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**
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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.
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.
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)?

- **Capital adequacy** refers to the ability of a bank to absorb potential losses using its own capital.
- It is a critical component of a bank's financial stability and overall soundness.
- **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 Minimum Capital Adequacy Ratio Under Basel III?

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

- **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.

Q-11. 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.

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

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.

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

Formula of Risk Weighted Asset (RWA)

As per Banking Company Act 1991: RWA = Exposure Amount x 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-12. 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:

RWA = Exposure Amount x 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) * 1,000 BDT = 200 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) * 1,000 BDT = 800 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-13. 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-14. 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-15. What are the Restrictions of a bank in payment of dividend?
As per Banking Company Act 1991

- Capitalized expenses must be written off before dividend declaration
- Shortfall in required capital and reserve means no cash dividend
- Provision shortfall is a barrier to dividend declaration

These regulations ensure that bank companies prioritize financial stability and responsible practices before distributing profits.

Q-16. 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.

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.

Q-17. 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-18. 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-19. 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-20. 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-21. 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-22. 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 other Bank:

- Bangladesh Bank provides financial services to other banks
- Controls and supervises the banking system in the country
- Maintains adequate liquidity in the banking system
- Bangladesh Bank provides financial services to the government
- Manages government accounts and payments
- Maintains the foreign exchange reserve of the country

Banker to the government:

- Bangladesh Bank provides financial services to the government
- Manages government accounts and payments
- Maintains the foreign exchange reserve of the country

Q-23. 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-24. Central Bank has been given the exclusive right to issue note. Do you think it is justified? BPE-99th.

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. 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?

Main Instrument of Monetary Policy of Central Bank: Open Market Operations (OMO): The central bank buys or sells government securities in the open market to adjust the money supply in the economy.

1. **Reserve Requirements:** The central bank sets a minimum level of reserves that banks must hold to meet deposit withdrawals and payment obligations.
2. **Discount Rate:** The central bank sets the interest rate at which it lends money to commercial banks, which affects the cost of borrowing for banks and their customers.
3. **Credit Ceiling:** The central bank sets a limit on the total amount of credit that can be extended by banks to control the expansion of credit in the economy.
4. **Moral Suasion:** The central bank uses persuasion and influence to encourage or discourage banks from certain actions, such as changing interest rates or lending practices.

Q-26. Central Bank is the Lender of Last Resort- explain. BPE-99th.
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-27. 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-28. 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?

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-29. 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-29.1. 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-30. State the general limitations of credit limit as mentioned in Banking Companies Act, 1991.BPE-96th.

The general limitations of credit limit as mentioned in the Banking Companies Act, 1991 of Bangladesh are:

1. Prohibition on Loans Against Own Shares

A banking company shall not provide loans or advances against its own shares.

2. Restrictions on Unsecured Loans

- Loans or advances without security are restricted to certain persons, including directors of the bank or related entities.

3. Conflict of Interest in Lending

- There are specific restrictions on loans and advances to companies where directors of the banking company have interests.

4. Limits on Exposure to Single Entities

- The total value of loans, advances, or other benefits to any single person or company should not exceed certain specified limits of the bank's capital.

5. Requirement for Regulatory Approval

- The Act requires written permission from the Bangladesh Bank for loans or benefits exceeding these specified limits.

These limitations are set to maintain the financial stability and integrity of the banking system, ensuring prudent lending practices and mitigating risk.

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. **Lack of Deposit Insurance**: Unlike banks, deposits with NBFIs are not covered by deposit insurance schemes, which may deter depositors from placing funds with them due to concerns about safety and security.
3. **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.
4. **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.

Artho 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/FI'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. Duties and Responsibilities of the Banker for Recovery of Loans before Filing Suit under Artha Rin Adalat Law 2003.

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 dealignment 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. Discuss Appeal and Revision process.

- **Filing an appeal** requires payment of 50% of the decretal amount before the district judge (if < Tk 50 lacs) or high court (if > Tk 50 lacs).
- **Appeal** settlement takes up to 90 days from filing, with a possible 30-day extension.
- **Filing a revision** suit demands payment of 75% of the decretal amount.
- **Revision** case resolution takes up to 60 days, with a possible 30-day extension.

