

**OPERATIONAL GUIDELINES**  
**FOR**  
**OFFSHORE BANKING**



**PUBALI BANK LIMITED**  
Offshore Banking Division  
Head Office  
23, Motijheel Commercial Area  
Dhaka – 1000

*Signature*



## Preface

As per para 3.10 of Bangladesh Bank's Policy for Offshore Banking Operation of the Banks in Bangladesh, 'Offshore Banking' refers to the particular conduct of banking operation in foreign currencies conditionally approved by Bangladesh Bank. Offshore Banking Division has been set up to control and monitor Offshore Banking activities that are carried out by specific/designated branches, physically located in various places.

Accordingly Pubali Bank Limited has set up its Offshore Banking Division on 02.02.2020 in compliance with BRPD circular No. 02 dated 25.02.2019. In order to facilitate foreign exchange transaction and banking services among the enterprises in EPZs, PEPZs, EZs, Hi-tech Parks, Juristic Persons not resident in Bangladesh and natural persons not resident in Bangladesh. Our Offshore Banking Division has prepared the **Operational Guidelines for Offshore Banking** based on Bangladesh Bank Offshore Policy Guidelines and circulars issued by them. Any scheduled bank willing to operate offshore Banking in Bangladesh shall have to obtain approval from Bangladesh Bank. Accordingly we have taken approval from Bangladesh Bank and we have already started offshore banking operations in our Bank. As per Bangladesh Bank's offshore banking policy para 8.1, each bank shall have written guidelines which are to be approved by their Board of Directors for conducting offshore banking operation. To comply with these prudential regulations and outlines, the legal and regulatory framework including organogram, we have designed the operational guidelines.

Main purposes of the operational guidelines are to:-

- 1) Outline the area of operations and clearly identify and design the responsibilities of OBU & OBD;
- 2) Identify/ assess the risk issues and how to address them and interpret the requirements of the relevant laws and regulations and how they may be implemented in Banking Practice;
- 3) Indicate good industry practice in offshore banking procedures through risk based approach and design and implement the systems and controls necessary to mitigate the offshore banking risks;
- 4) Utilize the potential of global access to asset, liability and income and attract and facilitate potential fully foreign owned enterprises in the EPZs, PEPZs, EZs, Hi-tech Park etc.;
- 5) Attract non-resident Bangladeshis for deposit mobilization and facilitate other than fully foreign owned enterprises in the EPZs, PEPZs, EZs and Hi-tech Park;
- 6) Facilitate local industries, enterprises for easy access to foreign currency financing and utilize the potentiality of offshore banking business with a view to optimizing of profit of our Bank

The offshore banking guidelines will be used as operational guidelines for all officials of the Bank who are related with offshore banking activities. Hence, all officials of our Bank should go through the manuals. We hope that the guidelines will be beneficial for officials of our Bank to conduct offshore banking business in an orderly and efficient manner and we can conclude that our Bank will achieve long term profitability gets and will maintain reliable financial and managerial reporting through strengthening offshore banking activities in our Bank.

**Md. Abdul Halim Chowdhury**

**Managing Director & CEO**





# EDITORIAL COMMITTEE

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## List of Abbreviations & Acronyms

ACU	Asian Clearing Union
AD	Authorized Dealer
ADB	Asian Development Bank
ALCO	Asset and Liability Committee
ALM	Asset-Liability Management
AMD	Additional Managing Director
AML	Anti-Money Laundering
ATA	Anti-Terrorism Act
Bank	Pubali Bank Limited
BB	Bangladesh Bank
BBI	Bankers' Book of Instructions
BDT	Bangladesh Taka
BEPZA	Bangladesh Export Processing Zones Authority
BEZA	Bangladesh Economic Zones Authority
BFIU	Bangladesh Financial Intelligence Unit
BIDA	Bangladesh Investment Development Authority
BOD	Board of Directors
BRPD	Banking Regulation and Policy Department
BSEC	Bangladesh Securities and Exchange Commission
CAD	Central Accounts Division
CAMLCO	Chief Anti-Money Laundering Compliance Officer
CAO	Credit Assessment Officer
CD	Credit Division
CDD	Customer Due Diligence
CEO	Chief Executive Officer
CFT	Combatting the Financing of Terrorism
CIB	Credit Information Bureau
CL	Classified Loan
COO	Chief Operating Officer
Cr	Credit
CRM	Credit Risk Management
CRO	Chief Risk Officer
CRR	Cash Reserve Ratio
CRS	Common Reporting Standard
CTO	Chief Technical Officer
DBU	Domestic Banking Unit
DFI	Depository Financial Institution
DGM	Deputy General Manager
DOS	Department of Off-site Supervision
Dr	Debit
EDD	Enhanced Due Diligence
EPB	Export Promotion Bureau



EPZ	Export Processing Zone
EZ	Economic Zone
FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force
FC	Foreign Currency
FDD	Foreign Demand Draft
FEID	Foreign Exchange Investment Department
FEOD	Foreign Exchange Operation Department
FEPD	Foreign Exchange Policy Department
FI	Financial Institution
FTT	Foreign Telegraphic Transfer
FSD	Financial Stability Department
GF	General Form
GFET	Guidelines for Foreign Exchange Transactions
GFI	Global Financial Integrity
GM	General Manager
HOU	Head of Unit
HRD	Human Resources Division
IAS	International Accounting Standard
ID	International Division
IFC	International Finance Corporation
IFRS	International Financial Reporting Standard
IPO	Import Policy Order
IRS	Internal Revenue Service
ISMD	Integrated Supervision Management Department
KYC	Know Your Customer
LR	Loan Risk
LCR	Liquidity Coverage Ratio
LIBOR	London Interbank Offer Rate
MANCOM	Management Committee
MCR	Minimum Capital Requirement
MD	Managing Director
MLPA	Money Laundering Prevention Act
MRSC	Management Reporting System Committee
NITA	Non-Resident Investment Taka Account
NRB	Non-resident Bangladeshi
NSFR	Net Stable Funding Ratio
OBO	Offshore Banking Operation
OBU	Offshore Banking Unit
OBD	Offshore Banking Division
OECD	Organization for Economic Co-operation and Development
PBL	Pubali Bank Limited
PEP	Politically Exposed Person
PEPZ	Private Export Processing Zone
PIBS	Pubali Integrated Banking System
PMS	Pubali Monitoring System



POBUIIS	Pubali Offshore Banking Unit Integrated System
RJSCF	Registrar of Joint Stock Companies and Firms
RMC	Risk Management Committee at Management Level
RMD	Risk Management Division
SAR	Suspicious Activity Report
SDD	Software Development Division
SLR	Statutory Liquidity Ratio
SRO	Statutory Regulatory Order
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TBML	Trade Based Money Laundering
TD	Treasury Division
TF	Financing of Terrorism
TIN	Taxpayer Identification Number
TP	Transaction Profile
UPAS	Usance Payment at Sight
US	United States
VAT	Value Added Tax





# Chapter 1

## Introduction

### 1.1 Overview

“Operational Guidelines for Offshore Banking” has been prepared to bring uniformity and harmony in the procedure and practices of overall activities of Offshore Banking Units of Pubali Bank Limited.

The objective is to keep our officials working with Offshore Banking Units to be informed and updated on the procedures and trends in the operational areas. It also reflects our strong commitment to equip the work force with appropriate knowledge and know-how to enable them to attain professional excellence in this particular dynamic and ever-changing arena of banking. We whole heartedly believe that in this complex world of competition, this will provide our official's competitive edge for facing the professional challenges.

The terminologies utilized in the guidelines are commonly known and globally used. We have tried to avoid words/phrases which connote ambiguous meanings. We hope this will ensure understanding of practices and procedures in the operational field of Offshore Banking Units with clarity and simplicity.

Despite our all-out efforts, the guidelines may entail some flaws and errors. We also believe that unless updated, a guideline may become obsolete with passage of time. We would therefore, welcome suggestions in this regard in the light of emerging trends, events and practices to enable us to develop this guideline further in the coming days.

We acknowledge with thanks for the contributions of our executives in preparation of this “Operational Guidelines for Offshore Banking” for Offshore Banking Units (OBUs).

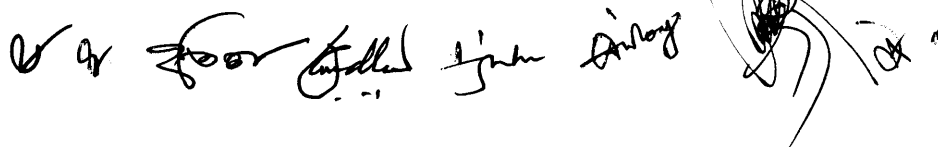
### 1.2 Definition

The following terms shall have the meanings indicated below unless the context clearly indicates otherwise and have been depicted as per BRPD Circular No.02 dated 25.02.2019.

**"Domestic Banking Unit (DBU)"** shall refer to a business unit of a bank that carries out banking operations other than offshore banking;

**"Economic Zone (EZ)"** shall refer to any economic zone declared by the Government under section 5 of the Bangladesh Economic Zones Act, 2010;

**"Export Processing Zone (EPZ)"** shall refer to a place or places to be specified by the Government under section 10 of the Bangladesh Export Processing Zones Authority Act, 1980 as an export processing zone for the purposes of setting up export oriented industries;

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**“Hi-tech Park”** shall refer to a place specified by the Government under Section 2(6) of the Bangladesh Hi-Tech Park Authority Act, 2010 (Act No. VIII of 2010) as a categorically definitive zone to promote IT Industry in Bangladesh;

**“Juristic Person”** shall refer to an entity (other than a natural person) created by law as a legal entity having distinct identity, legal personality, duties and rights.

**“Non-resident”** shall refer to a person who is not a "Person resident in Bangladesh".

**"Person"** shall refer to an individual and others as defined in the Section 2(hh) of the 'Foreign Exchange Regulation Act, 1947 (Act no VII of 1947)'.

**"Person Resident in Bangladesh"** shall refer to a person as defined in the Section 2(hhh) of the 'Foreign Exchange Regulation Act, 1947 (Act no VII of 1947)'.

**“Private Export Processing Zone (PEPZ)”** shall refer to a private export processing zone declared by the Government under section 11 of Bangladesh Private Export Processing Zones Authority Act, 1996 for setting up export oriented industries;

**"Offshore Banking"** shall refer to the particular conduct of banking operations in foreign currencies conditionally approved by Bangladesh Bank;

**“Offshore Banking Division”** shall refer to the business management unit of a bank that controls and supervises the offshore banking operations; and

**"Offshore Banking Unit (OBU)"** shall refer to a specific business unit in the form of distinct branch, booth or desk of a branch of a bank that is duly approved by Bangladesh Bank to carry out the offshore banking.

## **Generalization of some definitions:**

### **What Offshore Banking Is**

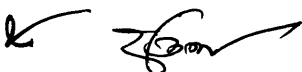
Offshore Banking refers to the particular conduct of banking operations in foreign currencies conditionally approved by Bangladesh Bank.

Offshore Banking refers to international banking involving non-residents' foreign currency-denominated assets and liabilities.

Offshore Banking is cross-border intermediation of fund and banking to non-residents.

### **Offshore Banking Division**

Offshore Banking Division (OBD) shall refer to the business management unit of Pubali Bank Limited that controls and supervises the offshore banking operations. Consequent upon the approval for formation of Offshore Banking Division (OBD) given by the Board in its 1201<sup>st</sup> meeting held on 22<sup>nd</sup> May 2019, a separate Division has been formed. The OBD has commenced



its operation on 2<sup>nd</sup> February 2020. Since its inception, it has been playing a vital role for smooth and dynamic operations of two offshore banking units (OBUs). It also maintains a coordination and continuous correspondence with the OBUs, authorized dealer branches and several divisions of our bank. Credit lines which are pivotal for offshore banking business have been established with foreign banks and other multilateral organizations like Asian Development Bank (ADB) and International Finance Corporation (IFC) through the negotiation of International Division (ID). Syndication loan agreement with Standard Chartered Bank and other loan agreement with IFC have also been done for the financing benefits of OBUs.

## **Offshore Banking Unit**

Offshore Banking Unit shall refer to a specific business unit(s) in the form of distinct branch, booth or desk of a branch of Pubali Bank Limited (Bank) that is duly approved by Bangladesh Bank (BB) to carry out the offshore banking.

Pubali Bank Ltd has 2 (two) Offshore Banking Units – one is situated at A-A Bhaban, 23, Motijheel C/A, Dhaka and the other is at Sattar Chamber, 99, Agrabad C/A, Ground Floor, Chattogram.

### **1.3 Objectives of Offshore Banking**

- To exploit the potential of global access to assets, liability and income.
- To attract and facilitate potential fully foreign owned enterprises in the Export Processing Zones (EPZs), Private Export Processing Zones (PEPZs), Economic Zones (EZs) and Hi-tech Parks.
- To attract the non-resident Bangladeshi for deposit mobilization.
- To facilitate other than fully foreign owned enterprises in the EPZs, PEPZs, EZs and Hi-tech Parks.
- To facilitate the local industrial enterprises for easy access to foreign currency financing.
- To utilize the potentiality of offshore business for the optimization of profits of the Bank.

### **1.4 Scope of Offshore Banking**

In 1985 the establishment of offshore Banking Units (OBUs) in Bangladesh has been allowed to serve industrial enterprises operating in EPZ. Bangladesh has offered many attractive incentives to the foreign investors for establishment of industries in the EPZs. As such, a number of industrial enterprises are increasing steadily in the EPZs. These industrial units and enterprises require full range of banking services for their operation. The OBUs of foreign and Bangladeshi Banks have a great scope in providing banking services to these industrial units and enterprises to their mutual benefit.



The Bangladesh Export processing Zones Authority (BEPZA) Act 1980 has been enacted for the creation, development, operation, management and control of Export processing Zones (EPZs) and for matters connected therewith.

With the establishment of various industrial units and enterprises in these EPZs, PEPZs, EZs, Hi-tech Parks there will be an increasing demand of offshore banking services in order to cater to the needs of the industries and enterprises. Therefore, there is a great opportunity for the growth of offshore banking in Bangladesh with the advent of new policy of government to extend the EZs throughout various potential areas. The scope of offshore business has been extended sufficiently.

### **1.5 Offshore Banking of Pubali Bank Limited**

Pubali Bank Limited has commenced its Offshore Banking operation with two units (OBUs) from January 13, 2010, one named Principal Branch (transferred from Gulshan Model Town Branch), located at A-A Bhaban, 23 Motijheel C/A, Dhaka-1000 and another named Agrabad Branch, located at Sattar Chamber, 99 Agrabad C/A, Chattogram in Agrabad branch premises from January 22, 2015 under the approval of Bangladesh Bank with a view to bring global opportunities to enhance business and provide better customer service.

Our bank obtained license from Bangladesh Bank vide their letter ref: BRPD (P-3) 744 (108)/2010-93 dated 13.01.2010 to commence offshore banking operation. OBUs are part of our Bank's business, however it is a separate entity and maintains separate books of accounts.

Since the initiation in 1985 in Bangladesh, concurrent global and internal business dynamics necessitate the revision and upgradation of the policy on offshore banking to streamline the operations. For this purpose, official gazette no. BRPD(P-3)/744(27)/2019-1682 dated- 25 February 2019 and BRPD Circular Letter no-03 dated- 25 February 2019 have been issued by Bangladesh Bank repealing the S.R.O. no. 474-4/85 dated-12 November 1985. And Bangladesh Bank made several set of instructions that shall have to be followed for conducting offshore banking in Bangladesh by the scheduled banks.

Terms of operations guided by Bangladesh Bank are as follows:

- OBUs are free to accept deposits, make short term loans/advances and investments, discounting bills, negotiating bills, issuing letter of credit and guarantee to fully foreign-owned enterprises (Type-A) in EPZs, PEPZs, EZs and Hi-tech Parks. However, prior permission from the Foreign Exchange Investment Department of Bangladesh Bank is required in accordance with the instructions/circulars issued from time to time before making any medium and long term financing facility to the said enterprises.
- OBUs are free to make short term loans/advances to the enterprises other than fully foreign-owned enterprises (Type-B & C) in EPZs, PEPZs, EZs and Hi-tech Parks.



- OBUs may accept deposits and borrowings from juristic persons not resident in Bangladesh. with prior permission from the Foreign Exchange Investment Department of Bangladesh Bank, OBUs may also make loans/advances to the juristic persons not resident in Bangladesh provided that the full amount of loan/advance is covered by
  - (a) Guarantee/letter of credit from a licensed bank abroad with acceptable credit rating, and/or
  - (b) Foreign exchange brought in from abroad and deposited in a bank in Bangladesh
- OBUs may accept deposits only from natural persons not resident in Bangladesh including Bangladeshi nationals working abroad (NRBs).
- OBUs may discount/purchase accepted deferred bills against import from abroad & export bills against direct and deemed exports of products produced in Bangladesh with persons resident in Bangladesh. With prior permission from the Bangladesh Bank, OBU may make medium/long term loans/advances to the industrial enterprises resident in Bangladesh as per proforma (Annexure-A) of BRPD.

