act, 1993; Artho Rin Adalat, 2003

Module B: Financial Instrument Related Laws

- Negotiable Instrument Act, 1881; Note Refund Regulations, 2012

Module C: Financial Activities Related Laws

- Foreign Exchange Regulation Act, 1947; Money Laundering Prevention Act, 2012; Anti-terrorism Act, 2009

Module D: Business Related Laws

- Company Act, 1994; Contract Act, 1872; Transfer of Property Act, 1882; Limitation Act, 1908; Bankruptcy Act, 1997; Customs Act, 1969; Stamp Act, 1899; Partnership Act, 1932; Registration Act, 1908

Module E: Information and Data Related Laws

- Bankers Book Evidence Act, 1891; Information and Communication Technology Act, 2006; Digital Security Act, 2018; Right to Information Act, 2009

Module F: General Laws

- Bangladesh Environment Conservation Act, 1995; Power of Attorney Act, 2012; Bank Deposit Insurance Act, 2000

Part-II

Module A: Overview

- Bank, Types of Banks, Functions of Banks, Areas of General Banking, Customers, Relationship with the customers, Rights & Obligations of banks & customers, Providing services in accordance with customer acceptance policy & schedule of charges Module

Module B: Deposit Accounts & Operation

- Customer and UCIC (Unique Customer Identification Code) KYC, e-KYC, CDD (customer due diligence), EDD, PEPs/IPs, Beneficial Owner, Types of Deposit Accounts, Procedures of opening of Accounts and relevant documents required for opening of accounts, introduction, Letter of thanks, Sanction screening, Opening of Account through digital Platform, Issuance of Cheque book.

Module C: Negotiable Instruments Act 1881

- Negotiable Instrument, Promissory note, Bill of exchange, Cheque, Drawer & Drawee, Payee, Holder, Holder in due Course, Payment in due Course, inland instruments, foreign instruments, Negotiation, Endorsement, Effect of endorsement, Cheque payable to order, effect of material, revocation of bankers' authority, crossing of cheques & its effects, Collecting Banks' responsibility.

Module D: General Banking

- Debit Cards, Internet banking, Transfer of accounts, standing instruction, Stop & lost payment instruction & its Revolution, Dormant accounts and its revival, unclaimed deposit accounts, closing of accounts, Operation of minor students, no-frills, Incapacitated-sick-disabled accounts, Resident & Non-Residents Accounts, Accounting entries related to deposit/withdrawal/transfer of money. Fees and commission, charging interest in deposit/loan accounts, encashment of deposit accounts, Tax and Excise duty, Issuance and payment orders, Demand draft, Telegraphic Transfer, Cancellation and Duplicate Issuance, BACH operation management, BEFTN, NPSB and RTGS.

Module E: Cash Management

- Demand and time liabilities (DTL), Calculation and maintenance of CRR, Maintenance of clearing accounts with Bangladesh Bank and other banks, Vault limit and transit limit management, Insurance Coverage, Management of cash in vault, Counter, ATM and feeding branches, Handling of Mutilated/Torn/ soiled/ issue/re-issue and fake notes, Purchase, sell of prize Bond, Maintenance of security stationary, stamps, safe in-safe out Register, Management of Locker and safe custody services, Inward and outward bills for collection (IBC and OBC), e-chalan, A-chalan, E-gp. Payment foreign inward remittance (COC and A/C payee)

Module F: Other General Banking

- Reconciliation/ checking of daily activity report, DCFCL, Management and Preservation of records, Documents and Vouchers, checking of daily statement of affairs/income and expenditure related statement, balancing of all heads of general ledger (GL)

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Part I- Module-A

Financial Institutions-Related Laws

Bangladesh Bank Order,1972

Q-01 Discuss in brief the main functions of a central bank.

Or, Discuss the role of Bangladesh Bank as the supervisor of banking system in Bangladesh. BPE-99th.

Or, Discuss the functions of central bank.

Or, State the main functions of Central Bank as per Bangladesh Bank Order, 1972.

Or, Explain. Describe main functions of Bangladesh Bank as per the Bangladesh Bank Order, 1972.BPE-7th.

The main functions of Bangladesh Bank are:

- 1. Formulate and Implement Monetary Policy** – To ensure economic stability and growth.
- 2. Manage Foreign Exchange Policy** – To intervene and regulate the foreign exchange market.
- 3. Advise the Government** – Provide guidance on monetary, fiscal, and exchange rate policies.
- 4. Hold and Manage Foreign Reserves** – Safeguard and manage Bangladesh's official foreign reserves.
- 5. Promote and Regulate Payment Systems** – Ensure a secure, efficient, and smooth payment system, including issuing banknotes.
- 6. Supervise Financial Institutions** – Regulate and monitor banks and financial institutions to maintain financial stability.

These functions help Bangladesh Bank manage the economy effectively and ensure a stable financial system.

Q-02 Explain the procedure of Composition of the Board of Directors. Discuss the Mandate of the Board of Director.

Or, Describe the composition and mandate of the Board of Directors of Bangladesh Bank under Article of the Bangladesh Bank Order, 1972. BPE-7th.

As per Bangladesh Bank Order, 1972 Board shall consist of -

- a) The Governor.
- b) A Deputy Governor to be nominated by the Bank.
- c) Four Directors: who will not be Government officials to be nominated by the Government from amongst persons who, in the opinion of the Government, have had experience and shown capacity in the field of banking, trade, commerce, industry or agriculture.
- d) Three Government officials to be nominated by the Government.

Mandate of the Board of Directors:

As per Bangladesh Bank Order, 1972

- a) The mandate of the board is to formulate and implement monetary policy, regulate banking and financial institutions, manage the foreign exchange reserve, promote economic growth and development, and protect the interests of depositors and investors.
- b) The board has the power to issue directives and guidelines, grant licenses and approvals, conduct inspections and audits, impose penalties and sanctions, and take other measures to ensure the soundness and stability of the financial system.

Q-03. Structure of the Coordination Council as per Bangladesh Bank Order, 1972?

The members of the Coordination Council are:

- Minister for Finance (Chairman)
- Minister for Commerce (Member)
- Governor, Bangladesh Bank (Member)
- Secretary, Finance Division (Member)
- Secretary, Internal Resources Division (Member)
- Member (Programming), Planning Commission (Member)

Q-04. Main Functions of the Coordination Council as per Bangladesh Bank Order, 1972?

The Coordination Council performs the following roles:

1. **Coordinate Macroeconomic Framework** – Align fiscal, monetary, and exchange rate strategies and policies.
2. **Ensure Consistency** – Maintain consistency among growth, inflation, and external accounts targets.
3. **Budget Preparation** – Meet before finalizing the budget to determine public sector borrowing and private sector credit requirements.
4. **Quarterly Reviews** – Hold quarterly meetings to review macroeconomic policies and revise limits and targets based on economic updates.
5. **Government Borrowing Limits** – Evaluate and adjust limits for government borrowing before and after the annual budget.

These functions ensure effective coordination of monetary and fiscal policies for economic stability.

Q-05. Describe the status of Bangladesh Bank Order, 1972 as law. BPE-98th.

- The Bangladesh Bank Order, 1972, serves as the primary legislation governing the establishment, functions, and operations of the central bank of Bangladesh, the Bangladesh Bank. It was promulgated by the government shortly after Bangladesh's independence in 1971 to regulate monetary and financial matters in the country.