Q-41. 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-42. What regulatory measures should be taken by central bank to improve governance in the banking sector? Give your view. BPE-98th.

Central banks can implement various regulatory measures to enhance governance in the banking sector:

1. **Enhanced Supervision**: Strengthen oversight mechanisms to ensure banks comply with governance standards.
2. **Transparent Reporting**: Require banks to disclose relevant information on governance practices and performance to stakeholders.
3. **Governance Guidelines**: Develop and enforce clear governance guidelines and codes of conduct for bank management and board members.
4. **Risk Management Requirements**: Implement robust risk management frameworks to identify, assess, and mitigate risks effectively.
5. **Whistleblower Protection**: Establish mechanisms to protect whistleblowers who report governance violations within banks.
6. **Training and Education**: Provide training and education programs to bank personnel and board members on governance best practices.
7. **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-43. What regulatory measures should be taken to reduce default loans in the banking sector? Give your view. BPE-98th.

To reduce default loans in the Bangladesh banking industry, regulatory measures should include:

1. **Enhanced Supervision**: Strengthen regulatory oversight to ensure banks adhere to prudent lending practices and risk management standards.
2. **Credit Risk Management**: Implement stricter guidelines for assessing borrower creditworthiness, monitoring loan portfolios, and managing credit risk.
3. **Loan Classification and Provisioning**: Enforce timely and accurate loan classification and provisioning requirements to reflect the true risk profile of banks' loan portfolios.
4. **Governance and Transparency**: Enhance governance standards, board oversight, and disclosure requirements to promote accountability and transparency in lending operations.
5. **Legal Framework**: Improve legal and regulatory frameworks for loan recovery, including expedited legal processes and enforcement mechanisms.

6. **Capacity Building**: Provide training and capacity-building initiatives for bank personnel on credit risk assessment and loan recovery techniques.
7. **Credit Information Bureau**: Strengthen the credit information bureau to facilitate better credit risk assessment and information sharing among banks.

These measures can help mitigate default loan risks and improve the overall health and stability of the banking sector in Bangladesh.

Q-44. 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 Artho Rin Adalat Ain, 2003? BPE-98th. According to the Artha Rin Adalat Ain, 2003, the bank will follow the following procedure to recover the defaulted loan:

1. **Legal Notice**: The bank will issue a legal notice to Mr. 'X' demanding repayment of the outstanding loan amount within a specified period, typically 30 days.
2. **Filing a Suit**: If Mr. 'X' fails to repay the loan after receiving the legal notice, the bank will file a case against him in the Artha Rin Adalat (Money Loan Court).
3. **Court Proceedings**: The court will conduct hearings where both parties will present their arguments and evidence.
4. **Judgment**: After considering the evidence presented, the court will pass a judgment directing Mr. 'X' to repay the outstanding loan amount.
5. **Execution of Judgment**: If Mr. 'X' still fails to repay the loan as per the court's judgment, the bank can proceed with the execution of the judgment to recover the outstanding amount.
6. **Sale of Collateral**: As collateral security amounting to Tk. 3.50 crore had been mortgaged, the bank can proceed with the sale of the collateral to recover the outstanding loan amount.

Overall, the Artha Rin Adalat Ain, 2003, provides a legal framework for banks to recover defaulted loans through the money loan court, ensuring swift and efficient resolution of loan recovery cases.

Q-45. Discuss about the provisions made for Appeal and Revision (Sec. 40-44) under the
Artho 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?

To file an appeal, the appellant must pay 50 percent of the decretal amount. If the decretal amount is less than Tk 50 lacs, the appeal should be filed before the district judge; if it is more than Tk 50 lacs, it should be filed before the high court. The appeal must be settled within 90 days, extendable by another 30 days (Sec. 41).

For a revision case, the judgment debtor must pay 75 percent of the decretal amount. The case must be settled within 60 days, extendable by another 30 days (Sec. 42).

Q-46. 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-47. 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-48. 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

- Minimum amount: BDT 50,000 (Fifty thousand taka)
- A suit can be filed in the Artha Rin Adalat only when the outstanding loan or claim amount is Tk. 50,000 or more.
- Claims below Tk. 50,000 do not fall under the jurisdiction of the Artha Rin Adalat.