OBUs are prohibited from certain activities in offshore banking operation and Bangladesh Bank has imposed some definite prudential regulations which are discussed in Chapter-10.

Interest rates for Offshore Banking deposits and Loans & Advances products will be circulated separately. OBUs are submitting reports / returns to Bangladesh Bank on a routine basis. The record of OBU will be accessible to the Bangladesh Bank for inspection of such return / reports. OBUs, regardless of its location in Bangladesh, would get coverage under BEPZA Act, 1980. Pubali Bank Limited as the parent company of its OBUs will make payment of any liability created by its OBUs.



## 1.6 Difference between Offshore Banking and Onshore Banking

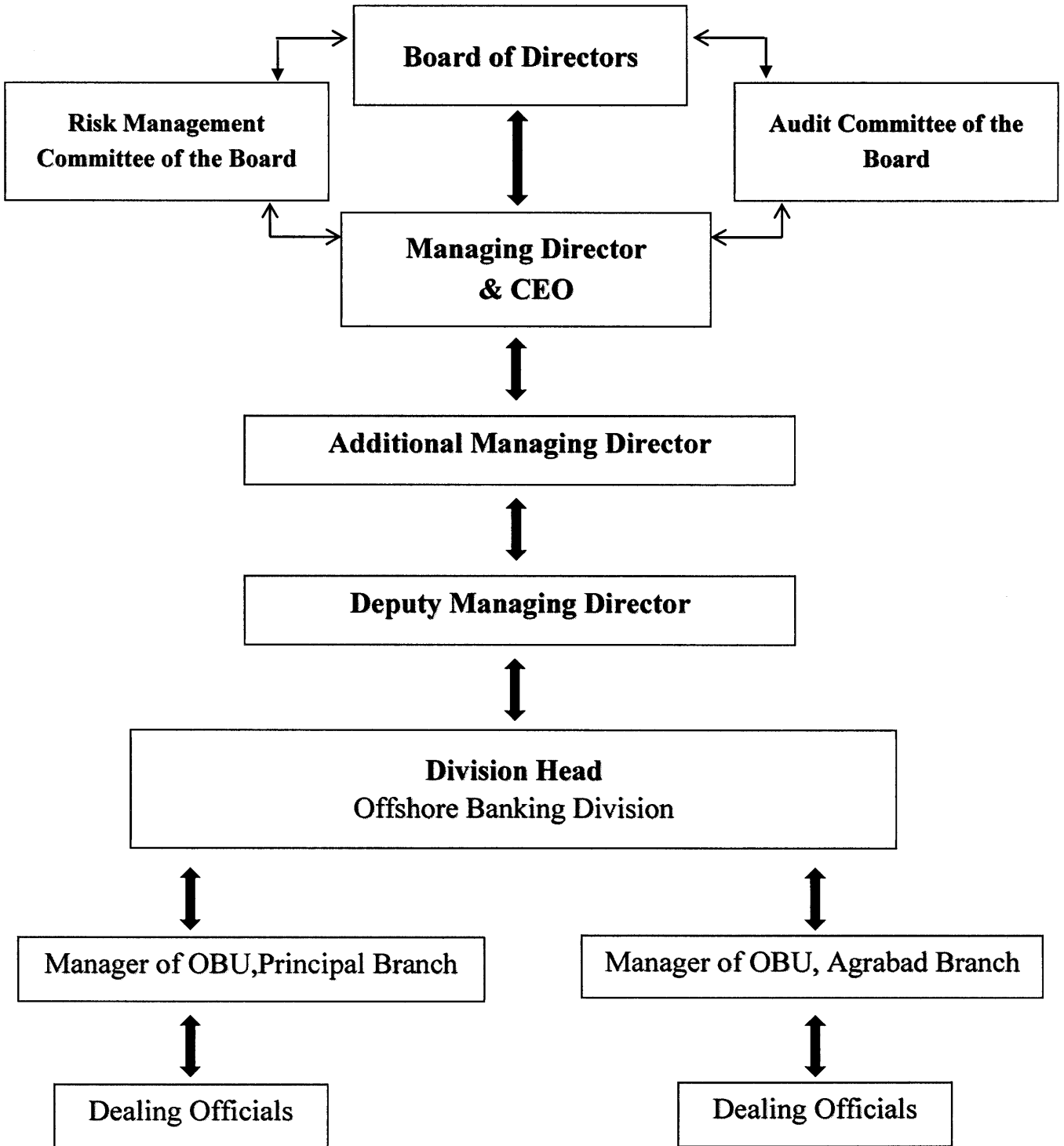
Topic	Offshore Banking	Onshore Banking
<b>Physical presence</b>	An offshore banking is one which is located in a different jurisdiction from its investors or depositors reside.	Onshore Banking is the banking activities which are undertaken within the jurisdiction and territories of a nation or a sovereign state.
<b>Flexibility</b>	Offshore banking is relatively more flexible because of less regulatory requirement. It provides specific services as customers need.	Onshore banking is govern by strict regulatory guidelines. Hence it is relatively less flexible serving its clients.
<b>Rules and Regulations</b>	Offshore banking mainly needs to be operated within the guidelines stipulated by Bangladesh Bank.	Onshore banking has to follow standard rules and regulations of Central bank and other government authorities.
<b>Nature of clients</b>	Offshore banking accepts deposits and invests to non-resident individuals and companies.	Onshore banking accepts deposits and invests to resident individuals and companies with some exceptions.
<b>Currency of Balance Sheet</b>	Foreign currency.	Local currency (BDT).
<b>Multi-currency account</b>	One can open multi-currency accounts with several account numbers, each named in a different currency.	One can usually open a single currency account in BDT, with few exceptions.
<b>Loan IN BDT</b>	Not allowed.	Allowed.
<b>Loan in FC</b>	Allowed.	Not allowed.
<b>Type of clients</b>	Offshore banking usually attracts high net-worth customers to deal in international trade.	Onshore banking customers are from cross section of society and therefore their financial ability varies.

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# Chapter 2

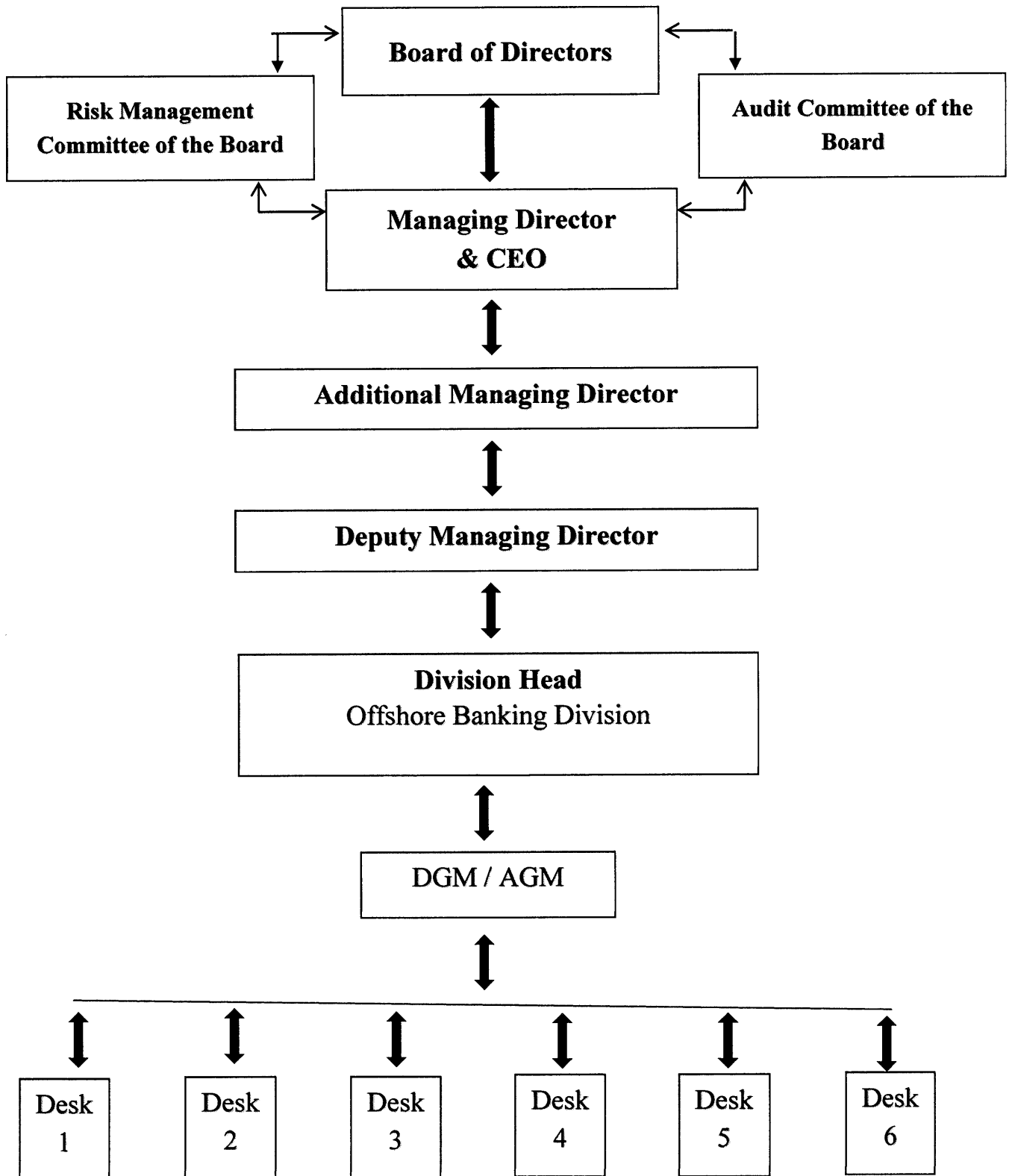
## Organogram

### 2.1 Offshore Banking Organogram of Pubali Bank Limited



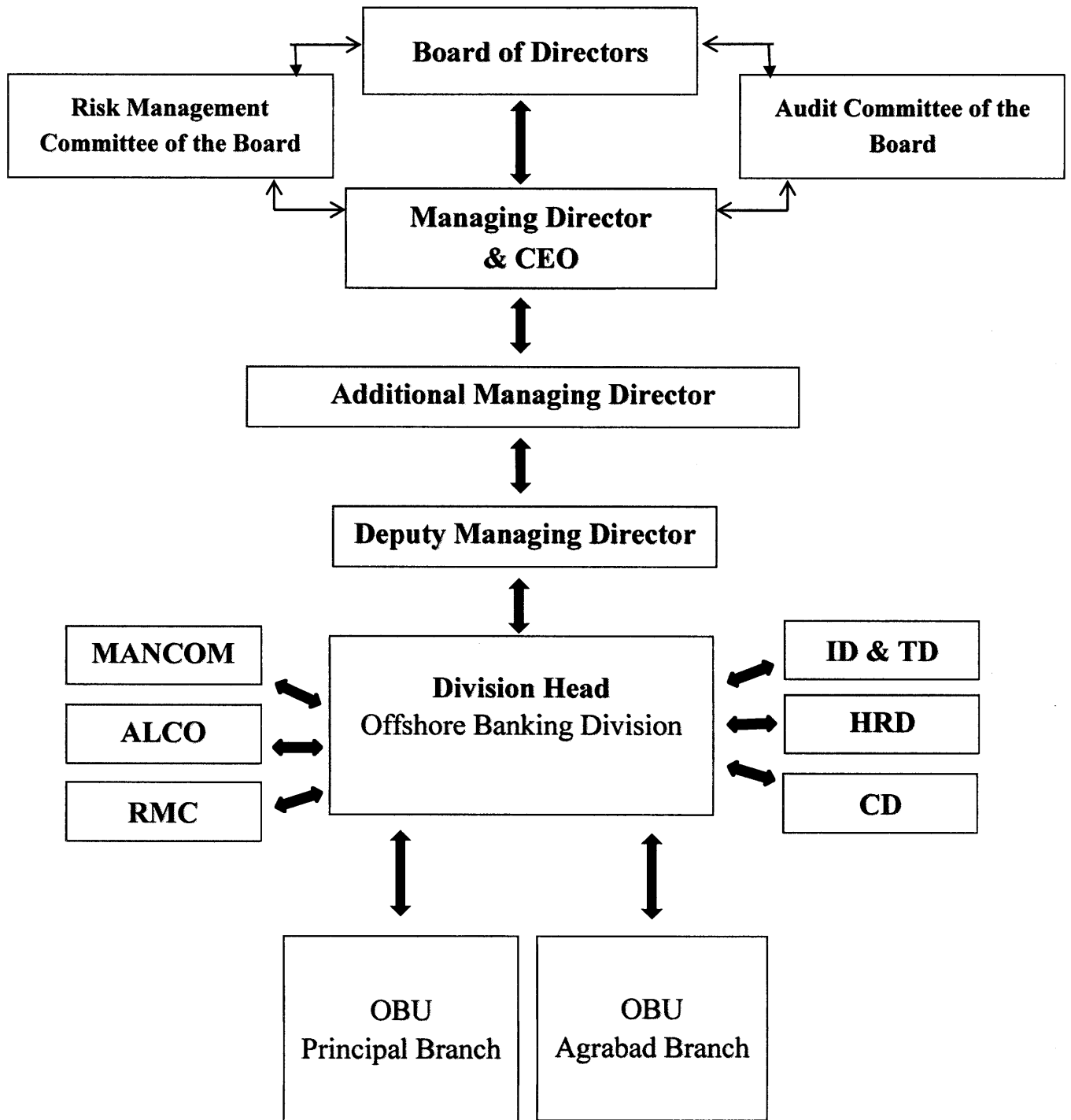
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## 2.2 Divisional Organogram



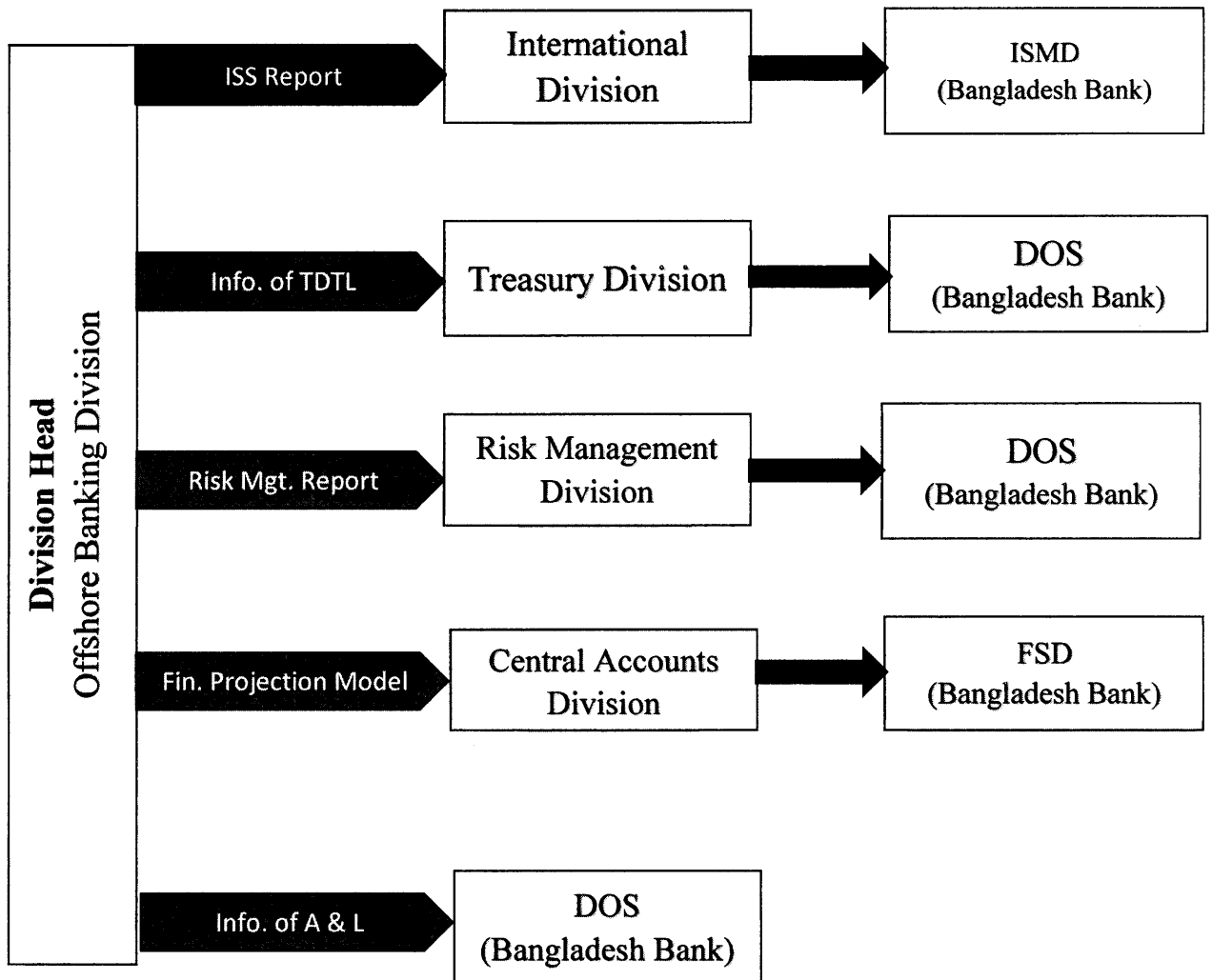
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**2.3 Reporting Route of Offshore Banking Division (Internal)**