- As a law, the Bangladesh Bank Order, 1972, holds significant legal authority and serves as the foundational framework for the central bank's operations. It outlines the objectives, powers, and functions of the Bangladesh Bank, including its role in formulating and implementing monetary policy, regulating the banking sector, managing the country's foreign exchange reserves, and promoting financial stability.
- The Bangladesh Bank Order, 1972, has been amended several times over the years to adapt to evolving economic conditions and financial challenges. It is enforced by the government and serves as the basis for regulations, directives, and policies issued by the Bangladesh Bank to regulate the country's banking and financial system. As such, it holds substantial legal weight and plays a crucial role in shaping the financial landscape of Bangladesh.

Bank Company Act, 1991

Q-06. What is a Banking Company?

A **Banking Company** is a company that transacts the **business of banking**. It conducts financial transactions and banking operations, including all **new banks** and **specialized banks** operating in Bangladesh.

Banking Business involves:

- **Accepting Deposits** of money from the public.
- Using these deposits to **lend or invest** funds.
- Ensuring that deposits are **repayable on demand** or otherwise.
- Allowing withdrawals through **cheque, draft, order**, or other methods.

Q-07. According to the Banking Companies Act 1991, what kind of activities can the bank conduct in Bangladesh?

A banking company can engage in the following forms of business:

1. **Borrowing and Collecting Money** – Accept deposits or raise funds.
2. **Lending or Advancing Money** – Provide loans, with or without security.
3. **Dealing in Financial Instruments** – Draw, accept, buy, sell, and collect bills of exchange, promissory notes, and debentures.
4. **Issuing Financial Instruments** – Grant and issue letters of credit, traveler's cheques, credit cards, and circular notes.

Restriction:

No banking company is allowed to engage in any business other than those mentioned above. These activities define the scope of operations for banking companies while ensuring their compliance with regulations.

Q-08. What are the components of Capital according to Basel III?

Or, Briefly discuss about key Components of Regulatory Capital?

Total Regulatory Capital Under Basel III

- A. Tier 1 Capital (going-concern capital)**

- a. Common Equity Tier 1
- b. Additional Tier 1

B. Tier 2 Capital (gone-concern capital)

Common Equity Tier 1 Capital

1. **Paid up capital:** Paid-up capital is the amount of money a company has received from shareholders in exchange for shares of stock. Paid-up capital is created when a company sells its shares on the primary market directly to investors, usually through an initial public offering (IPO).
2. **non-repayable share premium account:** A share premium account is typically listed on a company's balance sheet. This account is credited for money paid, or promised to be paid, by a shareholder for a share, but only when the shareholder pays more than the cost of a share.
3. **Statutory reserve:** Statutory Reserve is the amount of money, securities, or assets that need to be set aside as a legal requirement by Bangladesh Bank.
4. **General reserve:** General reserve is referred to as the reserve fund that is created by keeping aside a part of profit earned by the bank during the course of an accounting period for fulfilling various business needs like meeting contingencies, offsetting future losses, enhancing the capital, paying dividends to the shareholders, etc.
5. **Retained earnings:** Retained earnings are the amount of profit a company has left over after paying all its direct costs, indirect costs, income taxes and its dividends to shareholders.
6. **Dividend equalization reserve:** A reserve (type of a specific reserve) that is created specifically for the purpose of ensuring stability of an entity's dividends despite any potential fluctuations in earnings over time, or period to period.
7. **Minority interest in subsidiaries:** Minority interest (or non-controlling interest) is the portion of a subsidiary corporation's stock that is not owned by the parent corporation.

Less: Regulatory adjustments applicable on Tier 1 capital

Additional Tier 1

1. **Perpetual Bond:** Perpetual bonds are bonds with no maturity date. The issuers of perpetual bonds are not under any obligation to ever repay the bond purchaser's principal amount; however, the issuer will make coupon payments with complying Basel Principle.

Tier 2 Capital

1. **General Provisions*** General provisions are balance sheet items representing funds set aside by a company as assets to pay for anticipated future losses.
2. **Subordinated debt:** Subordinated debt is any type of loan for bank that's paid after all other corporate debts and deposit are repaid, in the case of bank default.

3. **Minority Interest:** Minority interest is the portion of a subsidiary corporation's tier 2 capital.
4. Less: Regulatory adjustments applicable on Tier 2 capital.

Q-09. What is Capital Adequacy Ratio (CAR)?

Or, What Is the Minimum Capital Adequacy Ratio Under Basel III?

$$\text{CAR} = \frac{\text{Eligible Capital}}{\text{Risk-Weighted Assets (RWA)}} \times 100$$

- **Bangladesh Bank** set minimum Capital Adequacy Ratio 10% and Capital conservation buffer 2.5% total 12.50% to ensure that banks have enough capital to support their operations and absorb potential losses.
- **Bangladesh Bank** may sanction or put restrictions on operations in case of fail to maintain Adequate Capital.

Q-10. What is the liquidity standard/ratio suggested by Basel-III? Explain.

Or, LCR and NSFR, what do these liquidity ratios stand for? Discuss in brief.

Basel-III introduces two key liquidity standards to enhance the resilience of banks: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

Liquidity Coverage Ratio (LCR):

- LCR aims to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for 30 calendar days.
- It measures the need for liquid assets in a stressed environment, in which deposits and other sources of funds (both unsecured and secured) run off, to various extents, and unused credit facilities are also drawn down in various magnitudes.

$$\text{LCR} = \frac{\text{Stock of High Quality Liquid Asset}}{\text{Total Net Cash Outflow over the next 30 Calendar days}} \geq 100\%$$

Net Stable Funding Ratio:

- It is a longer-term structural ratio designed to address liquidity mismatches.
- It covers the entire balance sheet and provides incentives for banks to use stable sources of funding.

$$\text{NSFR} = \frac{\text{Available amount of Stable Fund (ASF)}}{\text{Required amount of Stable Fund (RSF)}} > 100\%$$

Formula of Risk Weighted Asset (RWA)

As per Banking Company Act 1991: $\text{RWA} = \text{Exposure Amount} \times \text{Risk Weight}$

Exposure Amount: This is the total amount of exposure a bank has to a particular borrower or counterparty. This includes direct and indirect exposure as well as off-balance sheet items.

Risk Weight: This is a percentage assigned to each exposure based on the credit risk of the borrower or counterparty. This percentage is determined by Basel III guidelines and varies depending on the type of exposure.

Q-11. Discuss Risk-weighted asset with examples.

A **Risk-weighted asset (RWA)** is a way to measure the risk of a bank's assets, like loans. Instead of just looking at the asset's face value, banks consider how risky it is and assign a "weight" to it. The riskier the asset, the higher the weight.

Formula of RWA:

$$\text{RWA} = \text{Exposure Amount} \times \text{Risk Weight}$$

Exposure Amount: This is the total amount of exposure a bank has to a particular borrower or counterparty. This includes direct and indirect exposure as well as off-balance sheet items.

Risk Weight: This is a percentage assigned to each exposure based on the credit risk of the borrower or counterparty. This percentage is determined by Basel III guidelines and varies depending on the type of exposure.

1. Say, a bank lends 1,000 BDT to a very reliable company. If the risk weight for this loan is 20%, then the RWA for this loan is: $(20/100) \times 1,000 \text{ BDT} = 200 \text{ BDT}$.
2. Now, imagine the bank lends the same 1,000 BDT to a less stable business. If the risk weight here is 80%, then the RWA is: $(80/100) \times 1,000 \text{ BDT} = 800 \text{ BDT}$.

In these examples, even though both loans are of 1,000 BDT, the RWA varies because of the difference in risk. Banks use RWAs to ensure they have enough capital to cover potential losses from their assets.