Simple example:

- If a borrower defaults on Tk. 40,000, the case cannot be filed in Artha Rin Adalat.
- If the default amount is Tk. 1,00,000, the bank can file a suit in Artha Rin Adalat.

This rule is followed as per IBB Examination (ER Book) and standard banking law practice in Bangladesh.

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

Step-1: Calculate Total Eligible Capital

Total Eligible Capital
= Tier-1 Capital + Tier-2 Capital − Deductions
= 1,500 + 500 − 200
= BDT 1,800 crore

Step-2: Calculate Capital Adequacy Ratio (CAR)

Formula:

CAR = (Total Eligible Capital ÷ Risk-Weighted Assets) × 100
Calculation:
CAR = (1,800 ÷ 18,000) × 100
CAR = 0.10 × 100
CAR = 10%

Step-3: 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: BPE-96th.

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

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

Ans:

(a) Minimum Capital Requirement:

Minimum Capital Requirement=RWA×10%

=30,200×10%=3,020 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

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

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

(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. Based on the following information of 'A' Bank please 6 calculate the Leverage Ratio for 2019 and 2020 and make your comment on the adequacy of the ratios: BPE 98th.

(in crore Taka)

Particular	2019	2020
Tier-1 Capital	3,500	2,750
Total Asset	50,000	45,000
Total Leverage Ratio Exposure	65,000	60,000

Total Asset can also be the denominator. So, the following answer will be correct as well.

Description	**2019**	**2020**
Leverage ratio ($\frac{\text{Tier}-1\ \text{Capital}}{\textit{Total Asset}}$)	7.00%	6.11%
Comment: LCR greater than or equal to 100% fulfills requirement	Requirement fulfilled	Requirement fulfilled

Q-04. Based on the given information below of 'X' Bank answer the following questions: BPE-98th

(in crore Taka)

Total Risk Weighted Asset (RWA)	45,500
Paid-up capital✓	1,890
Retained earnings/	550
Non-repayable share premium account	150
Statutory reserve	1,300
General provision	1,100
General Reserve	300
Perpetual bond	500

a) Calculate Minimum Capital Requirement (MCR) with Capital Conservation Buffer (CCB).
b) Calculate total Capital to Risk-weighted Asset Ratio (CRAR).
c) Calculate CET- Tier-I and Tier-II Capital Ratio.
d) Interpret the results above against minimum regulatory requirements of Bangladesh Bank.

a) Minimum Capital Requirement (MCR) is 10% of RWA. A capital conservation buffer of 2.5%, comprised of Common Equity Tier 1 (CET1), is established above the regulatory minimum capital requirement.

Hence, MCR with CCB is 12.5% of Risk Weighted Asset (RWA)

MCR with CCB= 45,500 * 12.5%=5,687.50 crore taka.

b) CRAR $= \frac{\text{Total Eligible Capital}}{\text{RWA}} = \frac{5{,}790}{45{,}500} = 12.73\%$

c) CET-1, Tier-1 and Tier-2 Capital Ratios are as follows:

Capital Components	**Amount**
Paid up capital	1,890.00
Retained Earning	550.00
Non-repayable share premium account	150.00
Statuary reserve	1,300.00
General reserve	300.00
Common Equity Tier-1 (CET-1) capital	**4,190.00**
CET-1 capital ratio= $\frac{\textbf{Total Eligible Capital}}{\textbf{RWA}} = \frac{\textbf{4,190}}{\textbf{45,500}}$	**=9.21%**

Capital Components	**Amount**
Perpetual Bond	500.00
Additional Tier 1 (AT-1) Capital	**500.00**
AT-1 capital ratio $= \frac{AT-1\ Capital}{\textbf{RWA}} = \frac{\textbf{500}}{\textbf{45,500}}$	**=1.10%**

Capital Components	**Amount**
Common Equity Tier-1 Capital (CET-1) capital	4,190.00
Additional Tier 1 (AT-1) Capital	500.00
Total Tier-1 Capital (Going Concern Capital)	**4,690.00**
AT-1 capital ratio $= \frac{AT-1\ Capital}{\textbf{RWA}} = \frac{\textbf{4,690}}{\textbf{45,500}}$	**=10.31%**