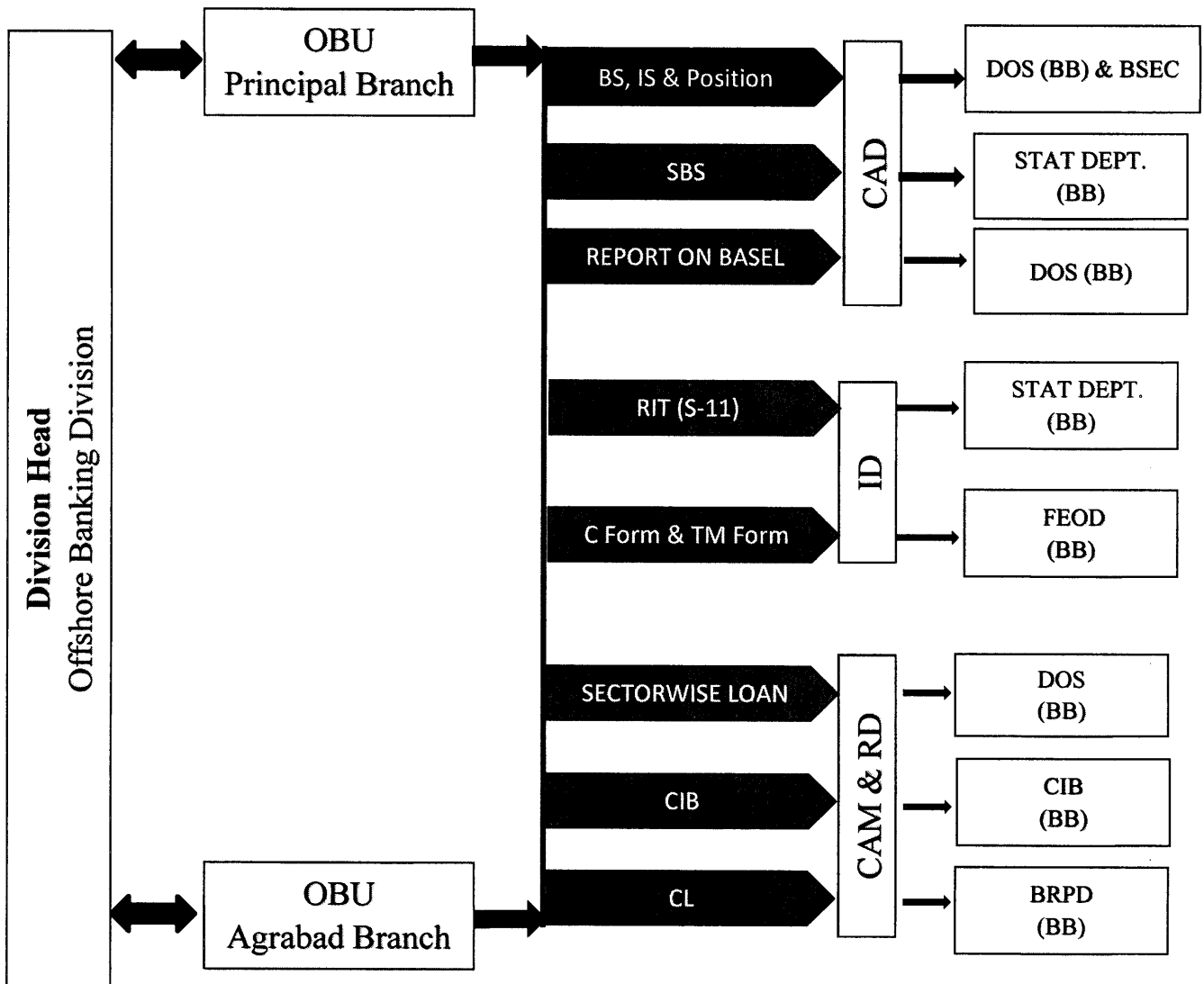
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## 2.4 Reporting Route of Offshore Banking Division (Regulatory)



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## 2.5 Direct Reporting Route of Offshore Banking Unit



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## **2.6 Duties & Responsibilities of Offshore Banking Division**

- Controlling and Supervision of offshore banking operation.
- To communicate with foreign correspondent banks and financial institutions for fund arrangement.
- To co-ordinate and communicate with Treasury Division at the request of Offshore Banking Unit (OBU) for internal borrowings, if required.
- Getting approval from Bank Management for borrowing from Foreign Correspondent Banks and Financial institutions.
- Reconciliation of Nostro Accounts of Offshore banking units.
- To obtain all records & transactions of OBU Nostro Account(s) for reconciliation purpose.
- To arrange to provide all regulatory reports.

## **2.7 Duties and Responsibilities of the Head of Offshore Banking Division**

- Head of Offshore Banking Division is entrusted with overall control, supervision and monitoring of Offshore Banking Operation of the Bank.
- He/she will ensure mobilization of business by demonstration of effective leadership of a good marketing team.
- The head of Offshore Banking Division shall have all authority to do any work for safeguarding the interest of OBUs under the discretions of Bank's competent authority.
- He/she will maintain a good interpersonal relationship amongst the employees and shall motivate them for greater output.
- He/she will observe local and international economic and financial market status and utilize the information to the benefit of the OBU.
- He/she will ensure proper management of funds for smooth and efficient operation of business of the units.

## **2.8 Duties and Responsibilities of the Manager of OBU**

- Manager of OBU will take appropriate strategies to achieve the business targets of the branch as per annual budget.
- He/she is responsible for smooth operation, gradual expansion of business of OBU and will take all necessary measures and steps to ensure the same. His/her main responsibility will be maximization of profit by increasing income and economizing expenses.
- The Manager will ensure that the authorized officers will pass vouchers according to the voucher passing limit fixed for DBU (conventional banking).
- The Manager will ensure signature and counter signature of vouchers as per general rules of conventional banking in equivalent foreign currency.
- He/she will give directions to the officials of OBU for smooth functioning of the branch.
- He/she should develop effective relationship with the customers of EPZs, PEPZs EZs & Hi-Tech Parks.





- He/she should upgrade his/her knowledge on mode of operations of business units inside and outside of EPZs, PEPZs EZs & Hi-Tech Parks operating under the rules of BEPZA, BEZA and Bangladesh Investment Development Authority (BIDA).
- He/she will make deals with Treasury Division, Head Office as and when required.
- He/she will set up appropriate marketing strategy and policy starting from client visit to formulation of appropriate market policy.
- He/she will interact with various regulatory authorities such as, BEPZA, BIDA, EPB, Bangladesh Bank regularly to be well-informed with the latest circulars, notifications and directives of those authorities regarding the operation of OBUs.
- He/she will also interact with other OBUs of local and foreign banks in order to be familiar with their business strategies.

## **2.9 Duties & Responsibilities of AD(s) in case of deferred UPAS LC with persons resident in Bangladesh.**

- AD Branch will open usance L/C under UPAS (as per Head office Credit Division sanction) incorporating a clause stating that, though the L/C is opened as usance basis but payment of import bills will be made through OBU at sight basis.
- Before opening such UPAS L/C, the AD branch will request the concerned OBU for discounting.
- After getting discounting consent from OBU, ADs will open UPAS LC and copy of such LC must be sent to concerned OBU and also to Offshore Banking Division.
- Upon receipt of documents AD will provide acceptance to OBU for payment of accepted usance/deferred import bill on sight basis and will provide the copies of original documents along with forwarding schedule.
- AD will realize bill amount along with the interest and other charges/commission from their clients on maturity of import bills (UPAS).
- AD shall be bound to reimburse the bill amount along with the interest and other charges/commission to the OBU on or before the maturity date.

## **2.10 Responsibilities of OBUs for Reporting to Different Authorities**

- Reporting to Head Office, Offshore Banking Division.
- Reporting to Different Departments of Bangladesh Bank (if required)
- Reporting to Head Office, Central Accounts Division.
- Reporting to Head Office, Treasury Division
- Reporting to Head Office, Other Divisions as and when required.

## Chapter 3

### Branch Operation

Managers are solely responsible for the proper conduct of the business at the branches in their charge. They are responsible for the safety of all securities & outstanding advances files etc. at their branches & for the organization & supervision of the office routine. They must see that the system of checking is effective, that the employees working under them do not exceed their authorized power and that office procedure strictly conforms to the instructions given in the BBI and those issued by the Head Office from time to time. They must make occasional surprise check to see whether or not the day to day business of the branches is disposed of efficiently and expeditiously and remedial measures taken.

Whenever there is a change of Managers at branch a letter in form G.F-53 signed by both the outgoing and incoming officials must be sent to the Head office accompanied by the relieving manager's certificate (G.F-55).

A special attention should be given to the personal verification of the banks bills at hand and other documents and securities obtained against outstanding advances and also to the personal checking of the books of the branch in order to ensure that all these are balanced up-to-date and records are maintained as per satisfaction.

The duties and responsibilities of second officers will vary according to the size and nature of business and she/ he must obey the instruction of the manager. At the same time she/he must report to head office about detrimental to the banks interests and any defects in the banks security of which the head office is unaware particularly in cases of irregularity in which the manager is involved either directly or indirectly.

#### 3.1 Location of OBU

Any specific business unit in the form of distinct branch, booth or desk of a branch of a bank that is duly approved by Bangladesh Bank to carry out the offshore banking operation may act as an OBU. There is no restriction on the physical location of the OBUs. They may be located either in the Export Processing Zones / Private Export Processing Zones / Economic Zones, or any other convenient location in Bangladesh taking prior permission from Bangladesh Bank.

#### 3.2 Area of Offshore Banking Operation

##### Specially designated areas:

- Export processing zone
- Economic zone
- Private Export processing zone
- Hi-tech park



### **Specially designated entity:**

- **Type –A enterprises in EPZ / EZ / PEPZ / Hi-Tech Park** – accepting deposit ,short term loans /advances, medium & long term loans & advances (subject to prior permission from BB), investments, discounting bills, negotiating bills, issuing letter of credit and guarantee.
- **Type –B & C enterprises (joint venture & fully local) in EPZ / EZ / PEPZ / Hi-Tech Park** – short term loans /advances.
- **Juristic persons (Not resident in Bangladesh)** – accepting deposit, borrowing, short term loans /advances (conditions applied).
- **Industrial importers resident in Bangladesh availing usance credit** – discount / purchase (short term), medium & long term loans / advances (prior permission from BB).
- **Direct / Deemed exporters resident in Bangladesh** - discount / purchase.

### **Specially designated person:**

- Non- resident Bangladeshis – accepting deposit.
- Natural person / Non- resident person – accepting deposit.

### **3.3 Separate Unit/Branch for Each OBU**

OBUs will be operated through completely separate Unit/ Branch and maintain their own accounts relating to offshore banking business separately while OBD will control and supervise their activities.

### **3.4 Intra Transactions between OBUs of the Bank**

When one OBU is in need of fund, it may request to obtain placement of fund from other OBU of PBL for a particular period of time at specific rate fixed by OBD. The borrowing Unit will repay the placement with interest at maturity date. The placement of fund will be made for the mutual benefit of OBUs, especially to make proper use of the excess fund held with the OBU(s) of PBL.

### **3.5 Offshore Banking Software**

In order to cope up with the potential changes/expansion of OBU business it is extremely critical to enhance technical capabilities. Hence for up-gradation of existing software of OBU, Software Development Division (SDD) will extend necessary supports to Offshore Banking Division and Offshore Banking Units for smooth operation of offshore banking. Necessary changes/adjustments may be made by Central Accounts Division in line with the present accounting procedure bringing in required modification in the POBUIS core banking system of



PBL in consultation with Offshore Banking Division and Software Development Division (SDD).

### **3.6 Transaction Profile (TP)**

TP is used to obtain information from the customer to set up a profile of expected activity on the account(s), both in terms of the value and volume of anticipated transactions, in order for the Bank to monitor transactions against this profile. TP needs to be completed and signed for each separate account.

#### **Transaction Profile (TP) Monitoring:**

- The branch will obtain transaction profile from all its customers.
- A TP form will cover all requirements for transaction monitoring.
- The branch will monitor the customer transactions with the TP on regular basis.
- Inward/outward remittances to be monitored by the branch.
- The system of monitoring inward/outward remittances followed by the branch will be adequate.
- The branch will review and update the transaction profile on periodical basis.

#### **Suspicious Transaction Reporting:**

- The unit will have a defined procedures to identify unusual transactions.
- All employees of the unit will know all systems of reporting suspicious transaction.
- All OBU managers will confirm reporting of number of suspicious transaction to the AML Division through OBD.

### **3.7 Sanction Screening**

In today's global economy, opportunities for growth are often accompanied by an increasingly complex landscape of rules, regulations and compliance issues. Since compliance is now an element of everyday business operations, businesses must employ a measured, holistic program with several key components.

Sanction screening is a control used in detection, prevention and disruption of financial crime and in particular sanction risk. It is the comparison of one string of text against another to detect similarities which would suggest a possible match.

Financial crimes such as money laundering and terrorist financing are a great risk for banking. With the development of technology, rate and types of the financial crime increases. There are



thousands of sanctions lists in the world. Most of these have different structures. Sanction screening is need in customer onboarding, transaction monitoring, and international trade processes. A CDD is applied, as a part of KYC while onboarding of a customer. Sanction screening takes place in various phases of a transaction once a customer is on boarded.

Though businesses face challenges in deploying real-time screening, the benefits far outweigh the risks. Effective sanctions screening protocols not only ensure that businesses avoid costly mistakes from facilitating illicit/unlawful transactions but can also lead to enhanced compliance operations.

Various financial transactions take place within the day from banks. These transactions may include financial crime. Implement sanctions technology can scale with changing business needs. OBU should have screening software in place that can handle an increased customer and transaction volume as their business grows. To address that Pubali Bank Ltd has a software in place called "Accuity Compliance Link" from 24.09.2019.

Sanction screening process needs to be applied in the following phases of a transaction-

**Account screening**

Knowing who we are in business with, is more critical today than ever before.

**Transaction screening**

Helping us to validate and make payments, quickly.

**Trade compliance screening**

Detecting red flags in trade transactions related to Trade-based money laundering (TBML) or CFT.

OBU must screen all customers and transactions against various sanctions lists to ensure no illicit/unlawful activity occurs. Implementing a thorough sanctions program can help immensely OBU to avoid regulatory, legal, and reputational damages.

**3.8 FATCA**

US Government has enacted a federal law commonly known as the Foreign Account Tax Compliance Act (FATCA). FATCA is meant to ensure that all US citizens, green card holders, and other US persons for tax reasons are reporting all of their foreign bank accounts and other non-US financial holdings to the IRS. It was created as a mechanism to force banks around the world to report information about their US customers to the IRS.

After the US implemented FATCA in the early 2010s, the Organization for Economic Cooperation and Development (OECD) decided to create their own system for sharing information among offshore banks and governments. Like FATCA, CRS is intended to root out tax evaders and money launderers by compelling banks to report data on their customers to governments around the world. CRS, however, is far more expansive than FATCA. With 110



different countries signed onto the program, CRS's information-sharing network is massive, and as more countries feel the pressure to join, CRS is only going to become even larger.