Q-12. Explain the Restrictions on Buying of Shares.

Restrictions on Buying of Shares as per Banking Company Act 1991

1. **Share Ownership Limitation:** The shares of a bank shall not be concentrated among the members of one and the same family, and they shall not buy more than ten percent of the shares of a bank.
2. **Affidavit Requirement for Share Purchases:** Whoever buys shares of a bank shall at the time of the purchase submit an affidavit stating that they are not buying the shares as the agent of another person or under another's name and that they haven't previously bought any shares under another's name.
3. **Mandatory Submission of Oath:** Submission of an oath or declaration in this regard will be required.
4. **Consequences of False Declarations:** If the declaration is false, then all the shares of the person shall be forfeited to the Bangladesh Bank.

- 5. Definition of Notable Share Ownership:** Notable share means ownership of more than 5% of the shares of a company.

Q-13. What is the role of the Board of Directors in a Bank Company?

The **Board of Directors** plays a crucial role in managing a bank company. Their responsibilities include:

- 1. Formulation of Policies:** Develop and implement the bank's policies.
- 2. Risk Management:** Oversee and manage risks to ensure the bank's stability.
- 3. Internal Control and Audit:** Implement internal controls and review internal audits regularly.

Committees:

- Audit Committee:** Must be formed with board members who are not part of the executive committee.
- Risk Management Committee:** Composed of board members to manage and oversee risks.

The Board ensures proper governance, policy execution, and financial safety within the bank company.

Q-14. What are the Restrictions of a bank in payment of dividend?

Or, What are the recent dividend declaration policies issued by Bangladesh Bank for banks?

Bangladesh Bank issued revised dividend declaration policies for banks BRPD Circular Number 06, on 23 May 2026 to strengthen the capital base and ensure financial stability of the banking sector. According to the policy, banks having paid-up capital below Tk. 2,000 crore will not be allowed to declare any cash dividend. Moreover, banks that are eligible to declare cash dividends after complying with all regulatory requirements can distribute a maximum of 50% of the declared total dividend in cash form.

The policy was introduced considering the existing global and domestic economic situation, future risk management capability of banks, and protection of depositors' interests. The circular also stated that these instructions will remain effective for dividend declarations related to the year ending 31 December 2026 and onward.

Q-15. What are the Restrictions on Loans & Advances under the Banking Company Act?

Or, What are the restrictions on loans and advances stated in Banking Companies Act, 1991? BPE-96th.

Or, Describe the restriction on loans and advances to directors and related parties—under Bank Company Act, 1991 and BRPD Circular No.-3/2025. BPE-7th.

Or, State the general limitations of credit limit as mentioned in Banking Companies Act, 1991. BPE-96th.

The following restrictions apply to loans and advances provided by a bank company:

- 1. Against Own Shares:** A bank cannot approve loans, advances, or financing facilities secured by its own shares.

2. **Unsecured Loans:** Banks are prohibited from granting unsecured loans to any of its directors or their family members.
3. **Conflict of Interest:** Loans to any individual, firm, or company in which a director has an interest as a partner or director require **approval by the majority** of the board, excluding the concerned director.

These restrictions ensure transparency and prevent misuse of funds.

Restrictions under BRPD Circular No.-3/2025

1. **Related Party Exposure:** All loans and advances to directors, their family members, and related entities are treated as related party exposure.
2. **Board Approval:** Such loans must be approved by the Board of Directors, excluding the concerned director from the approval process.
3. **No Preferential Treatment:** Banks must provide these facilities on an arm's length basis without giving any special benefits.
4. **Proper Appraisal and Documentation:** Proper credit appraisal, documentation, and risk assessment must be completed before sanctioning the facility.
5. **Reporting and Monitoring:** Banks must maintain proper reporting to Bangladesh Bank, follow exposure limits, and continuously monitor such accounts.

Q-16. What are the regulations regarding the list of defaulting borrowers for bank companies and financial institutions?

The following regulations apply to defaulting borrowers:

1. **Submission of List:** Every bank company or financial institution must send their list of loan defaulters to **Bangladesh Bank** periodically.
2. **Circulation of List:** Bangladesh Bank will forward the defaulters' list to all banks and financial institutions in the country.
3. **Loan Restrictions:** No bank or financial institution can provide any loan facilities to individuals or entities listed as defaulters.
4. **Legal Action:** Banks or financial institutions must take legal action against defaulting borrowers under existing laws.

These rules ensure accountability and discourage loan defaults in the banking system.

Q-17. What are the restrictions on the respite of loans by a banking company as per Bangladesh Bank regulations?

A banking company cannot grant a respite of loans without prior approval from Bangladesh Bank to:

1. Its directors and their family members.
2. A commercial institution or company where any director is a landowner, co-director, or managing agent.
3. Any person where a director has an interest as a partner or landowner.

If loans are rescheduled without approval, it is illegal, and responsible individuals can face:

- Imprisonment for up to 3 years, or
- A fine up to 30,000 Takas, or both.

Q-18. What powers does Bangladesh Bank (BB) have to control advances by banks?

Bangladesh Bank (BB) has the authority to regulate and control advances made by banking companies in the following ways:

1. **Lending Policy:** BB can determine the lending policies that banks must follow.
2. **Credit Ceilings:** BB sets limits on the amount of credit that banks can extend.
3. **Small Loan Ratios:** BB may establish a minimum ratio for small loans in relation to total advances.
4. **Loan Purpose:** BB can specify the purposes for which loans may be granted.
5. **Interest Rates:** BB controls the interest rates banks charge on advances.
6. **Advance Limits:** BB can set limits on the amount of advances a bank or group of banks can offer to individuals or entities.

These powers ensure proper management and stability in the banking system.

Q-19. What are the regulations related to cash reserves under the Banking Company Act?

Cash Reserve Requirement (CRR)

It is mandatory for all banking companies to maintain certain percentage of cash reserve with Bangladesh Bank. The percentage of cash reserve changes from time to time through Bangladesh Bank's notification. CRR is maintained in cash form with Bangladesh Bank. In banking system, CRR is a proportion of cash determined by the central bank from time to time against a bank's total demand and time liabilities (TDTL). CRR ensures flow of money to the economy. Cash Reserve Requirement Ratio was set as 4.0 % in April 2021.

Statutory liquidity ratio (SLR)

As per Banking Company Act 1991: As per the Bank Company Act, 1991 and the amendment made in 2013, it has been decided that-

- (i) Conventional banks will have to maintain at least 13% of total demand and time liabilities as Statutory liquidity ratio (SLR) over and above the CRR in cash and as deposit within Bangladesh in easily exchangeable asset on daily basis it will not be less than 13% of total demand and time liabilities and
- (ii) In case of Islami Shariah based Banking it will be at least 5.5%.

Q-20. In which situations the office of a director falls vacant according to Banking Companies Act, 1991? BPE-96th.

Under the Banking Companies Act, 1991 of Bangladesh, the office of a director in a bank may fall vacant in several situations:

1. **Resignation:** If a director resigns from their position.
2. **Disqualification:** If a director becomes disqualified to hold the office. Disqualifications can include insolvency, unsound mind, conviction of a criminal offense, or failing to acquire the required number of shares within the specified period.
3. **Absence:** If a director is absent from board meetings for a prolonged period without satisfactory explanation.
4. **Removal:** If a director is removed by the shareholders through a resolution.
5. **Death:** In the event of the director's death.
6. **Bankruptcy or Insolvency:** If the director becomes bankrupt or insolvent.