Capital Components	**Amount**
General provision	1,100.00

Tier-2 Capital (Gone Concern Capital)	**1,100.00**
Tier-2 capital ratio= $\frac{Tier-2\ Capital}{RWA} = \frac{1,100}{45,500}$	**=2.42%**

Tier 1 capital	4,690.00
Tier 2 capital	1,100.00
Total capital	**5,790.00**
Total capital ratio = $\frac{Total\ capital}{RWA} = \frac{5,790}{45,500}$	**=12.73%**

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

Ratio	**Regulatory Requirement**	**Actual performance of X bank**	**Fulfillment**
Minimum CET-1 capital Ratio	4.50%	9.21%	Satisfied
Minimum CET1 Plus CCB	7.00%	9.21%	Satisfied
Minimum Tier 1 capital ratio	6.00%	10.31%	Satisfied
Minimum Total Capital Ratio	10.00%	12.73%	Satisfied
Minimum Total Capital plus CCB	12.50%	12.73%	Satisfied

Reference: Guidelines on Risk Based Capital Adequacy, BRPD Circular No- 18 (date: December 21, 2014)

Q-5- From the following capital elements of XYZ Bank PLC, calculate CRAR, Tier 1, Tier-2 and minimum capital requirement. BPE-5th.

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-06. Scenario:

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

a) Calculate the amount of cash reserve that must be maintained with the central bank.

b) 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:

CRR = TDTL × CRR rate

Calculation:

CRR = 12,500 × 4%

CRR = 12,500 × 0.04

CRR = **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

New CRR = 12,500 × 3.5%

= 12,500 × 0.035

= **BDT 437.5 crore**

Reduction in CRR = 500 − 437.5

= **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-07: Calculation of Statutory Liquidity Ratio (SLR)

Scenario:

A conventional bank has Total Demand and Time Liabilities (TDTL) of BDT 10,000 crore. The Statutory Liquidity Ratio (SLR) is 13% and the Cash Reserve Ratio (CRR) is 4%.

a) Calculate the minimum amount of statutory liquid assets to be maintained by the bank.

b) Excluding CRR, calculate the additional percentage and amount of SLR that must be maintained.

ANS: Calculation of Statutory Liquidity Ratio (SLR)

Scenario:

Total Demand and Time Liabilities (TDTL) = BDT 10,000 crore

Statutory Liquidity Ratio (SLR) = 13%

Cash Reserve Ratio (CRR) = 4%

(a) Minimum amount of statutory liquid assets

Formula:
SLR = TDTL × SLR rate
Calculation:
SLR = 10,000 × 13%
SLR = 10,000 × 0.13
SLR = **BDT 1,300 crore**
Answer:
The minimum statutory liquid assets required is **BDT 1,300 crore.**

(b) Additional SLR excluding CRR
CRR amount = 10,000 × 4% = **BDT 400 crore**
Additional SLR requirement = 13% − 4% = 9%
Additional SLR amount = 10,000 × 9%
= **BDT 900 crore**
Answer:
The bank must maintain **additional 9%,** equivalent to **BDT 900 crore,** as SLR excluding CRR.

Q-08. Calculation of Tier-1 Capital Ratio:
Scenario:
A bank has Tier-1 capital of BDT 1,400 crore and Risk-Weighted Assets (RWA) of BDT 16,000 crore.
a) Calculate the Tier-1 capital ratio.
b) If the Risk-Weighted Assets increase by 10%, calculate the new Tier-1 capital ratio.
ANS: Calculation of Tier-1 Capital Ratio
Scenario:
Tier-1 Capital = BDT 1,400 crore
Risk-Weighted Assets (RWA) = BDT 16,000 crore

(a) Tier-1 Capital Ratio
Formula:
Tier-1 Capital Ratio = (Tier-1 Capital ÷ RWA) × 100
Calculation:
= (1,400 ÷ 16,000) × 100
= 0.0875 × 100
= **8.75%**
Answer:
The Tier-1 Capital Ratio is **8.75%.**
(b) New ratio after 10% increase in RWA
New RWA = 16,000 + (10% of 16,000)
= 16,000 + 1,600

= **17,600 crores**

New Tier-1 Capital Ratio = (1,400 ÷ 17,600) × 100

= 0.0795 × 100

= **7.95% (approximately)**

Answer:

After a 10% increase in risk-weighted assets, the Tier-1 Capital Ratio becomes approximately **7.95%.**

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:

Define willful defaulter as per Bangladesh Bank guidelines.