When FATCA came into effect, a new era of offshore banking began, and offshore strategy is completely transparent and legal. Bangladesh Bank has advised all Banks in Bangladesh who have accounts of US Tax payers to report to the Internal Revenue services (IRS) of USA. Through BRPD circular letter No.-01 issued on 16 January 2014, Bangladesh Bank advised to do so pursuant to the Foreign Account Tax Compliance Act (FATCA) of the United States. This law requires that all Foreign Financial Institutions (FFI) to report to the Internal Revenue Service (IRS) of the US Government regarding accounts maintained by US Persons or Entities under the provisions of the FATCA, the following and other criteria may classify as an "US Person or Entity"

- A citizen of the US (including an individual born in the US, but resident in another country).
- A lawful resident of the US (including US Green Card holder).
- A person residing in the US (having US address, phone number, e-mail address, etc.).
- A person who has spent at least 183 days in the US during the last three years.
- U.S. corporations, estates and trusts.
- Any entity that has a linkage or ownership to the US or to US territories.
- Non-US entities that have at least one US person as a "substantial beneficial owner".
- An US person who has been granted power of attorney or signing authority of an account.
- An US person who receives payments sourced from USA, such as interest, dividend, rent, payment for services (salaries) and any other fixed determinable annual periodical (FDAP) income.

If any customer / entities falls within the above criteria, FATCA status have to be updated with concerned Branch.

### **3.9 Nostro Accounts for OBU**

A bank holds an account in a foreign currency with another bank is known as Nostro account and the statement which it receives from the bank with which it maintains accounts is known as a Nostro account statement. PBL Offshore Banking Unit is maintaining separate Nostro accounts for its operations. OBUs are using Nostro Account of Mashreq Bank PSC, NY, USA for USD denominated transaction and Nostro Account of Mashreq Bank, Mumbai, India for transactions routing though ACU mechanism. For other currencies OBUs are making cross payment through DBU's Nostro Account.

A handwritten signature in black ink, appearing to be 'Z. Khan', with a checkmark to its left.

### **3.10 Designated Currencies:**

The currencies in which the accounts can be maintained are US Dollar, Pound Sterling, Euro or Japanese Yen. Accounts may be opened against remittances in other convertible currencies after conversion of those into US Dollar, Pound Sterling, Euro or Japanese Yen.

### **3.11 Passing and Checking Powers of Officers**

To keep control over the loans & advances all negotiable instruments / vouchers will be passed /signed jointly by two officers of which one must be the incumbent in charge of the OBU. In case the incumbent in charge is out for development or any other purpose another attorney will pass such negotiable instruments / vouchers in regular accounts, **but on his/her return he/she will have to confirm such payments by putting her/his signature.**

Under OBUs internal checking systems the works are set in such a manner that one man's work is automatically checked in another's hand to prevent frauds / irregularities. If any fraud / irregularities are committed it is held that unless all attending the works are united together or joined their hands gross irregularities could not happen.

### **3.12 Signing / Passing Powers of officers**

The signing powers of OBUs various officers are to be notified to the Head Office and these must not be exceeded.

### **3.13 Joint Responsibility Concept**

Perform following activities under joint signature to ensure effective control on the operational activities of Offshore Banking.

#### **At Branches (OBU)**

1. Sending of all periodical returns/statements to controlling offices
2. Sending all types of credit proposals for sanction renewal and enhancement, amendment and proposals for write off.
3. Issuing of all instruments i.e., FDD, FTT, Dr & Cr advices etc.
4. Passing of all internal vouchers.
5. In case of authenticated tele-transmission (SWIFT) joint effort of operator, verifier, & supervisor must be observed.
6. All correspondences related to purchase and expenses
7. Submitting of reply to Head office queries.
8. Correspondences to outside Agencies where financial commitment/undertaking is involved.
9. Execution of lease agreement/contract etc.



**IN NO CASES SHOULD THE PASSWORD OF POBUIS OR SWIFT ID BE SHARED WITH ANYONE.**

**At Head Office (OBD)**

1. Issuance of all instruction circulars, circular letters etc.
2. Issuing of sanction /renewal /enhancement /amendment letter for all types of credit facilities
3. Approval of all purchase and expenses
4. Passing of all internal vouchers, if any
5. Execution of lease agreement / contract etc
6. Receipt of stock of any articles
7. Note for placement to management

**3.14 OBU's System of Accounts**

The branches (OBUs) of PBL OBD operate as independent account system. Legally OBU is a separate entity; its Operation and record keeping have to be separated from the DBU (conventional banking). It has separate set of accounts and separate financial statements.

**3.15 Preservation of Documents**

The OBUs with an organized system of book keeping and accounts come in to possession of certain documents which constitute the basis of transaction affecting its assets and liabilities. In case of voucher preparation & preservation the rules of BBI (Banker's Book of Instruction of PBL) must be followed.

**3.16 Suspense and Sundry Deposit Accounts**

Under Bank's regulations Suspense and Sundry deposit Accounts are allowed to be kept at the OBU for disposal of items /entries which cannot be passed through the appropriate head of account immediately. Suspense account is for debit items and sundry deposit account is for credit items. All vouchers on Suspense Accounts and all debit to Sundry deposits account must be signed jointly with the Manager. Full particulars of all original items will be entered in the Suspense Account or Sundry deposits Account registers as the case may be. When entries in these accounts are reversed, the dates of the reversing entries must be entered against the original items. OBU will forward monthly to the Head office, detailed statement of all items outstanding and entries passed during the month through Suspense Account and a detail half yearly statement of the items outstanding in Sundry Deposit Account. Managers must see that all outstanding in these accounts are cleared as soon as possible and will personally check the outstanding in



Suspense and Sundry Deposit Account a least once a week. Annually on the last working day of June, amounts outstanding in Sundry deposit Accounts for more than three years will be treated as per BRPD Circular No.10 dated.12.09.2018 of Bangladesh Bank and transferred to Central Accounts Division, Head Office through OBD Head office on prescribed form which will be accompanied by a list showing detailed particulars of each item with their prior approval. If and when a claim is received for an amount transferred to CAD, Head office, the manager will scrutinize it personally and satisfy themselves beyond doubt as to the genuineness thereof and approach the Central Accounts Division to transfer the amount to OBU.

### **3.17 Operating Expenses**

All related expenditures such as purchasing computers, printer, electrical appliances, furniture & fixtures, telephone etc. and administrative expenses like salary and allowances of OBU personnel, rent and other development cost of OBU, Principal Branch, Dhaka and OBU, Agrabad Branch, Chittagong will be borne by respective units/branches. It is worth mentioning that the license fee and other legal fees will be borne by Head Office, OBD.

### **3.18 OBU's Balance Sheet**

OBU's Balance sheet is a financial report that shows the value of its assets and liabilities on a specific date. Where total Asset represents total Loans & Advances and total Liabilities shows total borrowings and deposits.

### **3.19 Calculation of Monthly Profit and Loss**

The Profit Loss statement is the most important and basic of financial reports that any financial institution must produce through the following calculation

- Add up OBUs total income for the period from the Asset side that was provided to the customers in the form of loans & advances
- Add up OBUs total expenditure for the period from the liability side against its borrowing & other liability
- Subtract total expenses from total revenue

### **3.20 Transfer of Profit & Loss**

At year-end, profit of OBU will be transferred to Head Office CAD through OBD. Periodic and Year end financials will be converted to Bank's financial currency as per prevailing IAS / IFRS.

Loss, if any, may be reimbursed from Pubali Bank Limited, Head Office, upon Bangladesh Bank permission (if proposal for capitalization is not approved) or the same may be carried forward at the discretion of the Bank Management.



## Chapter 4

### Account Opening Procedures of Offshore Banking

#### Eligible Person and Entity:

##### Individual Person:

- Any Bangladeshi who lives outside of Bangladesh (Non-Resident Bangladeshi).
- Natural Persons (non-resident in Bangladesh) / Foreigner.

##### Entity:

- Type –A enterprises in EPZ/EZ/PEPZ/Hi-Tech Park
- Juristic persons, Not resident in Bangladesh.

#### Opening Procedures:

Offshore Bank Accounts will be opened centrally. Customer will initiate account opening request by visiting physically any OBU branch of Pubali Bank Limited or virtually by using Pubali bank website or Mobile Apps. Offshore Banking Division will activate the account after verification.

#### In case of Non-Resident Bangladeshi who resides abroad:

##### Sign Up:

The interested customer will visit the website and sign up to virtual account opening through Pubali Bank website. He/she will provide various information like his/her Name, Mobile Number, e-mail, Password and click on Sign Up button. A system generated OTP (One Time Password) will be sent to mobile and email for verification. Then his/her sign up process will be completed and **Tracking ID** and **Password** will be sent to his/her e-Mail and Mobile Number through the system. Customer may forward to the next steps instantly or log in later using the Tracking ID and Password to perform the incomplete task.

The customer may change her/his **Password** thereafter at her/his discretion. The customers are responsible for maintaining the **confidentiality** of the **User ID** and **Password** and under any circumstances will not **disclose** the password to anyone.

#### Customer's Login:



The customer will login at the first instance using the received **Tracking ID** and **Password** and select the branch name. He/she will also input various required information of KYC, TP, Nominee & Introducer and submit it. Thereafter, the customer will upload related documents (PDF), Signature and Photo (JPG).

Non Resident Bangladeshi must input NID and Date of Birth for verification with Election Commission database.

**Identity verification:**

In case of NRBs, system will check and verify the National ID with Election Commission database and for walk-in customers, willing to open an account, passport with immigration stamped will need to be validated. OBUs will verify his/her NRB status prudently.

Required documents –

01. Account Opening Form duly filled in and signed by the applicant.
02. Photo ID
03. National ID
04. Certified/notarized copy of a valid passport
05. VISA
06. Work permit
07. Proof of employment.
08. An original utility bill (electricity, telephone etc. / credit card statement) issued no more than three months.
09. Specimen signature.
10. A confirmation from bank detailing about the name of the account, type of account, account opened date and whether the account is in good standing.
11. Any other papers/documents required by OBU as the case may be.

**In case of Foreigner who resides abroad:**

In case of Foreigners steps mentioned above must be followed.

**Identity verification:**

OBUs will check and verify all papers & documents including ID, passport, visa, original utility bill with an original reference bank to bank letter containing information about the name of the account holder, type of account, account opened date and whether the account is in good standing.



**Activation:**

After verifying the account related information and documentation OBUs will forward it to Offshore Banking Division for activation. Upon satisfaction, concerned division will send system generated thanks letter containing 4(four) digit security code to the customer for address verification through courier service.

Customers like Non-resident Bangladeshis and foreigners living abroad will login the system using credential to activate the account by themselves through the system by entering security code provided with the thanks letter.

**In case of Foreigners who reside in Bangladesh:**

Interested customer will fill up and sign the Form and submit it to the branch along with related papers/documents and photo ID mentioned above.

**Identity verification:**

OBUs will check and verify his/her passport, visa, work permit, salary certificate with concern Foreign Embassy/ High commission in Bangladesh.

**Activation:**

Branch official will prudently check/verify the submitted Account Opening Form, Documents, Signature, and Introducer etc. Upon satisfaction, branch maker user will input the information and upload necessary documents in the system and Branch Manager will authorize it and forward to Head Office. Offshore Banking Division will activate the account through the system. Branch official will also preserve the account opening form and the documents accordingly.

Branch official will provide the system generated activated account number to the customer. The customer will be able to make transactions (deposit/ withdraw) in the account once the account is opened.

**Accounts mentioned above will be fed only through FC remittances from abroad through banking channel. All inward/outward remittances from these accounts, related instructions/guidelines of Bangladesh Bank and subsequent circulars to be followed meticulously.**

**In case of A-Type Enterprises in EPZs, PEPZs, EZs & Hi-Tech Park:**

Interested enterprises will fill up and sign the Form and submit it to the branch along with related papers/documents and photo IDs of all directors.



Required documents –

01. Account Opening Form duly filled in and signed by the authorized signatories.
02. Declaration of the Directors and Shareholders.
03. Certified/notarized copy of valid passports of authorized signatories, directors and beneficial owners of the account.
04. Specimen signatures.
05. VISA.
06. Original utility bills (electric, telephone etc.) of authorized signatories, directors and beneficial owners of the account.
07. Work permit of Chairman/Managing Director/Director/Signatory from abroad working in Bangladesh.
08. Board resolution to open account with the named bank along with account operation instruction.
09. An official letter of reference from a certified accountant or a lawyer for each beneficial owner, director and signatory must be on official letterhead and based on a professional relationship of at least two years.
10. A bank confirmation letter, issued on the bank's letter head containing information about the name of the directors and signatories of account, type of account, account opened date and whether the account is in good standing.
11. Certified copy of Certificate of Incorporation.
12. Certified copy of Articles and Memorandum of Association.
13. Certified copy of Share Register.
14. Copy of form X and XII
15. Type (A type) transfer permission from BEPZA.
16. Product inclusion/change certificate.
17. Certified copy of corporate resolution of the Appointment of Directors, and Register of Directors.
18. Any other papers/documents required by OBU as the case may be.

**Identity verification:**

OBU's MUST make physical verification and will check and verify their passport, visa, work permit & other documents with BEPZA/BEZA and concern Foreign Embassy/ High commission in Bangladesh, if necessary.



### **Activation:**

Branch official will prudently check/verify the submitted Account Opening Form, Documents, Signatures, and Introducer etc. Upon satisfaction, branch maker user will input the information and upload necessary documents in the system and Branch Manager will authorize it and forward to Head Office. Offshore Banking Division will activate the account through the system. Branch official will also preserve the account opening form and the documents accordingly.

Branch official will provide the system generated activated account number to the customer. The customer will be able to make transactions.

**In all cases, identity verification is the MOST critical / important part for opening a bank account in both online and offline. The identity verification must ensure genuineness / authenticity of the person wants to open the account. The entire validation process must be compliant with the regulatory guidelines / framework stipulated by Bangladesh Bank / government of Bangladesh.**


### **Customer Due Diligence (CDD) and Enhanced Due Diligence (EDD)**

Customer Due Diligence is a KYC process of doing background checks on customers to assess the risk they pose, before dealing with them. Enhanced Due Diligence is a KYC process that provides a greater level of scrutiny of potential business partnerships and highlights risk that cannot be detected by Customer Due Diligence.

The difference between Customer Due Diligence and Enhanced Due Diligence is that CDD is a less strict verification procedure where Banks obtain the customer's identity, address and evaluate the risk category of the customer. While Enhanced Due Diligence is required for customers who are classified under the high risk category based on a KYC risk rating system.

As OBUs are dealing with foreigners and non-residents so the level of customer risk factor is very high. To get CDD & EDD done, the following steps may be recommend:

- **Employ a Risk-Based Approach**  
The risk-based approach gives full understanding of the High-Risk Customers in our business.
- **Obtain Additional Identifying Information**  
Collect both basic and in-depth information about the customer.
- **Analyze the Source of Funds / Wealth and Ultimate Beneficial Ownership (UBO)**  
The rationale behind this step is to understand the origin and legitimacy of the customer's wealth.

A handwritten signature in black ink, with a curved arrow pointing to the left, located at the bottom left of the page.

- **Ongoing Transactions Monitoring**  
Check if transactions are in line with the stated purpose and if they are in the usual or expected threshold.
- **Adverse Media and Negative Check**  
OBUs need to thoroughly review related press articles and analyze all relevant information in order to build a full profile of the customer and his/her reputation. Overwhelmingly negative results is a strong indication that they are too risky for business.
- **Conduct an On-site Visit**  
An on-site visit to the physical address is essential, if possible. Documents that cannot be provided digitally can be verified physically.
- **Draft a Report for Further Review**  
Make the decision of onboarding while taking into account the success of the previous EDD steps. You can make a score-based ranking system and high scorers should be on boarded. Compile your Due Diligence report for internal and future regulatory reviews.
- **Develop an Ongoing Risk-Based Monitoring Strategy**  
Ongoing monitoring of High-Risk customers is time consuming and requires a lot of effort, so employing a risk-based monitoring strategy is optimal. The continuous monitoring and knowing how often need to monitor these high-risks accounts should be a top priority. OBUs need to put in place adequate measures to detect suspicious transactions.
- **Develop a culture of compliance**  
The importance of compliance cannot be overstated. Developing a culture of compliance eliminates the risk of corruption within the Bank.
- **Coordinate your information sharing**  
Our compliance team needs to be informed of risks and processes throughout the organization. Otherwise, violations may go undetected and unreported.

### **Designated Currencies:**

The currencies in which the accounts can be maintained are US Dollar, Pound Sterling, Euro or Japanese Yen ; initially with minimum amount of USD 1000 (one thousand) or Pound Sterling 500 (five hundred) or equivalent. Accounts may be opened against remittances in other convertible currencies after conversion of those into US Dollar, Pound Sterling, Euro or Japanese Yen.

### **Interest on Deposits:**

OBU will pay interest on deposit accounts at the rate fixed by ALCO from time to time.

A handwritten signature, possibly 'Zfor', with a checkmark to its left.