7. **Legal Incapacity:** If any legal incapacity is incurred by the director.
8. **Cessation of Shareholding:** If the director ceases to hold the minimum number of shares required for qualification.
9. **Other Statutory Reasons:** As per other conditions stated in the Banking Companies Act or in the bank's articles of association.

These provisions ensure that the governance of banks remains in responsible and capable hands, maintaining the integrity and stability of the banking system in Bangladesh.

Q-21. Explain the functions of the central bank as a banker to the government and banker's Bank.

Or, Central bank is the banker of other banks explain.

Or, Why the central bank is called the banker's Bank?

Banker to the Commercial Banks:

- Bangladesh Bank provides financial services to commercial banks.
- It controls and supervises the banking system of the country.
- It maintains adequate liquidity in the banking system.
- It acts as the lender of last resort to commercial banks.
- It keeps the cash reserves of commercial banks.
- It facilitates interbank clearing and settlement.

Banker to the Government:

- Bangladesh Bank provides financial services to the government.
- It manages government accounts, receipts, and payments.
- It manages the public debt of the government.
- It advises the government on financial and economic matters.
- It issues and manages government securities.
- It maintains the foreign exchange reserves of the country.

Q-22. What principle is followed by the Bangladesh Bank in respect of issuing notes

Principles of Bangladesh Bank to Issue Notes:

1. **Security:** Bangladesh Bank follows strict security measures to ensure the safety of currency notes from counterfeiting and forgery.
2. **Quality:** The bank maintains high-quality standards for the production and issuance of currency notes to ensure that they are easily recognizable and durable.
3. **Availability:** Bangladesh Bank ensures that adequate amounts of currency notes are available to meet the demand of the market.
4. **Design:** The design of currency notes is carefully selected to reflect the country's heritage, culture, and identity.
5. **Compliance:** Bangladesh Bank ensures that the issuance of currency notes follows all regulatory and legal requirements to maintain public trust in the currency.

Q-23. Central Bank has been given the exclusive right to issue note. Do you think it is justified? BPE-99th.

Yes, The exclusive right of the central bank to issue currency notes is justified for several reasons.

First, it ensures uniformity and stability in the monetary system, which is critical for economic confidence and functioning. Allowing multiple entities to issue currency could create confusion, inefficiency, and instability in the economy.

Second, the central bank can regulate the money supply effectively, ensuring inflation and deflation are kept in check. This helps maintain the purchasing power of money.

Third, the central bank acts as a guarantor of the value of the currency, backed by the country's assets and financial credibility. By centralizing this responsibility, the risk of counterfeit and unregulated currency is minimized, protecting public trust in the financial system. Thus, the exclusive right helps ensure a stable and reliable monetary framework.

Q-25. Central Bank is the Lender of Last Resort- explain. BPE-99th.BPE-7th.

Central Bank is the Lender of Last Resort:

1. One important role held by the central bank is that of being the lender of last resort.
2. This means that in times of financial crisis, the central bank has the authority to provide emergency loans to banks and other financial institutions.
3. The lender of last resort function helps to maintain stability in the financial system and prevent systemic collapses.

Q-26. Bangladesh Bank has published a guideline recently for establishing digital bank in the country. Answer the following questions, based on your understanding on the published guideline: BPE-97th.

- i. **What is digital banking? What is the key difference between a digital bank and a conventional bank?**

Digital Banking: A digital bank is a type of financial institution that operates primarily online or through digital channels, such as mobile apps, without relying on traditional physical branch networks. It offers the full range of banking services using digital platforms, focusing on convenience, efficiency, and accessibility. Digital banks use advanced technologies to provide innovative banking solutions and are known for their customer-centric approaches and streamlined operations.

Digital Banking and Differences from Conventional Banking:

Aspect	Digital Bank	Conventional Bank
1.Branch Presence	Operates virtually without physical branches.	Has physical branch networks.
2.Service Access	Services are accessed online via digital platforms.	Offers both online and in-person services.
3.Infrastructure	Relies on advanced technology infrastructure.	Uses a combination of technology and manual processes.
4.Customer Interaction	Interaction is primarily digital.	Provides face-to-face service options.
5.Cost Structure	Lower operational costs due to lack of physical branches.	Higher operational costs due to physical infrastructure.

- ii. **What are the main features of digital bank?**

Main Features of Digital Bank The main features of a digital bank include:

- Fully digital and branchless operations.
- Use of advanced technologies like AI, blockchain, and machine learning.
- Provision of a wide range of financial services through digital channels.
- High emphasis on cybersecurity and data protection.
- Innovative and customer-centric products and services.

iii. **Do you think that the digital bank will emerge as a disruptive force in our banking industry? Give your opinion.**

Digital banks have the potential to be a disruptive force in Bangladesh's banking industry. They bring innovation, enhanced accessibility, and efficiency, which can lead to increased competition and better services for customers. By leveraging technology, digital banks can reach underserved markets, offer personalized products, and improve the overall banking experience. This can challenge traditional banks to innovate and adapt, leading to a more dynamic and customer-focused banking sector. However, the extent of disruption will depend on factors like regulatory support, customer acceptance, and the ability of digital banks to maintain trust and security.

Q-27. Discuss the various instruments available to the central bank to control money supply and credit?

Or, What is Meant by Credit Control? Discuss the methods of credit control.

Or, Explain the main instruments of Credit Control of central bank. What is Meant by Credit Control?

Or, What are the main instruments of Monetary Policy of a central bank?

Or, What are the different instruments used by the Bangladesh Bank to pursue its monetary policy?

Or, What are the different instruments used by the central Bank to pursue its monetary policy?

Credit Control: Credit control refers to the measures taken by Bangladesh Bank to regulate and supervise the amount of credit extended by banks and financial institutions. This is done through various tools such as setting interest rates, reserve requirements, loan-to-deposit ratios, and credit ceilings. The aim is to ensure financial stability and prevent inflation by managing the flow of credit in the economy.

Credit Control Methods of Bangladesh Bank:

1. **Reserve requirements:** Banks were required to maintain a certain percentage of their deposits as reserves with the central bank.
2. **Monetary policy:** The central bank used monetary policy tools such as interest rate adjustments and open market operations to influence the supply of credit.
3. **Credit ceilings:** The central bank set limits on the amount of credit that could be extended by banks to prevent excessive lending and inflation.
4. **Moral suasion:** The central bank used its influence to persuade banks to follow its guidelines and policies.
5. **Direct controls:** The central bank used direct controls such as credit rationing and selective credit controls to regulate the flow of credit.

Q-28. What is the goal or purpose of Monetary Policy?

1. To control inflation and ensure price stability.
2. To promote sustainable economic growth.
3. To maintain a stable exchange rate.
4. To regulate the supply of money and credit in the economy.
5. To ensure financial stability for the country.

Q-29.. What is the Selective Credit Control? Discuss the objectives of Credit Control. Selective Credit Control by Bangladesh Bank:

1. It aims to regulate the flow of credit towards certain sectors or activities to achieve specific economic objectives.
2. Certain measures such as changing interest rates, imposing credit ceilings, and reserve requirements are used to implement selective credit control.
3. The objectives of selective credit control in Bangladesh include promoting agriculture, small scale industries, and export-oriented industries.
4. Although it has been successful in achieving some of these objectives, there have also been unintended consequences such as increased informal lending and evasion of regulatory measures by some borrowers.

Q-31. Section 77 Ka of the Bank Company (Amendment) Act, 2023 has entrusted Bangladesh Bank with legal power to take early action i.e. PCA (Prompt Corrective Action) for the proper management of weak bank company and some resolution measures like merger, reconstructions, etc. Do you consider this amendment and measures to be taken by Bangladesh Bank would contribute to bringing more discipline and good governance in the banking sector? BPE-98th.

