

Functioning of Banking System in Bangladesh

Annex-VII



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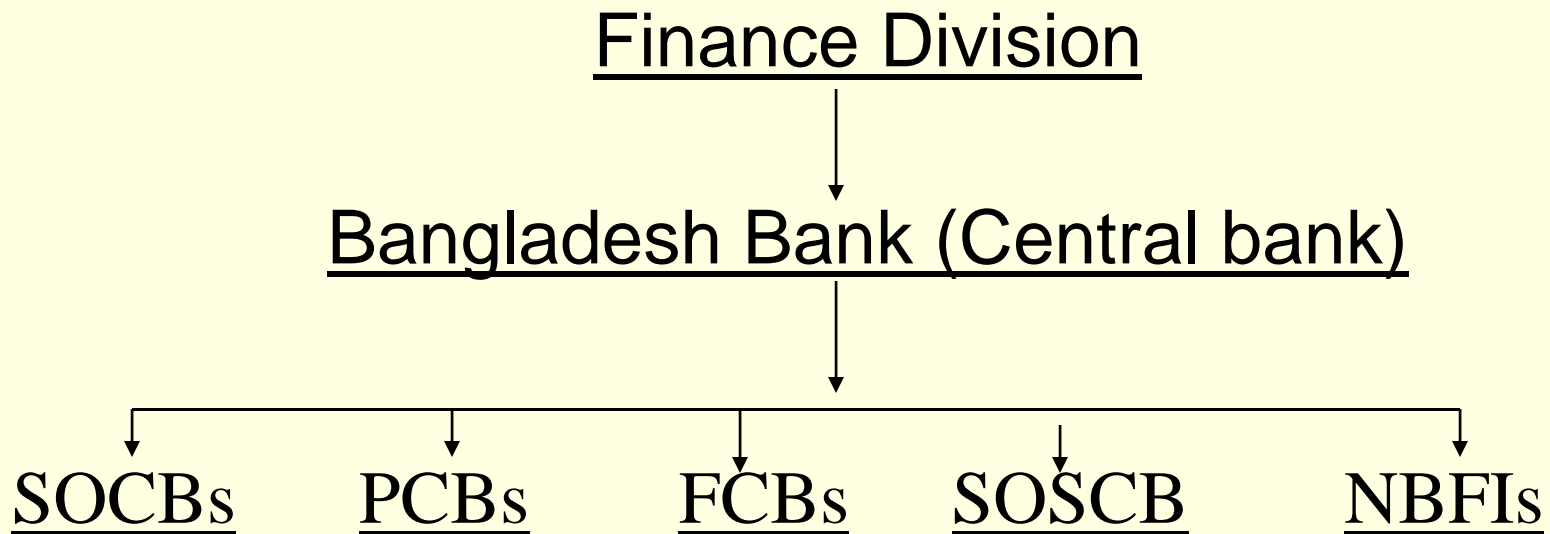
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Financial Sector in Bangladesh

The Financial sector in Bangladesh includes the Ministry of Finance, Bangladesh Bank (the Central Bank), Scheduled Banks various Co-operative Banks, Non-Banking Financial Institutions, Micro Finance Institutions (MFIs), Insurance Companies, Credit Trading Agencies and Stock Exchange.

Brief Sketch of Banking System in Bangladesh



- SOCB- State owned Commercial Bank (4 nos.)
- PCB- Private Commercial Bank (30 nos.)
- FCB- Foreign Commercial Bank (9 nos.)
- SCB- Specialized Commercial Bank (5 nos)
- NBFIs- Non Banking financial Institution (29 nos)



The Product/Services that are offered by the Banks

- **Traditional Product & Services :** In Bangladesh, the Banking system uses various instruments for making payment and transactions, such as cash, cheque, bill of exchange, promissory note, demand draft, payment order and other services including mail transfer and telegraphic transfer.
- **Loan Products that are given for economic purposes:** Consumer Loan, Micro Credit, Terms Lending i.e. Project and Infrastructure, Housing Loan, Cash Credit and Overdraft etc. In addition to this, SME Lending are also been given much of the priorities.
- **Modern and innovative technology given products, popularly known as plastic money:** Debit, Credit and other ATM Cards.
- Currently, Banks are also giving emphasis on improving their transaction capabilities through ATM, POS (Point of Sale), Online, Internet, Tele-banking, SWIFT and Reuter.



Major Legal/Regulatory Reforms in Banking system

- Three NCBs (Sonali, Janata and Agrani Bank) have been corporatized for allowing them to operate as Public Limited Companies.
- A bank would be having a Board of Directors consisting maximum of 13 (thirteen) members, where 02 (two) members will be allowed from a family, two members will come from the share holders.
- Money Laundering Prevention (Amendment) Ordinance 2007 is promulgated by amending of the Money Laundering Prevention Act 2002 which will require banks to submit cash transaction report (CTR) to Bangladesh Bank for cash deposit or withdrawal of any amount of Tk. 7,00,000 (Seven hundred thousand) or above.
- Instructions have already been issued to all schedule banks/financial institutions in accordance with the money laundering prevention act in compliance with United Nations Convention against Corruption (UNCAC) and recommendation no. 6 of Financial Task Force (FATF) for opening and maintaining accounts of Politically Exposed Persons (PEPs).



Major Legal/Regulatory Reforms in Banking system (contd...)

- In order to establish good governance in the banking system guidelines have been issued regarding responsibility and accountability of Board of Directors, Chairman of the Board and Chief Executive/Managing Directors to ensure greater transparency, accountability and dynamism in overall financial, managerial and administrative policies and executive activities.
- Banks/financial institutions have been urged to invest their excess liquidity in productive SME sectors including women entrepreneurs.
- The paid up capital and statutory reserve of all bank companies has been raised to a minimum ceiling of Tk. 200 crore.
- More than thirty percent of its capital can not be invested in any subsidiary of the bank.



Major Legal/Regulatory Reforms in Banking system (contd...)

- Banks are required to maintain general provision in the following manner:
 - i. @1% against all unclassified loans (other than loans under small enterprises, consumer financing, and special mention account).
 - ii. @2% on unclassified amount for small enterprise financing.
 - iii. @5% on the unclassified amount for consumer financing.
 - iv. @5% on the outstanding amount of loans kept in the `special mention account' after netting of the amount of interest suspense.



Major Legal/Regulatory Reforms in Banking system (contd...)

vi. Banks are required to maintain provision at the following rates
respect of classified continuous, demand and fixed term loans:

- | | |
|-----------------|-------------|
| a) Sub-standard | 20 percent |
| b) doubtful | 50 percent |
| c) Bad/loss | 100 percent |

viii. The Government has decided to implement new international standard
capital adequacy accord (BASEL II) to from early 2009.



Thank you very much