## **Chapter 5**

### **Products of Offshore Banking Unit**

#### **5.1 Operation/Transactions with Persons / Entities Non-resident in Bangladesh**

##### **Eligibility:**

###### **Designated persons:**

- Non – resident Bangladeshis (NRBs)
- Natural persons Non-resident in Bangladesh.

###### **Designated Entities:**

- Type –A enterprises in EPZ/EZ/PEPZ/Hi-Tech Park
- Type–B & C enterprises (joint venture & fully local) in EPZ/EZ/PEPZ/Hi-Tech Park
- Juristic persons Not resident in Bangladesh.

##### **5.1.1 Deposit Products**

OBU are free to accept deposits from persons/institutions not resident in Bangladesh including Bangladeshi nationals working abroad. The OBU will also be free to accept deposits from or to borrow from Type-A (wholly foreign owned) units operating in Export Processing Zones in Bangladesh. The OBU shall NOT accept deposits from persons/institutions resident in Bangladesh including Type-B (Joint Venture) and Type-C (wholly local owned) units operating in Export Processing Zones in Bangladesh.

##### **Types of Accounts**

OBU of Pubali Bank Limited provides the following types of Accounts:

- 6.2.1 FC Current Deposit
- 6.2.2 FC Savings Account
- 6.2.3 FC Fixed Deposit Receipt

##### **FC Current Account:**

###### **General Instructions:**

Current account shall be opened with proper verification of documents. It is a non-interest bearing account. OBU must see that particulars in the account opening forms are properly filled in and signed by the constituent. If satisfied, unit head will instruct for opening the account putting his initial on the form.





**Specimen Signature:**

The system of recording constituent's specimen signature be such as to obviate possibility of signatures being placed on record by an unauthorized person. All specimen signatures must be individually attested with full signatures by the manager/authorized official with seal, name & designation at the time they are recorded. Blank spaces between the signatures on the cards should be filled in by drawing an oblique line to preclude the possibility of unauthorized signatures being inserted.

**Deposits in Current Account:**

Depositor may deposit in the Current Account as often as s/he likes through SWIFT, FC Drafts, FC Dividend Warrants, etc to the order of the account holder should also be acceptable for collection. Withdrawal in cash is restricted.

**OBU will pass the following entries:**

Nostro Account	Dr.
Party Current Account	Cr.

**FC Savings Account:**

**Opening Account:**

- a) Account may be opened in the name of any adult individual or jointly in the names of two or more persons who is/are mentally sound to be payable to either or both or all of them or to the survivor or survivors.
- b) Not more than one account should be allowed to be opened by one person in her/his name at any branch of the bank but this will not prevent a parent/guardian from opening more than one account in his/her name for more than one child who are minors.

**Deposits:**

A depositor may deposit (in A/c currency) in the Savings Account as often as he/she likes. FC Drafts, FC Dividend Warrants, etc. to the order of the account holder should also be acceptable for collection or online through swift/ mobile app.

**Transaction:**

Nostro Account	Dr
Party Savings A/c	Cr

**General:**

- a) The bank should allow transfer of foreign currency accounts from one branch of the bank to another at the request of the depositor free of charge but actual expenses incurred may be recovered.



- b) The bank may reserve to itself the right to close any account without previous notice, which in its opinion is not satisfactorily conducted, without assigning any reason thereto.
- c) Savings bank accounts should not be allowed to be treated like current accounts.

**Fixed Deposit:**

It can be of term nature. Details are given below:

**Opening of Account:**

Account may be opened in the name of any adult individual or jointly in the names of two or more persons who is/are mentally sound to be payable to either or both or all of them or to the survivor or survivors and in the name of entity.

**Instruction:**

A Fixed deposit Receipt is not transferable instrument and as such, it cannot be endorsed in favour of others.

A Fixed Deposit Receipt can be pledged as a security for loan (in case of A type enterprises in EPZ/EZ/PEPZ/Hi-Tech Park) clients either in, the name of beneficiary or in the name of a third party at the request of the beneficiary.

A Fixed Deposit Receipt issued by one branch cannot be paid or renewed at another branch.

When a Fixed deposit receipt is reported lost, the customer should lodge a General Diary (GD entry) to the nearest police station or inform other appropriate authority in his/her country whom are responsible. Then Head Office should be advised to issue a circular to branches for exercising caution. Then he/she should be advised to sign a 'Letter of Indemnity Bond'. A duplicate receipt should be marked at the top in red ink 'Duplicate Issued in Lieu of Original' and the fact should be noted in the Fixed Deposit Application Form.

**Business Rules**

Business rules to govern account opening and maintenance process of various accounts are enclosed in Annexure.



## **Tax, VAT & Excise Duty:**

Tax, VAT & Excise duty will be applicable as per rules & regulations of competent authority.

### **5.1.2 Retail Products**

- Foreign currency demand draft issue
- Foreign currency draft collection/clearing within Bangladesh
- Outward remittance
- Inward remittance
- Debit Card

## **Offshore Debit Card**

### **1. Introduction:**

Eligible persons maintaining exclusively foreign currency transactions can request an Offshore Debit Card and OBUs may issue as long as protocol is followed. The offshore bank account holder can request the amount of money to be placed on the debit card.

### **2. Objective of Offshore Debit Card:**

Offshore Debit Cards serve many purposes; it can be used for making purchases on internet, at retail outlets or at ATM or cash points around the globe for cash withdrawals. Most offshore banks provide services of debit card for offshore bank account holders in order to make banking easier.

### **3. Card Approval Process**

Offshore Banking Unit (OBU) will scrutinize the application and will notify the Card Division for Card Printing/personalization.

### **4. Key Features of Offshore Debit Card**

- Cash Withdrawal
- POS Transaction
- E-Commerce Transaction
- Mini Statement
- Balance Enquiry
- Transaction Alert
- 24/7 Contact Center Support



### 5. How to Apply Offshore Debit Card:

Offshore Banking deposit account holder may apply for debit card through online or visiting Offshore Banking Unit (OBU).

### 6. Delivery of Offshore Debit Card:

The clients will receive Debit Card from issuing Offshore Banking Unit (OBU) through courier.

### 7. Pin Delivery:

PIN is sent directly client's authorized mobile number through SMS or by email.

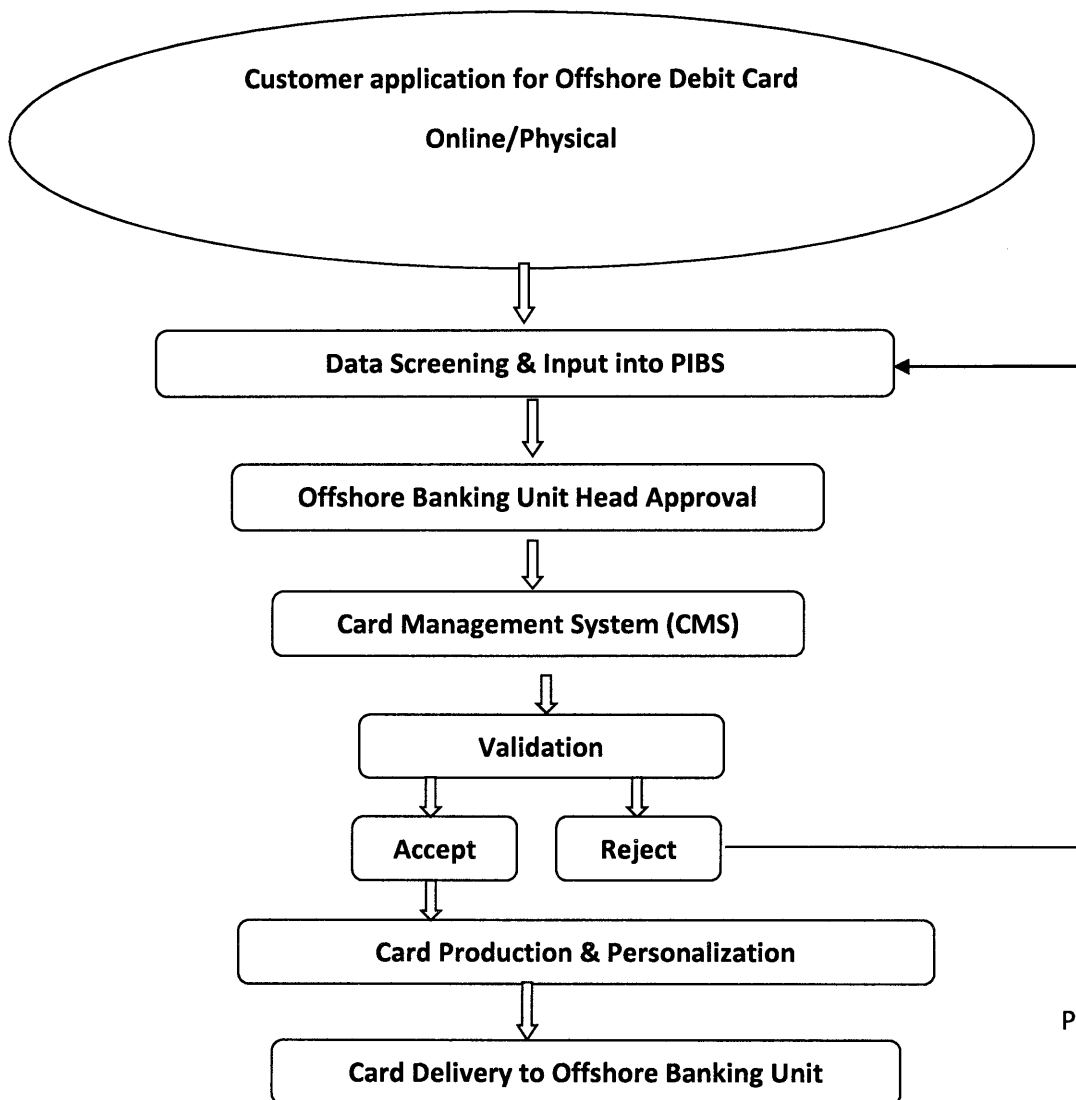
### 8. Card Activation:

Cards will activate through issuing Offshore Banking Unit (OBU) or Call centre.

### 9. Pin Change:

Customers can change the PIN of debit card for the first time at any ATMs/IVR of Pubali Bank Limited. Customers can use debit cards without changing the PIN from other than Pubali Bank Limited.

### 10. Offshore Debit Card Operation Flow-Chart:



### 11. Cash Withdrawal Limit:

Daily maximum cash withdrawal limit USD1,500.00 or equivalent other foreign currency.

### 12. Purchase Limit:

Daily maximum purchase power USD3,000.00 or equivalent other foreign currency.

### 13. Transaction Frequency Limit:

By default daily successful transaction frequency is 05 times.

### 14. Fees and Charges of Offshore Debit Card:

Issuance/Renewal Fee of Primary Card	USD10.00
Card Delivery Charge	Inside Bangladesh, courier charge is free.
	Outside Bangladesh, courier charge is at actual.
Card Replacement Fee	USD5.00
PIN Reissue Fee	USD5.00
<b>Cash Advance Fee:</b> VISA/Master Card Channel	USD3.00
Balance Enquiry	USD0.50

### 5.1.3 Loans and Advance Products

The OBUs are free to make **short time** loans/advances to enterprises in

- Type-A (wholly foreign owned) units in EPZs, PEPZs, EZs, & Hi-tech Parks. Prior permission from FEID of BB is required to make medium & long term loans.
- Type-B & C (Joint venture & fully local in Bangladesh) units in EPZs, PEPZs, EZs, & Hi-tech Parks (under applicable condition).
- Juristic person not resident in Bangladesh with prior permission from FEID of BB provided that the full amount of loan /advance is covered by

a) Guarantee /letter of credit from licensed bank abroad with acceptable credit rating and /or

b) Foreign exchange brought in from abroad and deposited in a bank in Bangladesh.

However the coverage stated in (a) & (b) above will not be required to make permissible loans/advances to bank's own subsidiary (ies) not resident in Bangladesh.

OBU of Pubali Bank Ltd is offering below loans and advances products:

- a. Term Loan (Short/Mid/Long)
- b. Overdraft
- c. Cash credit
- d. Bank guarantee
- e. Syndication Loan

However, the first step in this respect is the preparation/obtaining borrower's credit report. It contains facts which speak as to the credit worthiness of the intending borrower. It shall contain the following information generally:

- a) Identity of the borrower.
- b) Nature and type of business firm- whole or retail, manufacturing, import or export oriented etc.
- c) Experience in the trade/industry.
- d) Investment in the business
- e) History of the bank account whether maintained with the branch or with other bank.
- f) Means of the borrower, cash-in-hand and in bank account, in shares and securities and other properties.
- g) The general market reputation as to the means, standing, integrity, honesty, personal character and business capacity of the borrower.

#### 5.1.4 Trade Finance Products

**The OBUs are free to operate following transactions with only Type-A (fully foreign owned) enterprises in EPZs, PEPZs, EZs, & Hi-tech Parks**

- a. Letter of Credit
- b. Shipping guarantee/NOC issue
- c. Documents Acceptance
- d. Export L/C advising
- e. Export documents negotiation
- f. Export documents sent for collection
- g. Export Development Fund (EDF) Loan
- h. Letter of Guarantee (Bid Bond, Performance Bond, Guarantee against Advance Payment).
- i. Export L/C transfer and handling of export documents as transferring Bank as per UCPDC 600
- j. Buyers credit/ Suppliers credit
- k. Term Loan
- l. Add-confirmation.
- m. Packing Credit
- n. Bank Guarantee



## **5.2 Operation/Transactions with Persons / Enterprises Resident in Bangladesh**

- a) UPAS-Discount /purchase of accepted usance bills/deferred bills against import from abroad on banker customer relationship applying due diligence.
- b) EBD- Discount /purchase of accepted usance bills/deferred export bills against direct and deemed exports of products produced in Bangladesh subject to compliance of applicable instructions.
- c) Term Loan

### **5.2.1 Usance Payable at Sight (UPAS)**

UPAS is the combination of usance LC and Sight LC. UPAS LC is a usance LC where payment is made on a sight basis to the exporter (beneficiary) but the payment of the buyer (applicant) will be made to issuing bank at the usance term. Buyers Credit is using as a source of finance to settle the LC payment.

Under this Letter of credit, the exporter will get the payment at sight if the documents are credit compliant. The importer will be charged interest, acceptance commission and other charges as per the terms of LC for using this letter of credit.

#### **Benefits to Importer**

- The interest rate is comparatively lower than any other finance
- It helps to optimize working capital
- Payment to be deferred up to 180/360 days as the case may be
- Foreign currency may be bought at the preferential price
- This is a simple and convenient method
- This LC strengthens the relationships with the exporter by allowing for payment at sight.
- It enhances Days Payable Outstanding (DPO) by providing extended payment terms
- It helps to provide an additional source of liquidity

#### **Import under UPAS LC may be allowed in the following cases**

- Import of capital machinery and spares for own use by industrial importers on upto 360(three hundred sixty) days usance basis;
- Industrial raw material imports for own use of industrial importers (including back to back imports discussed in detail in the next Section) on upto 180(one hundred eighty) days usance basis;
- Import of coastal vessels including oil tankers and ocean going vessels including those procured for scrapping on upto 360(three hundred sixty) days usance basis;
- Import of agricultural implements and chemical fertilizers on upto 180(one hundred eighty) days usance basis;
- Import of life saving drugs (certified/declared as such by Drugs Administration Authority) on upto 90(ninety) days usance basis.



- HR Coil, scrap, pig iron & sponge iron used for manufacturing of flat steel and long steel under steel industries for being used in own factories on upto 360(three hundred sixty) days usance basis.

#### UPAS Currency:

OBU maintains Nostro account in one currency and that is in USD, so the base currency of loan will be in USD. In case of other currencies OBU may discount the bills after converting those into USD. Conversion rate will be the cross currency provided by Head office Treasury Division. At maturity LC issuing bank will settle the loan (principal + interest +charges) in USD.

#### **Steps of UPAS followed by PBL OBU**

1. The applicant and the beneficiary of LC agree on the terms that the beneficiary will be paid at sight.
2. The applicant who is permitted by competent authority, approaches her/his bank requesting a letter of credit and asking for UPAS facility for 90/120/180/360 etc. as the case may be.
3. The issuing bank enters into an understanding with another bank or OBU for UPAS financing arrangement and insert discounting clauses in LC (Before opening LC, issuing bank/ AD branch should discuss about the discounting rate of proposed LC/client with OBU).
4. Upon receipt of LC compliance docs, LC issuing bank/AD branch will send acceptance message (MT 754) to OBU through SWIFT and related documents (attested copies of Lc , commercial invoice, packing list, Bill of lading, certificate of origin, forwarding schedule of the beneficiary's bank, bill of entry in case of discrepant documents) with a formal loan approach duly signed by branch manager and foreign exchange in charge to Offshore Banking Unit.
5. Upon receipt of AD's acceptance and complied documents, OBU will make payment to the beneficiary at sight basis applying due diligence and arrange payment to overseas suppliers as per their instructions followed by forwarding of documents and LC terms.
6. At maturity issuing bank/AD shall reimburse bill value along with discounting interest and other charges (if any) to OBU as per claim sheet.