Yes, the amendment to Section 77 Ka of the Bank Company (Amendment) Act, 2023, granting Bangladesh Bank the legal authority to take early action such as Prompt Corrective Action (PCA) and resolution measures like mergers and reconstructions for weak bank companies, is likely to contribute positively to bringing more discipline and good governance in the banking sector. Here's how:

1. **Early Intervention:** PCA allows Bangladesh Bank to intervene promptly when a bank's financial health deteriorates, preventing further deterioration and systemic risks.
2. **Discipline:** By enforcing stricter regulatory measures and resolution mechanisms, the amendment promotes discipline among banks, encouraging them to maintain sound financial practices and risk management.
3. **Transparency and Accountability:** The amendment enhances transparency and accountability by requiring timely reporting and disclosure of bank's financial condition and regulatory actions taken.
4. **Stability:** Implementing resolution measures like mergers or reconstructions can help stabilize weak banks and mitigate risks to the overall financial system.

Overall, these measures empower Bangladesh Bank to effectively address weaknesses in the banking sector, fostering greater stability, discipline, and good governance.

Financial Institutions Act, 1993

Q-32. What do you mean by Financial Institution? Describe the Importance of Financial Institution in Context of Bangladesh.

A **Financial Institution** as per the Financial Institutions Act, 1993, refers to a non-banking entity that provides financial services. It includes organizations involved in offering loans and advances for industries, commerce, agriculture, or building construction. These institutions also engage in underwriting, investing, and reinvesting in stocks, bonds, and securities, as well as offering instalment transactions such as leasing machinery and equipment. Additionally, financial institutions may provide venture capital financing to emerging businesses. Examples of financial institutions include merchant banks, investment companies, mutual associations, leasing companies, and building societies, which contribute to the overall financial ecosystem.

Importance of Financial Institution in Context of Bangladesh:

- **Economic Development:** Access to financial services is crucial for the development of the economy.
- **Poverty Alleviation:** Financial institutions can provide microfinance to help alleviate poverty.
- **Financial Inclusion:** Financial institutions can help create a more inclusive financial system for all.
- **Employment Opportunities:** The financial sector can create job opportunities and contribute to the overall growth of the economy.

Q-33. Explain the rules regulations relating to Licensing of Financial Institutions Under the Financial Institution Act 1993?

Licensing of Financial Institutions:

Before granting a license, Bangladesh Bank may require to be satisfied following matter:

- i. The financial situation.
- ii. The characteristics of the management.
- iii. The sufficiency of the capital structure and the earning capacity.
- iv. The purposes mentioned in the memorandum.
- v. The public interest.

Q-34. Discuss the Power and functions of the Bangladesh Bank As per Financial Institution Act 1993.

As per Financial Institution Act 1993

- The highest rates of interest for deposits and credit
- Limits on the amount of credit individuals can take
- Deadlines for repayment of credit
- Calculation methods for interest rates on credit
- Upper limits for credits granted to individuals
- Reserve requirements for financial institutions at Bangladesh Bank
- Other regulations for public interest and monetary policy development

Q-35. What are the limitations of NBFIS for collecting deposits? What provisions are adopted in Finance Company Act, 2023 to attract the foreign investment in financial institutions operating in Bangladesh? BPE-98th.

Non-Banking Financial Institutions (NBFIs) face several limitations when it comes to collecting deposits:

1. **Restrictions on Deposit Collection:** NBFIs are not allowed to collect demand deposits like traditional banks. They are typically limited to collecting fixed deposits or other forms of term deposits.
2. **Regulatory Limits:** NBFIs are subject to regulatory limits on the amount and types of deposits they can collect, as well as stringent prudential regulations to safeguard depositors' interests.
3. **Trust and Credibility:** NBFIs may face challenges in building trust and credibility among depositors, especially compared to banks with established reputations and extensive branch networks.

The Finance Company Act, 2023, introduced provisions to attract foreign investment in financial institutions operating in Bangladesh:

1. **Liberalized Ownership Rules:** The Act may allow higher levels of foreign ownership in financial institutions, encouraging foreign investors to participate in the sector.
2. **Investment Incentives:** The Act may provide investment incentives such as tax breaks or exemptions to foreign investors in financial institutions to attract capital inflows.
3. **Streamlined Regulatory Processes:** The Act may streamline regulatory processes and reduce bureaucratic hurdles for foreign investors looking to establish or acquire financial institutions in Bangladesh.
4. **Enhanced Governance Standards:** The Act may introduce governance standards and transparency requirements to enhance investor confidence and attract foreign investment in financial institutions.

Artha Rin Adalat Ain, 2003

Q-36. Discuss the main provisions of Artha Rin Adalat Ain, 2003 with its latest amendments. BPE-96th. BPE-99th.

Or, Describe the new features of the Artha Rin Adalat Law 2003 and 2010.

The **Artha Rin Adalat Ain, 2003** governs the recovery of loans and financial claims through a specialized court in Bangladesh. Its key provisions include:

1. **Time-Bound Case Resolution:** Cases must be disposed of within a specified time limit, ensuring swift legal outcomes.
2. **Restriction on Claims:** The law limits unwarranted or inflated claims by financial institutions, promoting fairness.
3. **Serving Summons:** Summons and notices to defendants must follow defined procedures for transparency.
4. **Auction of Assets:** Debtor assets may be auctioned to recover unpaid loans, but with due legal process.
5. **Civil Imprisonment:** In extreme cases, debtors may face civil imprisonment if they fail to repay loans without valid reasons.
6. **Settlement Mechanisms:** Encourages settlements during execution cases to resolve disputes amicably.

This law aims to expedite financial dispute resolution and maintain the integrity of the financial system.

New features of the Artha Rin Adalat Law 2003:

- Simplification of the procedure for filing of suit and awarding judgment within a minimum stipulated time schedule.
- Emphasis on documentary evidence and less importance on verbal argument before the court.
- Alternative Dispute Resolution through settlement conference or mediation between the lenders and borrowers.
- Changes in the Limitation Act-1908.
- Changes in the doctrines of finality.

New features of the Artha Rin Adalat Law 2010

- Banks/FT's can sell mortgage property even without Power of Attorney
- Suit can be settled through arbitration at any stage of the suit
- Execution suit must be filed within one year of the decree
- The court shall publish notice in a newspaper chosen by the decree-holder
- Amount to deposit in case of objection in execution suit reduced to 10%
- Bidders in auction sale required to deposit 20% if quoted value is <10 lac, 15% for 10-50 lac, 10% for >50 lac
- Time limit for payment of rest amount is 30-90 days
- Appeal time in High Court Division extended to 60 days
- Interest on decretal amount increased from 8% to 12%, 16% for appeal/revision, 18% for appeal/revision against Higher Court order
- In case of discharged writ petition, interest will be charged at 25%.

Q-37. Briefly describe the duties and responsibilities of a banker for recovery of loans before filing a suit under the Artho Rin Adalat Ain, 2003. BPE-7th.

1. No case can be filed until the securities are sold or attempted to be sold.
2. Auction sale will be initiated if the property cannot be sold through the above process.
3. A notice regarding the auction shall be published in national Bangla daily and another local paper.
4. Bidders must submit an amount equal to 20% for up to 10 lac, 15% for up to 50 lac, and 10% for exceeding 50 lac of the quoted price in the form of bank draft or pay order.
5. The total payment for the bidders should be made within 30, 60, and 90 days, respectively, as specified.