Based on the case, identify and explain the actions taken by ABC Bank that justify their classification as a willful defaulter.

How does classification as a willful defaulter impact M/S Skyscraper Ltd.'s future operations?

(i) 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.

Case Study 2: CRR–SLR Breach & Liquidity Stress at Sonali Trust Bank PLC

Case Scenario:

Sonali Trust Bank PLC is a conventional scheduled bank in Bangladesh. As per Bangladesh Bank regulations and the Bank Company Act, 1991, the bank must maintain:

- CRR (Cash Reserve Ratio) with Bangladesh Bank, and
- SLR (Statutory Liquidity Ratio) in cash and approved securities.

During an on-site inspection, Bangladesh Bank found that:

1. For several days, the bank's CRR fell below the required percentage against its Total Demand and Time Liabilities (TDTL).
2. The bank kept a high portion of its funds in illiquid long-term loans and low in approved securities, causing SLR shortfall.
3. Despite liquidity stress, the bank declared high cash dividend, instead of strengthening capital and reserves.
4. Treasury department did not follow Bangladesh Bank's circulars on daily CRR/SLR maintenance and reporting.
5. A sudden withdrawal of large corporate deposits pushed the bank to borrow heavily from the inter-bank market at high cost.

Bangladesh Bank issued a show-cause notice and warned that repeated non-compliance of CRR/SLR may invite penalties and restrictions on new branch opening and dividend payment.

Questions:

a) Explain the concepts of CRR and SLR as per the Bank Company Act, 1991. Why does Bangladesh Bank require banks to maintain these ratios?

b) Identify and explain three major weaknesses in Sonali Trust Bank PLC's liquidity management based on the case.

c) What regulatory powers does Bangladesh Bank have to control advances and liquidity of banks when CRR/SLR are not properly maintained? Mention at least four measures.

d) Comment on the decision of the bank to declare high cash dividend despite CRR/SLR pressure and liquidity stress. Is this consistent with restrictions on dividend payment under the Bank Company Act, 1991?

Answer:

a) CRR (Cash Reserve Ratio): A fixed percentage of a bank's total deposits (TDTL) that must be kept in cash with Bangladesh Bank. Banks cannot use this money for lending.

SLR (Statutory Liquidity Ratio): A fixed percentage of deposits that must be kept in cash or approved securities such as T-bills and bonds.

Bangladesh Bank requires CRR and SLR:

1. To ensure banks always have enough liquid money to pay depositors.
2. To prevent liquidity crises in the banking system.
3. To force banks to keep safe liquid assets.
4. To support monetary policy and financial stability.

b) Three weaknesses in Sonali Trust Bank's liquidity management

1. Failure to maintain mandatory CRR: The bank allowed CRR to fall below
2. the required level for several days, violating Bangladesh Bank rules.
3. Improper liquid asset mix (SLR shortfall): The bank kept too much money in long term illiquid loans and too little in approved securities, causing SL deficiency.
4. Weak treasury compliance: The treasury department did not follow Bangladesh Bank circulars on daily CRR/SLR reporting, showing poor internal control.

c) Under the Bank Company Act, 1991 and Bangladesh Bank regulations, the central bank can:

1. Impose monetary penalties for each day of the CRR/SLR shortfall.
2. Restrict dividend declaration until the bank corrects liquidity and capital positions.
3. Set limits on new loan disbursements or credit ceilings to control the bank's risk.
4. Stop approval of new branches or expansion programs.
5. Order the bank to increase investment in approved securities to meet SLR.
6. Place the bank under intensified supervision or seek regular liquidity reports.

d) The decision to declare a high cash dividend was not appropriate and not consistent with the Bank Company Act, 1991, because:

1. Banks cannot declare dividends if they fail to maintain CRR or SLR or face provisioning shortfalls.
2. The bank was already under liquidity stress, so releasing cash as dividend weakened liquidity further.
3. Dividend payment should be avoided when the bank needs funds to meet regulatory liquidity obligations.

Chapter End