#### **Early Settlement of UPAS:**

If any importer wants to settle the UPAS liability before maturity date, concerned opening AD Branch must intimate OBU and OBU may settle the same by taking interest for the full tenor to avoid overseas borrowing loss as OBU borrowed the fund for full tenor of the UPAS. However, OBU may take interest up to premature settlement date if OBU can reinvest the said fund which is under full discretion of the OBU.



**OBU will pass the following entries in their book**

At the time of Bill Discounting the following entries will be passed by OBU

Bill Discounting UPAS A/C	Debit
OBU Nostro Account	Credit
Misc Income-Payment & Swift charges	Credit

When interest on Bill Discounting UPAS will be accounted for at the end of each month

(For accrued amount)

Interest on Advance	Debit
Interest on Bill Discounting UPAS	Credit

At maturity, OBU will receive the fund through Nostro account and pass the following entries for settlement of Bill Discounting UPAS.

a) OBU Nostro A/C	Debit
Bill Discounting UPAS A/C	Credit
b) Bill Discounting UPAS A/C	Debit
Interest on Advance	Credit*
Interest on Bill Discounting UPAS	Credit**
Misc Income (Payment & Swift charges, if any)	Credit***

\*For adjustment of Interest on advance

\*\*For charge of interest on Bill Discounting UPAS for fractional period

\*\*\* For charges relating to payment and swift on applicant account.

**Rate of Interest on UPAS**

Interest on UPAS bill discounting: @LIBOR +Discounting Interest + Other charges (up to CAP as set by Bangladesh Bank).Interest will be calculated on daily product basis on or before maturity.

**5.2.2 Export Bill Discounting**

OBU's are entitled to discount export bills against direct and deemed exports of products produced in Bangladesh upon receipt of the request of AD Branch(s) along with the copy of acceptance, dash board posting in foreign exchange monitoring cell and all stipulated documents i.e., LC copy, bill of exchange, commercial invoice, transport documents, certificate of origin etc. applying due diligence and payment to AD Branches.

**At this stage, OBU will pass the following entries.**

Export Bill Discounting A/C	Debit
OBU Nostro Account	Credit

(OBU will transfer the fund through SWIFT MT 202)



**When interest on Export Bill Discounting will be accounted for at the end of each month:  
(For accrued amount)**

Interest on Advance	Debit
Interest on EBD	Credit

**Settlement of Export Bill Discounting:**

After discounting of Export Bills through of AD branch, OBU will claim fund (Principal +Interest + other charges, if any) to AD branch. At maturity, AD will make payment the same through HO/TD Nostro to OBU Nostro A/c. Upon receipt of funds available with OBU Nostro A/C through HO/TD, the OBU will pass the following entries:

a)	OBU Nostro A/C	Debit
	Export Bill Discounting A/C	Credit
b)	Export Bill Discounting A/c	Debit
	Interest on Advance A/C	Credit*
	Interest on EBD A/C	Credit**
	Interest on EBD A/C (AD Portion,)	Credit

\*For adjustment of Interest on advance.

\*\*For charge of interest on Export Bill Discounting for fractional period.

**Rate of Interest on Export Bill discounting:**

- Interest and other charges: Up to CAP as set by Bangladesh Bank.
- Interest will be calculated on daily product basis on or before maturity.
- Profit sharing: Profit sharing ratio between OBU and AD branch will be 90:10.

At the end of the month interest amount (AD Portion, 10%) will be distributed to respective Branches through Nostro Account and passes the following entries:

Interest on EBD A/C (AD portion)	Debit
OBU Nostro A/C	Credit

(OBU will transfer the fund through SWIFT MT202 to respective AD branches)

**5.2.3 Term Loan**

With prior permission from the Bangladesh Bank, OBUs may make medium/long term loans/advances to the industrial enterprises resident in Bangladesh. Applications as per proforma (Annexure-A) for approval of loan proposal to resident industrial enterprises shall be submitted to the Banking Regulation and Policy Department along with appropriate analysis and supporting documents.



OBU will pass the following entries:

Loan Amount:

Term Loan A/c	Debit
OBU Nostro A/c	Credit

Then, OBU will transfer the fund from OBU Nostro to HO/TD Nostro A/c through SWIFT (MT-202) mentioning party name of respective AD Branch

At this stage, OBU will collect disbursement fees from the customers and after receiving the fees through Nostro A/C, OBU will pass the following entries:

For Disbursement Fees:

OBU Nosto A/c	Debit
Misc Income A/C	Credit

For Interest provision on Term Loan:

Interest on Advance A/C	Debit
Interest on Term Loan A/C	Credit

**Note:** Interest income will be charged on quarterly basis, provision of previous two months will be adjusted and balance amount will be credited for interest A/c as below:

Term Loan A/C (Sundry Parties)	Debit
Interest on Advance A/c	Credit
Interest on Term Loan A/C	Credit

**Recovery:**

AD will remit the installment of Term Loan in FC through HO/TD Nostro to OBU Nostro on behalf of client from their export proceeds or their other sources.

At the time of recovery, OBU will pass the following entries

OBU Nostro Account	Debit
Term Loan Account	Credit

**Terms of Delivery:**

Installment of Term Loan may be monthly, quarterly basis as per Head office sanction.

**Rate of Interest on Term Loan:**

- Interest on Term Loan to be fixed by Head Office in sanction letter.
- Interest on TL to be charged (compound) on monthly/quarterly basis as per sanction.
- Provision should be done monthly basis.



## Chapter 6

### Fund Management

Fund management includes all policies & approaches design to obtain fund from deposits & borrowing and to allocate them to loans & advances and other investments. The captivities of fund management includes various aspect such as mobilization of deposits, expansion of credit, investment of surplus fund, recovery dues etc. Bank fund management enables banks to exert greater control over the availability of their total liability.

#### 6.1 Asset Liability Management of Offshore Banking Unit

The Offshore Banking Unit has both fixed and floating interest rate both for assets and liabilities. Therefore, in addition to maturity matching, the floating rate of assets have to be matched with floating rate liabilities and fixed rate assets have to be matched with fixed rate liabilities. To maximize the profit and reduce the risk, the portfolio of OBU to be diversified considering book size as well as spread along with maturity of asset and liability.

#### 6.2 Source of Fund

Source of fund for offshore banking operation shall be as follows:

- Deposit from NRB / foreigners;
- Deposit from Juristic person;
- Deposit from fully foreign-owned enterprises in EPZs, PEPZs, EZs, & Hi-tech Parks;
- Borrowing from other Financial institutions;
- From own domestic banking operation with a limit not exceeding 30% of its total regulatory capital;
- Borrowing from own and other OBUs

#### 6.3 Application of Fund

##### 6.3.1 With Persons Non- resident in Bangladesh

- Making short term loans/advances and investments, discounting bills, negotiating bills, issuing letter of credit and guarantee to fully foreign-owned enterprises in EPZs, PEPZs, EZs and Hi-tech Parks. With prior permission from the Foreign Exchange Investment Department (FEID) of Bangladesh Bank, medium & long term financing facility may be allowed to the said enterprises.
- Making short term loans/advances to the enterprises other than fully foreign owned (joint venture) in EPZs, PEPZs, EZs and Hi-tech Parks subject to applicable conditions.



- With prior permission from the Foreign Exchange Investment Department (FEID) of Bangladesh Bank, may make loans/advances to the juristic persons not resident in Bangladesh ensuring 100% covered by

(a) guarantee/ letter of credit from a licensed bank abroad with acceptable credit rating, and / or

(b) foreign exchange brought in from abroad and deposited in a local bank.

**However, in case of bank's own subsidiary (ies) not resident in Bangladesh, the coverage stated in (a) & (b) will not be required.**

### **6.3.2 With Persons Resident in Bangladesh**

- May discount/purchase accepted usance/deferred bills against import from abroad on banker customer relationship applying due diligence and arrange payment to overseas suppliers.
- May discount/purchase accepted usance/deferred export bills against direct and deemed exports of products produced in Bangladesh subject to compliance of applicable instructions.
- With prior permission from the Bangladesh Bank, OBU may make medium/long term loans/advances to the industrial enterprises resident in Bangladesh. Applications as per proforma (Annexure-A) for approval of loan proposal to resident industrial enterprises from offshore banking shall be submitted to the Banking Regulation and Policy Department along with appropriate analysis and supporting documents.

## **6.4 Requisition of Fund**

### **6.4.1 Borrowing from Treasury Division**

- OBUs may request to Treasury Division for placement of fund as per their requirement.
- OBU must try to reduce its dependency on Treasury Division for better management of the fund of Pubali Bank Ltd.
- The borrowing is done considering present in hand transactions and the interest rate is fixed based on market condition.
- OBUs will request to Offshore Banking Division for arrangement of fund from foreign Correspondent at least 10 days prior to drawdown date.
- When OBUs urgently need funds & exhausted all of their other sources, Treasury Division will ensure arranging required funds.



#### **6.4.2 Borrowing from Other FI / OBUs (own & other Banks)**

Pubali Bank Ltd Offshore Banking Units are borrowing fund from Correspondents Banks and Other Fund Management Co. for short term as well as long term basis. The following steps to be done while borrowing of such funds:

- Analysis and projection of the requirement of FC fund.
- Communicate with Lending Institutions.
- Receive Proposal from Lenders.
- Analyze interest rate and other pricing to calculate effective rate, terms and conditions of lending and pay back method, search lender/s credibility from Bankers Almanac or other reliable sources.
- Negotiate with lenders for favourable rate, terms and conditions.
- Assisting to perform due diligence on bank and provide necessary paper/documents.
- Arrange to take legal opinion about terms and conditions/agreement (if required).
- Take approval from management to borrow such fund from other Bank/FI. However, in case of regular borrowing from FI post facto approval may be taken as per requirement of the case may be. In case of signing any agreement with FIs such as ADB, IFC etc. for Long Term borrowing under terms and conditions which are stricter than regular ones, prior approval must be taken from the Board of Directors of the Bank.
- Enter into agreement with lenders through undertaking /send SWIFT message.
- Receive fund from lenders.
- Arrange to pass the monthly provision/accrual entries, payment of interest / installment and preserving all records.

#### **6.5 Repayment of Fund**

Offshore banking units will repay the borrowed principal with interest to the lenders on maturity as per terms and conditions of the agreement.



# Chapter 7

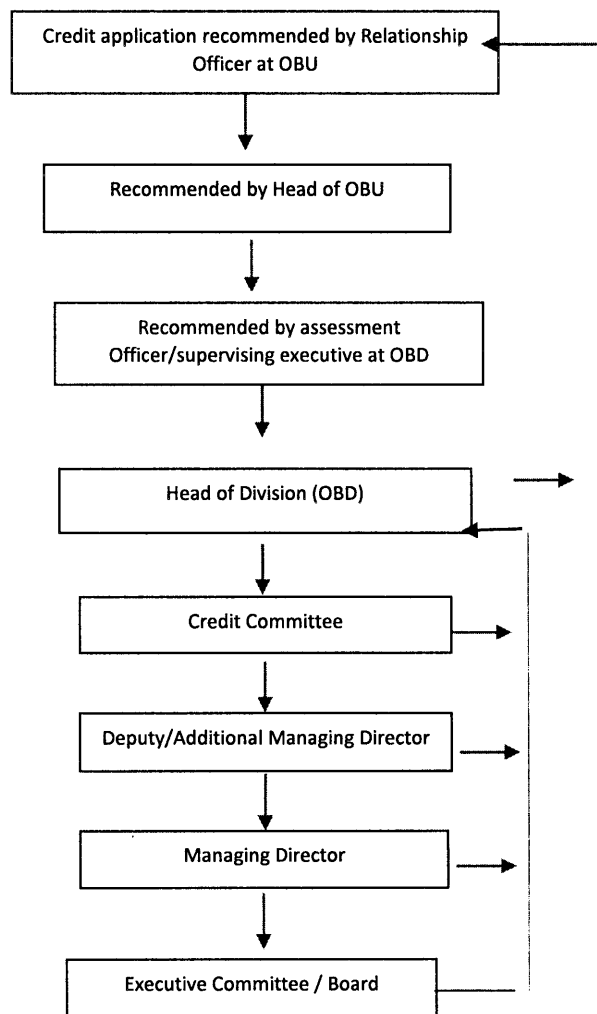
## Approval Process

### 7.1 With Persons Non-resident in Bangladesh

The authority to sanction/approve loans will be clearly delegated to senior executives by the Board based on the executive's knowledge and experience. Approval authority is delegated to individual executive and not to committees to ensure accountability in the approval process. Bank's credit granting / approval process is to establish accountability for decisions taken to approve credits or changes in credit terms. Approval authorities are expected to be commensurate with the expertise of the individuals involved.

The role of Relationship / Marketing Manager must be dissimilar from that of delegated executives. The credit approval / sanction will be continued within existing framework of approved guidelines.

Getting the proposal ready, the same is to be forwarded to the higher level of approval authority for approval in line with following manner (process flow):



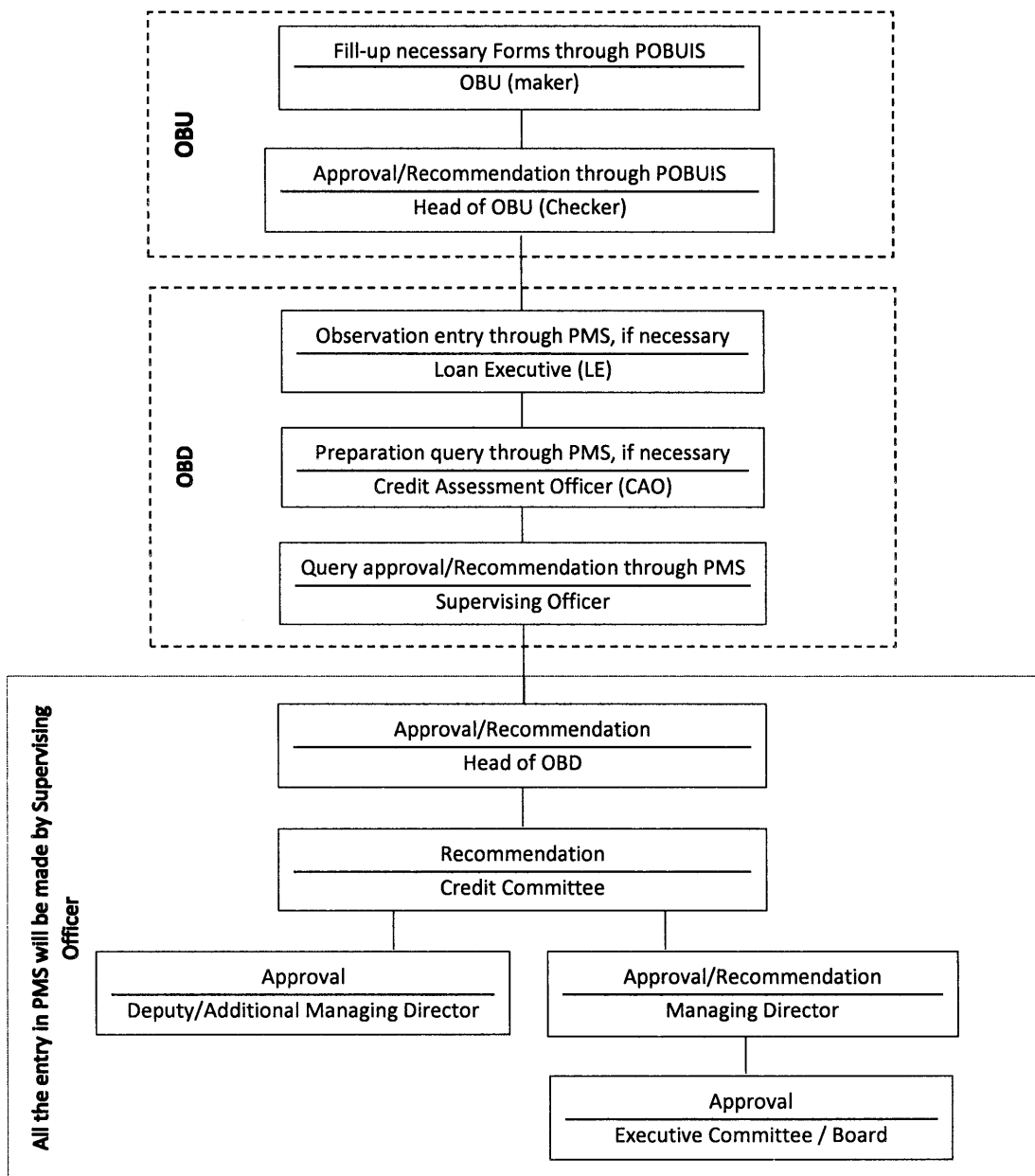
- The Offshore Banking Unit (OBU) after proper verification will complete their procedures and will forward the proposal with their recommendation / suggestion by following CRM guideline to Offshore Banking Division (OBD) within 07 (seven) working days.
- The Head of Offshore Banking Division will forward the proposal to the DMD/Add'l MD/MD with recommendation of Credit Committee if the same requires approval of the DMD/Add'l MD/MD.
- DMD/Add'l MD will approve the credit within their discretionary powers.
- The Managing Director will approve the credit which is under his purview or place the same before the Board if it requires the Board's approval.
- In the event of refusal, the applicant/borrower must be informed of the same within 7 (seven) working days with reason thereof.