Q-38. How does Artha Rin Adalat help recovery of stuck up loans? BPE-99th.

The Artha Rin Adalat (Money Loan Court) plays a key role in recovering stuck-up loans in Bangladesh through the following measures:

1. **Legal Framework:** Provides a legal platform for banks to file cases against borrowers who fail to repay loans.
2. **Asset Seizure:** The court can order the seizure of the borrower's assets, such as property, to recover the loan amount.
3. **Dispute Resolution:** Helps settle disputes between lenders and borrowers, ensuring fair resolution.

4. **Efficient Process:** Aims to expedite the recovery process, minimizing delays in repayment.
5. **Encourages Loan Repayment:** The court's authority and legal actions act as a deterrent, encouraging timely loan repayment.

Q-39. Do you think the existing laws relating to Artho Rin Adalat and Bankruptcy law are adequate to deal with the delinquent borrowers? Please discuss. BPE-96th.

The Artho Rin Adalat and Bankruptcy laws in Bangladesh have certain strengths and limitations in dealing with delinquent borrowers:

1. **Artho Rin Adalat Act:** It provides a specialized legal framework for the recovery of loans by financial institutions. Its focused approach aids in expedited loan recovery and reduces the backlog of cases. However, it may sometimes be seen as overly stringent, potentially discouraging borrowers from seeking legal redress.
2. **Bankruptcy Law:** It helps in the orderly resolution of insolvency situations. While it provides a legal mechanism for handling bankrupt entities, its application can be cumbersome, and the process may be lengthy.

Both laws aim to balance the interests of creditors and borrowers. However, there are challenges in ensuring quick resolution and fairness, especially for small borrowers. The adequacy of these laws largely depends on their implementation effectiveness and the balancing of both recovery and borrower protection.

Q-40. Bank Company Act 1991 has been amended recently by adding some provisions related to loan defaulters. Answer the following questions in light of the amended Act: BPE-97th.

a. Define willful defaulter.

A willful defaulter is an individual or a company that intentionally avoids repaying loans despite having the financial means to do so. This could involve:

- Misusing loan funds for purposes other than what was agreed upon.
- Transferring borrowed money to other businesses or individuals without the bank's consent.
- Disposing of or hiding assets provided as security for the loan.

Falsifying records or financial statements to mislead the bank about their ability to repay.

b. Will a sister concern of a defaulted group be eligible for granting fresh loan?

For sister concerns of a defaulted group in Bangladesh, the eligibility for obtaining fresh loans is generally restricted. The regulations often consider:

- The financial interdependence between the defaulted entity and its sister concerns.
- The overall financial health and repayment history of the sister concern.
- Whether the sister concern was involved in any activities contributing to the default.

c. What are the major consequences for the habitual loan defaulter?

Habitual defaulters in Bangladesh face serious repercussions, which may include:

- Legal actions initiated by the banks or financial institutions.
- Seizure or auction of assets pledged as collateral.
- Higher interest rates and stricter terms for any future loans.

- A significant negative impact on their credit history, making it difficult to obtain financing in the future.
- Reporting to the Credit Information Bureau (CIB) of Bangladesh Bank, affecting their overall financial credibility.

d. What measures would you take for the willful defaulter?

Measures against willful defaulters can be quite stringent, and might include:

- Legal proceedings, including civil and criminal charges.
- Blacklisting by banks and other financial institutions.
- Seizing control of assets or initiating bankruptcy proceedings.
- Public disclosure of their status as a willful defaulter, which harms their business reputation.
- Restrictions on leaving the country if legal proceedings are ongoing.

Q-41. What regulatory measures should be taken by central bank to improve governance in the banking sector? Give your view. BPE-98th.

Or, What regulatory measures should be taken to reduce default loans in the banking sector? Give your view. BPE-98th.

Central banks can implement various and To reduce default loans regulatory measures to enhance governance in the banking sector:

Enhanced Supervision: Strengthen oversight mechanisms to ensure banks comply with governance standards.

1. **Transparent Reporting:** Require banks to disclose relevant information on governance practices and performance to stakeholders.
2. **Governance Guidelines:** Develop and enforce clear governance guidelines and codes of conduct for bank management and board members.
3. **Risk Management Requirements:** Implement robust risk management frameworks to identify, assess, and mitigate risks effectively.
4. **Whistleblower Protection:** Establish mechanisms to protect whistleblowers who report governance violations within banks.
5. **Training and Education:** Provide training and education programs to bank personnel and board members on governance best practices.
6. **Regular Audits:** Conduct regular audits and examinations to assess compliance with governance standards and identify areas for improvement.

These measures can promote accountability, transparency, and integrity in the banking sector, ultimately safeguarding financial stability and protecting stakeholders' interests.

Q-42. Mr. 'X' owes Tk. 4.00 crore to ABC Bank PLC, which has been marked as defaulted loan. The collateral security amounting to Tk. 3.50 crore had been mortgaged with the said loan. What will be the procedure the bank will adopt to recover the loan according to Artha Rin Adalat Ain, 2003? BPE-98th.

According to the Artha Rin Adalat Ain, 2003, ABC Bank PLC will first try to recover the loan by selling the mortgaged collateral security before filing a suit in the Artha Rin Adalat.

Since Mr. 'X' mortgaged collateral security worth Tk. 3.50 crore against the defaulted loan of Tk. 4.00 crore, the bank will initially sell the mortgaged property as per Section 12 of the Act and adjust the sale proceeds against the outstanding loan liability.

If the sale proceeds are insufficient to recover the full amount, the bank will then file a suit in the Artha Rin Adalat for recovery of the remaining balance amount. The bank must submit necessary loan documents, mortgage documents, statement of accounts, and supporting evidence before the court.

After hearing both parties, the court will pass a decree in favor of the bank if the claim is proved. If Mr. 'X' still fails to repay the remaining dues, the bank may execute the decree through attachment and auction of other movable or immovable properties of the borrower according to the provisions of the Act.

Thus, under the Artha Rin Adalat Ain, 2003, the bank must first utilize the mortgaged security and then proceed through the court for recovery of the remaining unpaid loan amount.

Q-43. Discuss about the provisions made for Appeal and Revision (Sec. 40-44) under the Artha Rin Adalat Ain, 2003.

Or, What are the requirements and time frames for filing an appeal and a revision case based on the decretal amount in Chapter VII, Sections 40-44?

Or, Discuss Appeal and Revision process.

Under Chapter VII (Sections 40–44) of the Artha Rin Adalat Ain, 2003, provisions have been made for Appeal and Revision against the judgment or decree of the Artha Rin Adalat.

Appeal:

According to Section 41, an appeal against the decree of the Artha Rin Adalat may be filed:

- Before the District Judge, if the decretal amount does not exceed Tk. 50 lakh.
- Before the High Court Division, if the decretal amount exceeds Tk. 50 lakh.

The appellant must deposit 50% of the decretal amount before filing the appeal. However, the appellate court may allow filing the appeal by depositing at least 25% initially under special circumstances.

The appeal should generally be disposed of within 90 days, which may be extended by another 30 days if necessary.

Revision:

According to Section 42, a revision application may be filed before the High Court Division against the appellate judgment of the District Judge.

For filing a revision case, the judgment debtor must deposit 75% of the decretal amount. The revision case should normally be disposed of within 60 days, extendable by another 30 days.

Q-44. According to Bangladesh Bank guidelines, what percentage of immovable property can a financial institution acquire or hold, relative to its paid-up capital and reserves? BPE-6th.