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## Online Appraisal System

Besides the manual process branch/OBU must forward the proposal through POBUIS. The process flow of Online Appraisal System may be expressed as under:



The branch Relationship officer (as maker) of OBU will fill-up all necessary forms of credit proposal through POBUIS.

- The Head of OBU will forward the proposal to the higher authority through POBUIS.

✓ *for*

- In the Offshore Banking Division, Loan Executive will input observation through PMS, if necessary. Then, the Credit Assessment Officer (CAO) will prepare query through PMS, if required. The Head of branch will approve the query through PMS if necessary. He/she may edit the entries or allow editing through PMS if feels necessary. If there is no query, the Head of branch will recommend against the proposal through PMS. He/she will also input all the entries through PMS regarding recommendation, approval or declining of the proposal.

### **Appeal / Review Process**

If any credit proposal is declined on the basis of credit appraisal indicator or other reasons what so ever, the same may be sent to the same/higher authority for review with justification for consideration of the same on the basis of merit.

### **Credit Disbursement**

The credit administration should ensure that the credit application has proper approval before entering the facilities into computer systems. Disbursement should be effected only after execution of charge documentation and completion of covenants and creating charge on primary securities and collaterals. In case of exceptions, necessary approval is to be obtained from the competent authorities. Under no circumstances, loan should be disbursed before obtainment of necessary approvals from the competent authority. In disbursing the loan, the borrower is to understand and acknowledge the purpose of the loan. The authorized officials for disbursement will obtain necessary documents/ papers, such as the invoices, to ensure that the loan proceeds are spent on the designated purpose and for no other purpose. The authorized officials will obtain and implement checks of such papers/ documents so that the borrower can understand and comply with these checks.

In accordance with opinion of the Bank's Panel Lawyer the loan will be disbursed if compliance with all terms & conditions of the sanction is in order and clearance for disbursement are obtained from Credit Administration, Head Office. Opinions from more than one lawyer may be obtained in case of necessity of heightened level of caution.

### **Avoidance of undue Influence on Credit Decision**

The management will not make credit decision under influence of the related persons violating laws, BB guidelines and circulars, the bank's own credit risk management policy, and best banking practice. Ability to repay must be the primary criterion for approval. The officials will follow usual rules & regulations while going for lending. Bank will not go for financing violating usual system & procedures.

### **Credit Reporting**

Monthly report on fresh sanctioned, renewed, enhanced loan or declined proposal should be brought to the kind notice of the Management or the Board in the following month.



## **7.2 With Persons Resident in Bangladesh**

### **In case of specific/ case to case Buyer's Credit (UPAS)**

AD Branch will forward the documents to OBU with all related papers/ documents (invoice, packing list, transport documents, certificate of origin, LC copy with amendments, supplier's banks forwarding letter or any other paper(s) as the case may be) along with branch formal request for discounting of import bill(s) and the sanction letter of Credit Division approving permission for UPAS facility. After proper verification, OBU will seek permission for disbursement against the import bill(s) and forward the same to OBD with liability position. OBD will verify & complete their procedures in connection & initiate a note with recommendation/ suggestion to the higher Management for approval under the following delegated authorities:

Sl No	Designation	Authority to be delegated
1	Managing Director & CEO	Above USD=5,00,000/-
2	Additional Managing Director	Up to USD=5,00,000/-
3	Deputy Managing Director	Up to USD=3,00,000/-
4	Head of OBD	Up to USD=2,00,000/-

After getting the approval from higher Management OBD will sent the sanction letter to OBU.

### **In case of Export Bill Discounting (EBD)**

AD Branch will forward the EBD proposal to OBU with all related papers/ documents for revolving /specific limit on behalf of the customer. OBU will complete their procedures in connection & will forward the same with their recommendation/ suggestion to OBD within 07 (seven) working days.

In the event of refusal, the applicant /borrower must be informed of the same within 07 (seven) working days with reason thereof.

OBD will approve the credit which is under his/her purview and inform OBU accordingly. He/she will forward the proposal to the DMD/ Add'l MD/MD with recommendation of Credit Committee if the same requires approval of the DMD/Add'l MD/MD. DMD/ Add'l MD will approve the credit within their discretionary powers. The Managing Director will approve the credit which is under his purview or place the same before the Board if it requires the Board's approval.



In case of availing composite facility including EBD, AD Branch will forward the proposal to Credit Division with all related papers/ documents for revolving limit on behalf of the customer. And Credit Division after completing their procedures will approve the credit which is under his/her purview or place before the credit committee for further approval as mentioned above.

After getting approval, Credit Division will sent a sanction letter to AD. Then AD will sent all required papers/ documents to OBU and after satisfying OBU will discount the Export bills.

### **In case of Term Loan**

AD Branch will forward the Term Loan proposal to OBU with all related papers/ documents for revolving /specific limit on behalf of the customer. OBU will complete their procedures in connection & will forward the same with their recommendation/ suggestion to OBD within 05 (five) working days.

In the event of refusal, the applicant /borrower must be informed of the same within 07 (seven) working days with reason thereof.

OBD will approve the credit which is under his/her purview and inform OBU accordingly. He/she will forward the proposal to the DMD/ Addl MD/MD with recommendation of Credit Committee if the same requires approval of the DMD/Addl MD/MD. DMD/ Addl MD will approve the credit within their discretionary powers. The Managing Director will approve the credit which is under his purview or place the same before the Board if it requires the Board's approval.

In case of availing composite facility including Term Loan, AD Branch will forward the proposal to Credit Division with all related papers/ documents for revolving limit on behalf of the customer. And Credit Division after completing their procedures will approve the credit which is under his/her purview or place before the credit committee for further approval as mentioned above.

After getting approval, Credit Division will sent a sanction letter to AD. Then AD will sent all required papers/ documents to OBU and after satisfying OBU will disburse the Term loan.

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## Chapter 8

### Import & Export

#### 8.1 Import

##### Eligibility

OBU's are allowed to open LCs against export LC/firm contract received by 100% foreign owned export oriented industrial units in the **EPZ / EZ / PEPZ / Hi-Tech Park** known as Type "A" industries.

In establishing import LCs on account of Type A, units in the EPZs, OBU's shall bear in mind the position that the import payments may be made only out of the foreign exchange earnings of the concerned units or out of their borrowings abroad credited in their FC accounts, and that no funds from the OBU's own foreign exchange resources can be used for this purpose. Before opening inputs import LC against an export LC or export order received by an EPZ unit the OBU's should satisfy itself completely about the clarity of the conditions in the export order/LC, the standing and credit of the foreign buyer and the ability of the exporting unit for timely execution of the export order. Import payments against the LCs should be scheduled in a manner that payment obligations do not fall due before receipt of export proceeds. In all cases of opening inputs import LCs on accounts of units in the EPZ, OBU's should satisfy themselves that necessary arrangements have been made by the opener that in case of shortfall or delay in export receipts, foreign exchange would be made available from external sources.

OBU's may utilize not exceeding 50( fifty ) percent of the balances of NFCDA Accounts for discounting of usance export bills of type A units in the **EPZ / EZ / PEPZ / Hi-Tech Park** and payment of back to back LC opened on sight basis.

Selling of permissible Bangladeshi goods or raw materials to enterprises of EZs through LC or contract shall be against convertible FC only to be received from FC accounts maintained by the enterprises of EZs with ADs (also OBU's for 'Type A' enterprises) as mentioned above subject to compliance with other relevant instructions issued by BEZA, National Board of Revenue and Ministry of Commerce. Selling of goods including non-physical contents to enterprises of EZs against payment in FC shall be treated as exports from Bangladesh within the purview of Foreign Exchange Regulation Act, 1947 (as amended upto September 09, 2015). Therefore, normal foreign exchange regulations concerning declaration of exports on 'EXP Forms' in case of export in physical form and repatriation of proceeds shall be applicable for exports to EZs from other areas of Bangladesh.

##### Online Reporting

In addition to other reporting requirements to Bangladesh Bank, OBU's shall report all types of permissible import transactions to the 'Online Import Monitoring System' of Bangladesh Bank on daily/regular basis.



### **Dealing with known customer**

The OBUs must ensure that they deal only with known enterprises having a place of business in EPZs, EZs, and Hi-tech Parks in Bangladesh supported by sufficient collateral for funded facility and can be traced easily should any occasion arise for this purpose. Only assets fully owned by Type-A industry may be lodged as collaterals.

**For import from abroad by enterprises in EPZs, EZs, PEPZs and Hi-Tech Park through cash LC, BBLC & remittance against import liability and reporting, procedures will be applicable as mentioned in chapter 7,16 & 20 of GFET to the relevant general instructions.**

**The various sources of Local Guidelines, rules & regulations that govern letters of credit including**

- Guidelines for foreign exchange transactions of Bangladesh Bank
- The Bangladesh Export Processing Zones Authority Act-1980
- Import and Export (Control) Act-1950
- The foreign exchange regulation act -1947
- The import policy order (current)
- Export policy
- The customs Act-1969
- VAT Act
- Bangladesh Bank Circulars (time to time)
- Customs Rules (time to time)
- NRB Rules (time to time)
- SROs (Statutory Regulation Order) (time to time)

### **International Chamber of Commerce (ICC) Publications**

- Uniform Customs and Practice for Documentary Credit (UCP 600)
- International Standard Banking Practice (ISBP 745)
- The International Standby Practice (ISP 98)
- Electronics UCP
- International Commercial Terms (INCOTERMS 2020)
- The Uniform Rules for Bank to Bank Reimbursements under Documentary Credit (URR-725)
- The Uniform Rules for Demand Guarantees (URDG 758)
- Uniform Rules for Collections (URR 522)

**It is to be noted that the local regulations generally prevail over the international ones.**

By opening a Letter of Credit the issuing Bank (OBU) undertakes to the beneficiary (overseas/within the geographical territory) that it will pay or arrange for payment to the beneficiary, provided the beneficiary submits the stipulated documents mentioned in the

documentary credit and that the terms and conditions of the credit are fully complied with. The bank puts itself in the middle between the buyer and the seller.

Before issuance of any Irrevocable Documentary Letter of Credit the OBU shall make consideration about its customer with particular reference to –

- Reliability and Trustworthiness of the customer
- Financial information on the customer which is to be found satisfactory.
- The importer is eligible for such import
- In case of new customer, should obtain a certificate regarding “No bill of Entry due/overdue” from the earlier AD/Offshore unit through which the applicant imported earlier & verified through Online Import Monitoring System of Bangladesh Bank.
- Imported goods are permissible by IPO/SRO
- OBU should satisfy itself completely about the clarity of the conditions inputted in import LC, based on nature / types the goods.
- Before opening an LC OBU should satisfy itself completely about the ability of the importing unit for timely settlement of the import order.
- There is valid sanction from the competent authority of the Bank
- The value of the LC is within the sanction limit
- Price verification shall be required to ensure that no over invoicing/under invoicing has taken place.
- Sanction screening
- All required exchange control formalities have been observed
- Adequate insurance cover has taken covering required risk
- Confidential report of the supplier through its correspondent bank/recognized credit agencies in compliance with the provision contained in GFET
- Arrangements of credit facilities allowed to the customer

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## 8.2 Export

As per BRPD Circular No.02 dated.25.02.2019 of Bangladesh Bank, OBUs are allowed to deal the export procedure with only Type “A” industries (100% foreign owned export oriented industrial units) in the **EPZ / EZ / PEPZ / Hi-Tech Park**.

### Export Trade Control Regulations

Foreign exchange regulations regarding exports cover all goods exported to all destinations regardless of whether they are subject to Export Trade Control Regulations. Similarly, nothing in the foreign exchange regulations relieves the exporters from the necessity of complying with the Export Trade Control Regulations prescribed by the Government

### Prescribed form for declaring & repatriation of export proceeds

Selling of goods from EPZ/EZ to abroad and to other places of Bangladesh through LC or contract shall be treated as exports. Exports from EPZ/EZs (abroad/within Bangladesh) are subject to the usual requirement of declaration of exports in 'EXP Form' and repatriation of export proceeds mentioned in Chapter 8 of GFET. For identification, EXP Forms for these exports should be rubber stamped or over printed with words "EXPORT FROM EPZ" or "EXPORT FROM EZ" in bold letters. All exports to which the requirement of declaration applies, must be declared on the EXP Form (Appendix 5/31 of GFET). These forms will be supplied by OBUs to their exporters.

### Disposal of proceeds

100 (hundred) percent of repatriated export proceeds of a Type-A industrial unit in EPZ /EZ may be retained in FC account in the name of the unit with an OBU in Bangladesh. Balances in the FC account may freely be used to meet all foreign payment obligations including import payment obligations of the unit and payment obligations in foreign exchange to BEPZA/BEZA. Balances from the FC account will also be freely encashable for local disbursements or for crediting Taka account maintained with an AD for meeting Taka payment obligations like wages, rents, rates, taxes etc. Taka account maintained with ADs by Type A units in EPZ/EZ may be credited only with encashments of funds from FC accounts or of other inward remittances from abroad. However, receipts from Taka sales of factory refuses and of unusable portion of raw materials of Type A industries may be credited to the Taka accounts provided the permission letter of BEPZA/BEZA for the sale and evidence of payment of duties/taxes on sale proceeds are produced to the AD. Balances in these Taka accounts cannot be converted to foreign exchange and may only be used for meeting local expenses.





## Reporting

OBU's shall report all foreign exchange transactions of enterprises of EPZ / PEPZ / EZs through 'Online Foreign Exchange Transaction Monitoring System' of Bangladesh Bank. Such transactions are also to be reported in monthly returns to Statistics Department, FEOD and other concerned office of Bangladesh Bank in relevant Statements (S-10 and S-11), Schedules, etc. as mentioned in Para 14, Chapter 02, GFET (Volume 2).

**For Exports by enterprises with Type-A in EPZs, EZs, PEPZs and Hi-Tech Park through export LC and reporting procedures will be applicable as mentioned in chapter 8 (section I & II), chapter 13 (section-V) and chapter 20 of GFET to the relevant general instructions.**

## Trade Based Money Laundering

According to Global Financial Integrity (GFI) report, Bangladesh is one of the top countries facing the TMBL which is a significant threat to growth and sustainable development. TMBL is a process of moving money away for the purpose of disguising its origins and integrating it back into formal economy. In 2019, Bangladesh Financial Intelligence Unit (BFIU) issued guidelines namely "Guidelines for prevention of Trade Based Money Laundering" for banks to prevent money laundering in the name of import and export. International trade transactions are mainly held through banking system of the country, Pubali Bank Limited has also prepared its own Guidelines. Hence to establish appropriate measures and techniques to combat TMBL&TF, OBU's must follow these guidelines.

## Trade Financing

### Import Financing

- Payment against documents (PAD)
- Loan against Trust Receipt (LATR)
- Lease Financing
- Term loan
- Buyers Credit (UPAS)

### Export Financing

In order to assist the exporters in EPZs, PEPZs, EZ, and Hi-Tech Park to make shipment of goods to the foreign buyers, they may be financed in the following stages:

#### Pre-shipment Finance

Such credit is provided against a firm sale contract backed by an irrevocable letter of credit to the exporter for procurement and processing of raw materials, manufacture of finished goods, packing and transportation meant for export.