According to Bangladesh Bank guidelines—as stated in the Financial Institutions Act, 1993

May acquire or hold immovable property up to 25% of its paid-up capital and reserves. This is the maximum limit. Beyond this limit; a financial institution cannot hold immovable property.

Exceptions:

- Property needed for employee facilities.
- Property acquired for recovering unpaid loans.

Q-45. What is the punishment for conducting financing business without a valid license under the Financial Institutions Act, 1993? BPE-6th.

Punishment for conducting financing business without a valid license

Under Section 30 of the *Financial Institutions Act, 1993*:

A person who carries on the business of financing without holding a valid license, or continues such business after cancellation of the license, shall be:

Punishable with:

Imprisonment up to 2 years, or
Fine up to Tk. 500,000, or
Both imprisonment and fine.

Q-46. What is the minimum monetary value of a suit that can be filed in the Artha Rin Adalat? BPE-6th.

Minimum monetary value of a suit in Artha Rin Adalat

- The Artha Rin Adalat Ain, 2003 does not prescribe a general minimum monetary limit for filing a suit in the Artha Rin Adalat.
- However, under Section 5(5), Bangladesh Krishi Bank, Rajshahi Krishi Unnayan Bank, and other state-owned financial institutions may file certificate cases under the Public Demands Recovery Act for claims up to Tk. 5,00,000 instead of filing suits in the Artha Rin Adalat.

Mathematical Problem

Q-01. ABC Bank has the following financial data as of December 31st.

Tier-1 Capital : BDT 1500 crore

Tier-2 Capital : BDT 500 crore

Deductions from capital : BDT 200 crore

Total Risk Weighted Assets (RWA) : BDT 18000 crore

Calculate the Capital Adequacy Ratio (CAR) of the bank. Based on your calculation assess whether ABC Bank complies with the minimum regulatory capital requirements including the capital conservation buffer as per Bangladesh Bank guidelines. BPE-6th

ANS:

Given data:

- Tier-1 Capital = BDT 1,500 crore
- Tier-2 Capital = BDT 500 crore
- Deductions from Capital = BDT 200 crore
- Total Risk-Weighted Assets (RWA) = BDT 18,000 crore

Calculate Total Eligible Capital

Total Eligible Capital

= Tier-1 Capital + Tier-2 Capital – Deductions
 = 1,500 + 500 – 200
 = BDT 1,800 crore

Calculate Capital Adequacy Ratio (CAR)

Formula:

$CAR = (\text{Total Eligible Capital} \div \text{Risk-Weighted Assets}) \times 100$

Calculation:

$CAR = (1,800 \div 18,000) \times 100$

$CAR = 0.10 \times 100$

$CAR = 10\%$

Regulatory Requirement (Bangladesh Bank – Basel III)

- Minimum CAR = 10%
- Capital Conservation Buffer = 2.5%
- Total Required CAR = 12.5%

Assessment

ABC Bank's CAR is 10%, which meets the minimum CAR requirement. However, it does not meet the total regulatory requirement of 12.5% including the capital conservation buffer.

Q-02. Based on the given information of 'A' bank, answer the following questions:

Paid-up Capital	:	Tk.	1,392	Crore
Statutory Reserve	:	Tk.	1,000	Crore
Retain Earnings	:	Tk.	420	Crore
Perpetual Bond	:	Tk.	300	Crore
General Provisions	:	Tk.	650	Crore
Subordinated Bond	:	Tk.	360	Crore
Total Risk-Weighted Assets (RWA)	:	Tk.	30,200	Crore

- Calculate 'A' bank's minimum capital requirements.
- Calculate CET-1 and Tier-I capital ratios of the bank.
- Calculate Tier-II capital ratio of the bank.
- Calculate total capital to Risk-Weighted Assets Ratio (CRAR) of the bank.
- Interpret the results above against minimum regulatory requirements of Bangladesh Bank.

Ans:

(a) Minimum Capital Requirement:

Minimum Capital Requirement = $RWA \times 10\%$
 $= 30,200 \times 10\% = 3,020 \text{ Crore}$

(b) CET-1 and Tier-I Capital Ratios:

CET-1 Capital = Paid-up Capital + Statutory Reserve + Retained Earnings

Tier-I Capital = CET-1 Capital + Perpetual Bond

CET-1 Ratio:

$$\text{CET-1 Ratio} = \frac{\text{CET-1 Capital}}{\text{RWA}} \times 100$$

Tier-I Ratio:

$$\text{Tier-I Ratio} = \frac{\text{Tier-I Capital}}{\text{RWA}} \times 100$$

Inserting data:

CET-1 Capital = 1,392 + 1,000 + 420 = 2,812 Crore

Tier-I Capital = 2,812 + 300 = 3,112 Crore

Calculations:

$$\text{CET-1 Ratio} = \frac{2,812}{30,200} \times 100 \approx 9.31\%$$

$$\text{Tier-I Ratio} = \frac{3,112}{30,200} \times 100 \approx 10.30\%$$

(c) Tier-II Capital Ratio :

Tier-II Capital = Subordinated Bond + General Provisions

$$\text{Tier-II Ratio} = \frac{\text{Tier-II Capital}}{\text{RWA}} \times 100$$

Inserting data:

Tier-II Capital = 360 + 650 = 1,010 Crore

Calculation:

(d) Total Capital to RWA Ratio (CRAR):

Total Capital = Tier-I Capital + Tier-II Capital

$$\text{CRAR} = \frac{\text{Total Capital}}{\text{RWA}} \times 100$$

Calculation:

Total Capital = 3,112 + 1,010 = 4,122 Crore

$$\text{CRAR} = \frac{4,122}{30,200} \times 100 \approx 13.65\%$$

e) Minimum capital requirement of BB is 10%

So, the company is maintaining minimum capital as per BB guideline. As per BB guideline Minimum capital requirement is 10% + Capital conservation buffer is 2.5% So, Adequate capital requirement is 12.5%. So, company maintain adequate capital as per BB guideline.

Q-03- From the following capital elements of XYZ Bank PLC, calculate CRAR, Tier 1, Tier-2 and minimum capital requirement.

COMPONENT	Amount (BDT in Crore)
i) Paid up capital	500
ii) Non-repayable share premium account	150
iii) Statutory reserve	250
iv) General reserve	150
v) Perpetual Bond	400
vi) General Provision	100
vii) Retained earnings	200
viii) Minority interest in subsidiaries	100

ix) Subordinated debt	150
x) Total Risk Weighted Assets (RWA)	20,500

Ans:

Tier-1 and Tier-2 Capital Ratios are as follows:

Capital Components	Amount
Paid-up Capital	500.00
Non-repayable share premium account	150.00
Statutory reserve	250.00
General reserve	150.00
Retained Earnings	200.00
Minority interest in subsidiaries	100.00
Perpetual Bond	400.00
Total Tier-1 Capital (Going Concern Capital)	1,750.00
Tier-1 capital ratio= (Tier-1 capital/ RWA)	8.54%

Capital Components	Amount
General provision	100.00
Subordinated debt	150.00
Tier-2 Capital (Gone Concern Capital)	250.00
Tier-2 Capital ratio= (Tier-2 capital/ RWA)	1.22%

Tier 1 capital	1,750.00
Tier 2 Capital	250.00
Total Capital	2,000.00
CRAR (Capital to Risk Weighted Assets Ratio) = (2,000/20,500)	9.76%

Minimum Regulatory Requirements and the performance of X bank are shown below:

Ratio	Regulatory Requirement	Actual performance of ABC bank	Fulfillment
Minimum Tier 1 capital ratio	6.00%	8.54%	Satisfied
CRAR	10.00%	9.76%	Not Satisfied

Q-04. Scenario:

A bank has Total Demand and Time Liabilities (TDTL) of BDT 12,500 crore. The Cash Reserve Ratio (CRR) is 4%.

- Calculate the amount of cash reserve that must be maintained with the central bank.
- If the CRR is reduced from 4% to 3.5%, calculate the new reserve requirement and the amount of reduction.

ANS:

Scenario:

A bank has Total Demand and Time Liabilities (TDTL) of BDT 12,500 crore.

Cash Reserve Ratio (CRR) = 4%.

(a) Required CRR to be kept with the central bank

Formula:

$$\text{CRR} = \text{TDTL} \times \text{CRR rate}$$

Calculation:

$$\text{CRR} = 12,500 \times 4\%$$

$$\text{CRR} = 12,500 \times 0.04$$

$$\text{CRR} = \text{BDT 500 crore}$$

Answer:

The bank must keep **BDT 500 crore** as cash reserve with the central bank.

(b) New CRR at 3.5% and reduction amount

$$\text{New CRR} = 12,500 \times 3.5\%$$

$$= 12,500 \times 0.035$$

$$= \text{BDT 437.5 crore}$$

$$\text{Reduction in CRR} = 500 - 437.5$$

$$= \text{BDT 62.5 crore}$$

Answer:

New required reserve is **BDT 437.5 crore**, and the reserve requirement is reduced by **BDT 62.5 crore**.

Q-05. ABC Bank PLC has provided the following financial information in BDT crore for the year ended December 31, 2025:

Serial	Description	Amount
1	Common Equity Tier 1 (CET 1)	1250
2	Additional Tier (AT1)	350
3	General Provisions	360
4	Subordinated Debt (Meeting qualifying criteria)	500
5	Credit Risk Weighted Asset (RWA)	26000
6	Market Risk Weighted Asset	2500
7	Operational Risk Weighted Asset	7000

Additional Information:

(i) Capital requirement is 12.5% of total RWA (with MCR of 10% of total RWA);

(ii) General provision cannot exceed 1.25% of the credit RWA;

(iii) Total Tier 2 capital is limited to 100% of total Tier 1 capital.

Based on the given information, calculate the followings (Please show all calculations clearly):

(a) Calculate total RWA of ABC Bank PLC.

(b) Calculate eligible Tier 1 capital and eligible Tier 2 capital of the bank.

(c) Calculate total eligible capital of the bank.

(d) Calculate Capital Adequacy Ratio of the bank and make comment on it.

Ans:

Given Data,

Common Equity Tier 1 (CET 1) = Tk. 1,250 crore

Additional Tier 1 (AT 1) = Tk. 350 crore

General Provision = Tk. 360 crore

Subordinated Debt = Tk. 500 crore

Credit Risk Weighted Asset = Tk. 26,000 crore
 Market Risk Weighted Asset = Tk. 2,500 crore
 Operational Risk Weighted Asset = Tk. 7,000 crore
 Required CAR = 12.5%

(a) Total RWA

Total RWA
 = Credit RWA + Market RWA + Operational RWA
 = Tk. 35,500 crore
 Therefore, total RWA = Tk. 35,500 crore.

(b) Eligible Tier 1 Capital and Tier 2 Capital

Tier 1 Capital
 = CET 1 + AT 1
 = Tk. 1,600 crore
 Therefore, eligible Tier 1 Capital = Tk. 1,600 crore.

Eligible General Provision
 = Tk. 325 crore
 Tier 2 Capital
 = Eligible General Provision + Subordinated Debt
 = Tk. 825 crore
 Therefore, eligible Tier 2 Capital = Tk. 825 crore.

(c) Total Eligible Capital

Total Eligible Capital
 = Tier 1 Capital + Tier 2 Capital
 = Tk. 2,425 crore
 Therefore, total eligible capital = Tk. 2,425 crore.

(d) Capital Adequacy Ratio (CAR)

$$CAR = \frac{\text{Total Eligible Capital}}{\text{Total RWA}} \times 100$$

CAR
 = 6.83%
 Therefore, Capital Adequacy Ratio (CAR) = 6.83%.

Comment: Required CAR is 12.5%, but the bank has only 6.83% CAR. Therefore, ABC Bank PLC failed to maintain the required capital adequacy ratio and has capital shortfall.

Case Study

Case-1: Willful default by M/S Skyscraper Ltd. BPE-6th.

Case Scenario:

M/S Skyscraper Ltd., a renowned real estate company, availed a term loan of BDT 500 crore from ABC Bank in 2020. The loan was sanctioned for the development of a commercial real estate project in Dhaka.

By mid-2023, the company defaulted on repayments. Upon investigation, the bank found:

- The company had diverted a substantial portion of the loan amount to unrelated business activities.
- Directors had siphoned off funds to associate companies owned by family members.
- The project site remained largely undeveloped and there were no visible signs of construction progress.
- Despite defaulting, the promoters continued to maintain a lavish lifestyle and acquired high-value personal assets abroad.

Based on this, ABC Bank initiated action under Bangladesh Bank's guidelines and declared M/S Skyscraper Ltd. as a willful defaulter.

Based on the case study above, answer the following questions:

- i) Define willful defaulter as per Bangladesh Bank guidelines.
- ii) Based on the case, identify and explain the actions taken by ABC Bank that justify their classification as a willful defaulter.
- iii) How does classification as a willful defaulter impact M/S Skyscraper Ltd.'s future operations?
- iv) Should the directors of M/S Skyscraper Ltd. be held personally liable? Justify your answer with reasons.

Answer:

(i) Define willful defaulter

A willful defaulter is an individual or a company that intentionally avoids repaying loans despite having the financial means to do so. This could involve:

- Misusing loan funds for purposes other than what was agreed upon.
- Transferring borrowed money to other businesses or individuals without the bank's consent.
- Disposing of or hiding assets provided as security for the loan.

Falsifying records or financial statements to mislead the bank about their ability to repay.

(ii) Actions by Skyscraper Ltd. that justify classification as Willful Defaulter

Based on Bangladesh Bank's rules, the following actions clearly justify ABC Bank's decision, the eligibility for obtaining fresh loans is generally restricted. The regulations are often considered:

- The financial interdependence between the defaulted entity and its sister concerns.
- The overall financial health and repayment history of the sister concern.
- Whether the sister concern was involved in any activities contributing to the default.

(iii) Classification as a willful defaulter impact M/S Skyscraper Ltd.'s future operations:

Habitual defaulters in Bangladesh face serious repercussions, which may include:

- Legal actions are initiated by banks or financial institutions.
- Seizure or auction of assets pledged as collateral.
- Higher interest rates and stricter terms for any future loans.
- A significant negative impact on their credit history, making it difficult to obtain financing in the future.
- Reporting to the Credit Information Bureau (CIB) of Bangladesh Bank, affecting their overall financial credibility.

(iv) Yes, the directors of M/S Skyscraper Ltd. should be held personally liable. The reasons are:

- Because they directly participated in diverting and siphoning loan funds.
- Bangladesh Bank guidelines hold directors liable when misuse occurs under their instruction or involvement.
- Their conduct shows intentional wrongdoing, not business difficulty.
- Personal liability prevents future misuse and promotes discipline in financial management.
- Directors may face restrictions on borrowing, directorships, and regulatory participation.
- Evidence clearly shows they abused their authority, justifying personal accountability.

End of Chapter

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