Exporters may avail facilities during pre-shipment stage in the following ways:

Facilities	Usual Tenor	Purpose
Back to Back (BTB) L/C	Maximum 180 days	Import / procurement of raw materials
Packing Credit	90 to 120 days	To meet pre-shipment fund requirement
Demand Loan	Maximum 180 days	To meet overhead expenses and to procure raw materials
Export Development Fund (EDF) Loan	As per Bangladesh Bank Guidelines	Import / procurement of raw materials
Overdraft (OD)	One year	To meet overhead expenses and to procure raw materials

### Post-shipment Finance

The advance made against the shipping documents falls under the category of “Post- shipment” Finance”, i.e., finance provided after the goods have been shipped. OBU may finance at this this stage on verification of the credit worthiness and financial soundness of both the buyer and seller under the following manner:

Facilities	Usual Tenor	Purpose
Foreign Bill Purchase (FBP)	Matching with the tenor of Bill	To meet post export fund requirement
Inland Bill Purchase (IBP)	Matching with the tenor of Bill	To meet post export fund requirement



## Chapter 9

### Foreign Investment in Bangladesh

Foreign investors are free to make investment in Bangladesh in the industrial enterprises excepting a few reserved sectors. For investment in Export Processing Zones (EPZs) and Economic Zones (EZs), registration shall be done with the Bangladesh Export Processing Zones Authority (BEPZA) and Bangladesh Economic Zones Authority (BEZA) respectively.

#### **Issue of shares in favour of non-residents**

(A) Prior permission of the Bangladesh Bank is not required for issue of shares in favour of non-residents against foreign investment in Bangladesh; general permission is accorded in this behalf subject to the following conditions:

(i) The industrial venture will have permission from the Registrar of the Joint Stock Companies and Firms (RJSCF)/The Bangladesh Securities and Exchange Commission (BSEC) about its capital issue.

(ii) Shares may be issued either against freely convertible foreign exchange brought in from abroad through the banking channel or against import of capital machinery. Payment against such import must be made from abroad. FC brought from abroad by Type A & Type B units of EPZs & EZs from abroad may be retained in FC accounts maintained with OBU of the units concerned. In the case of issuance of shares against capital machinery, the machinery have to be cleared from the Bangladesh Customs first.

In respect of portfolio investment in Bangladesh the non-resident investor (non-resident person/institutions including non-resident Bangladesh nationals) shall open a NITA (Non-Resident Investor's Taka Accounts) with any AD with freely convertible foreign currency, transferred from foreign currency deposit account with OBU. Balances in the NITA may freely be used to buy Bangladeshi shares/securities.

#### **Major points to be noted by ADs in connection with NITA**

- NITA can be operated by the account holder himself / nominee / AD itself.
- Purchase and sale of shares/securities listed in a stock exchange in Bangladesh shall be made only through a member/registered broker of the exchange.
- Dividends/interest earnings on the shares/securities bought through the NITA, received from the issuing company/institution only the net post-tax amount is credited to the NITA.
- Sale proceeds of the shares/securities purchased through the NITA (net of taxes payable, if any, on the capital gain) may also be credited to the NITA. Before crediting the sale proceeds of the stocks/shares held by the non-resident into the NITA, the AD shall ensure



that the tax payable (if any) on the capital gain is withheld from the sale proceeds for eventual payment to the tax authorities.

- No local funds from any sources other than those mentioned at Chapter 14, Section IV Para (i), (iv) and (v) of GFET can be credited to NITA.
- NITA must be debited or credited for purchase or sale of shares at the prices prevailing in the stock market on the day of the relative purchase/sale.
- Relevant instructions contained in the Notifications of BSEC regarding placements, allotments and issuance of right shares/bonus shares are to be meticulously complied with.
- No loan facilities shall be allowed by the ADs in the NITA.

### **Reporting by ADs**

- Usual monthly return regarding inward & outward remittance
- Monthly statements of transactions in the NITA as per prescribed format
- ADs will also submit with the monthly statements their own certificates from the auditors of the concerned companies regarding payment/ withholding or exemption of taxes payable on the capital gains and on dividend/interest earnings of the non-resident holders, as applicable

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## **Chapter 10**

### **Regulatory & Reporting Requirement**

#### **Regulatory Requirements**

BRPD circular No: 02 dated 25 February 2019 and subsequent amendments are being followed for Offshore banking operation of Pubali Bank Limited (the Bank).

#### **10.1 Prudential Regulations**

1. The banks shall have written guidelines approved by their Board of Directors for conducting offshore banking operation.
2. No dealing shall be made for any speculative purpose.
3. Assets and liabilities created by offshore banking operation shall clearly be identified at the time of such creation.
4. Bank shall maintain separate accounts relating to their offshore banking business for assessing financial performance and other purposes. But offshore banking operation shall be included in equivalent Bangladeshi Taka (BDT) denomination while preparing solo basis financial statements of the bank treating it as a business line.
5. The records of exchange position in foreign currencies of a bank (country office in Bangladesh, in case of foreign banks) shall include exposures of the offshore banking operation, if any. Banks shall maintain their overall exposures in foreign currencies (overall exchange position) within the 'Open position limit' at the end of the day as stated therein.
6. Instructions of Asset Liability Management (ALM) guidelines shall be applicable for offshore banking operation. BRPD Circular No.2 dated.07.03.2016
7. At the close of business on any day, value of offshore banking assets in Bangladesh shall not be less than 75% of the liabilities of offshore banking.
8. Source of funds for offshore banking operation shall be the deposits and borrowings received as stated in paragraph 6 of BRPD Circular No.02 dated.25.02.2019 of Bangladesh Bank. However, banks may also use funds mobilized from their own domestic banking operation with a limit not exceeding 30% of its total regulatory capital.
9. Banks shall have to comply with the Money Laundering Prevention Act, 2012, Anti-Terrorism Act, 2009 and such other applicable regulations while conducting their offshore banking business.
10. Regulation regarding maintenance of capital, leverage and liquidity ratios under Basel provisions shall be duly observed by offshore banking operation. For the maintenance of capital that entails to offshore banking, if required, banks may use funds from offshore



banking operation and convert to BDT. BRPD C-18, dated 21.12.2014; Basel III MCR, LR, LCR, NSFR

11. For offshore banking operation (OBO), banks are required to maintain minimum 2.0 (two) percent Cash Reserve Ratio (CRR) with Bangladesh Bank on bi-weekly average basis with a provision of minimum 1.5 (one and half) percent on daily basis of the average total demand and time liabilities (ATDTL) of OBO. For the maintenance of Statutory Liquidity Reserve (SLR) for OBO, total demand and time liabilities of the bank shall include the liability of OBO. For the maintenance of CRR and SLR that entails to offshore banking, banks may use funds from offshore banking operation and convert to BDT, if required.
12. Unless stated otherwise, all regulatory limits imposed by Bangladesh Bank regarding funded and non-funded exposure shall be applicable for offshore banking operation.
13. Offshore banking transactions of a bank are subject to periodic reporting to Bangladesh Bank. Bank shall report their offshore banking transactions in relevant statement/schedules in writing as well as report to online web portal as per instructions mentioned in FE circular/circular letters. Besides, they shall submit reports/returns to different departments of Bangladesh Bank as and when asked for.
14. Banks have to report their offshore banking operation to Bangladesh Bank in a separate Classified Loan Statement (CL-1) named OBU Summary of Loan Classification and Provision. All exposures provided by offshore banking shall be reported in the statement and adequate provision shall be maintained as per the requirement thereon.
15. Banks having license for Islamic Shariah based banking services will be allowed to provide Islamic Shariah based banking services through offshore banking.
16. Information of credit extended through offshore banking shall be subject to report as per CIB regulations of Bangladesh Bank.
17. Operation of offshore banking along with the sources and uses of funds shall be subject to offsite and onsite supervision by Bangladesh Bank.

## **10.2 Limitation on Activities in Offshore Banking Operation**

Banks are prohibited from the following activities in offshore banking operation:

1. Engage in any direct or indirect, funded or non-funded banking transactions that goes beyond transactions specified in paragraph 6 of BRPD Circular No.02 dated.25.02.2019 of Bangladesh Bank.
2. Remittance of money to any overseas destinations other than for the operation/transactions stated in paragraph 6 of



3. Granting credit facilities to its 'Bank Related Persons' as defined in section 26Ga of the Bank-Company Act, 1991 (amended up to 2018) exceeding the quota prescribed by Bangladesh Bank from time to time even if any of them are NRBs.

### **10.3 Approval for Conducting Offshore Banking in Bangladesh**

A bank that is currently operating offshore banking unit under the approval of Bangladesh Bank requires to apply to the Banking Regulation and policy Department (BRPD) of Bangladesh Bank for approval for offshore banking operation and for updating the approvals of OBUs. A bank willing to establish new OBUs requires to apply for permission of each OBU. For both cases, the bank is to submit proper documents (as stated in the circular) with related information.

Pubali Bank Limited has obtained permission from Bangladesh Bank vide Bangladesh Bank (BB) letter No, BRPD (P-3)744(108)12010-93 dated January 13, 2010 and commenced operation of 2 (Two) Off-shore Banking Units (OBUs) at Principal Branch, Dhaka (transferred from Gulshan Model Town Branch) and Agrabad Branch, Chattogram from 22 January 2015. In line with BRPD Circular No.02 dated 25 February 2019, the Bank has applied for necessary approval of offshore banking operation and updating the approval of the OBUs.

### **10.4 Commencement of New OBU**

For commencement of any new OBU, the Bank will apply to BRPD following aforementioned procedure as stated in paragraph 4.1 of BRPD Circular No.02 dt.25.02.2019. The Bank will commence its offshore banking operation within 6 (six) months from the issuing date of approval or apply for time extension to Bangladesh Bank explaining valid reason. For non-compliance regarding commencement of operation within the stipulated time period, Bangladesh Bank will automatically cancel the permission for offshore banking.

### **10.5 Closure/Shifting/Merging**

The Bank will require prior permission from Bangladesh Bank for closure of offshore banking operation as well as closure/shifting/merging of any OBU.

### **10.6 Maintenance of Capital Leverage and Liquidity Ratios**

Regulation regarding maintenance of capital, leverage and liquidity ratios under Basel provisions shall be duly observed by offshore banking operation. For the maintenance of capital that entails to offshore banking, if required, the Bank may use funds from offshore banking operation and convert to BDT.

### **10.7 Maintenance of CRR and SLR**

For the maintenance of Cash Reserve Ratio (CRR), total demand and time liabilities of the Bank shall include the liability of offshore banking operation. Statutory Liquidity Reserve (SLR) shall



also be maintained accordingly. For the maintenance of CRR and SLR that entails to offshore banking, if required, the Bank may use funds from offshore banking operation and convert to BDT. Treasury Division shall maintain required CRR and SLR for OBUs based on demand liabilities and time liabilities.

### **10.8 Exposure Limit**

Unless stated otherwise, all regulatory limits imposed by Bangladesh Bank regarding funded and non-funded exposure shall be applicable for offshore banking operation.

### **10.9 Islamic Shariah Based Banking Services**

The Bank will have scope to commence Islamic Shariah based banking services through offshore banking.

### **10.10 Loan Classification and Provisioning**

The Bank has to report its offshore banking operation to Bangladesh Bank in a separate Classified Loan Statement (CL-1) named OBU Summary of Loan Classification and Provision. All exposures provided by offshore banking shall be reported in the statement and adequate provision shall be maintained as per the requirement thereon.

### **10.11 Supervision by Bangladesh Bank**

Operation of offshore banking along with the sources and uses of funds shall be subject to offsite and onsite supervision by Bangladesh Bank.

### **10.12 Reporting on Commencement of New OBU**

Date of commencement of an OBU shall be notified in writing to Banking Regulation & Policy Department, Department of Off-site Supervision, Foreign Exchange Policy Department, Foreign Exchange Operation Department, Foreign Exchange Investment Department, Department of Foreign Exchange Inspection, Forex Reserve and Treasury Management Department, Monetary Policy Department, Department of Currency Management, Payment Systems Department, concerned Department of Banking Inspection, Motijheel Office, and the concerned office of Bangladesh Bank within 7(seven) days of such commencement.





### **10.13 CIB Reporting**

Information of credit extended through offshore banking shall be subject to report as per CIB regulations of Bangladesh Bank.

### **10.14 Reporting to Bangladesh Bank**

Offshore banking transactions of the Bank are subject to periodic reporting to Bangladesh Bank. The OBU/Bank shall report its offshore banking transactions in relevant statement/schedules in writing as well as report to online web portal as per instructions mentioned in FE circular / circular letters. Besides, it shall submit reports/returns to different departments of Bangladesh Bank as and when asked for.

### **Termination and / or Amendment of the Approval for Offshore Banking Operation**

Bangladesh Bank reserves the right to amend/postpone/revoke the approval for offshore banking operation of a bank or of any OBU. The approval may be revoked by Bangladesh Bank at any time without showing any reason if, in the consideration of Bangladesh Bank, the approval has contravened any instruction or regulation of Bangladesh Bank. In the case of revocation of approval, after an appropriate time interval with recaptured financial soundness, a bank may again apply for new approval following the process described in paragraph 4 of BRPD Circular No. 02 dated 25.02.2019.



# Chapter 11

## Threats in Offshore Banking

### 11.1 Risks in Offshore Banking

Every investment and financing decision as well as operational activities undertaken by a bank under certain conditions is associated with some form of risk.

- **CRR & SLR:** As the banking industry is already facing liquidity crisis, the imposition of CRR & SLR (DOS Circular letter No.26, dt.19.08.2019) on OBUs will create additional pressure on local currency. Moreover, it will increase OBU financing cost significantly.
- **Capped lending rate:** Bangladesh Bank has set the all-in-cost ceiling per annum for usance period against imports under supplier's/buyer's credit at **6-month LIBOR plus 3.50 per cent spread (maximum) (FE Circular No.19 dt.05.05.2019)**. This rate ceiling shall equally be applicable for discounting of usance export bills. As a result, we are to face great challenges due to volatility of LIBOR rate.
- **Terrorist Financing:** Criminals also invest their money in legitimate corporations. They may be interested in a legitimate corporation to earn a return on their criminal proceeds, or because they want to decrease their exposure to risk from their other activities through collecting, storing, moving & using.
- **Money Laundering:** Offshore banking may be associated with the underground economy and organized crime through money laundering. A person who commits a crime will initially try to prevent their actions from being noticed by the tax administration, police and/or law enforcement authorities. In order to be able to spend money openly, criminals will seek to ensure there is no direct link between the proceeds of their crime and the actual illegal activities. In this way, criminals seek to "launder" their proceeds of crime through placement, layering & integration before spending or investing it in the legal economy.
- **Currency Mismatch:** Currency mismatch is the activity of borrowing money in the currency of a country where interest rates are low and depositing it in the currency of a country with higher interest rates. The potential profit from the interest rate margin may be offset by changes in the exchange rates which increase the value of the loan in the company's balance sheet. A currency mismatch is how a change in the exchange rate will affect the present discounted value of future income and expenditure flows.
- **Maturity Mismatch:** Maturity mismatch arises when liabilities of OBU does not match with the maturity of underlying assets. It requires instant borrowing from other lender in rates higher than the existing rate. Tenor of lending shall be matched with that of the borrowing.

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- **Threat to the national reserve:** The borrowers (who does not earn foreign currency i.e., manufacturer /Trader) is taking extra burden due to the exchange rate fluctuation that will cause drain on the reserve.
- **Competitive Market:** For high competition among the banks in domestic and cross-border market, it is very tough and challenging to attract potential customers and retain existing customers also.
- **Recovery of Loans:** Another challenge is recovery of loans in time for changed attitude or fund crisis of some customers.
- **Non-payment of import bills:** Financial institutions / overseas banks analyze country risk / bank risk in order to readjust loan limits / interest rate according to that risk. Non-payment of import bills on time by corporate / AD Branches leads to an unfavorable situation.
- **Default risks:** Unlike conventional banking offshore banking has no arbitration / litigation arrangement. The borrowers of non-resident nature have no /insufficient collateral arrangement.
- **Transfer mispricing:** Transfer mispricing is a global economic phenomenon and it has been on the rise in recent years. Transfer prices are used when individual entities of a larger multi-entity firm are treated and measured as separately run entities. Multinational companies can manipulate transfer prices in order to shift profits to low tax regions. Transfer pricing has tended to remain an under researched area in Bangladesh. A comprehensive legal and administrative framework can be used as a guideline to the policymakers to address the issue of transfer pricing in the context of Bangladesh.
- **Capital out flight:** Capital outflow applies pressure on macroeconomic dimensions within a nation and discouraging both foreign and domestic investment. Reasons for capital flight include political unrest, introduction of restrictive market policies, threats to property ownership and low domestic interest rates. The money has been flown off the country over the years to so called tax heavens and overseas financial institutions. Only a truly collective struggle to dethrone offshore finance opens up possibilities to really take back control.
- **Tax evasion:** The preferential taxation of offshore exists only regarding realization of activity outside of the country of registration. For high grade work of the offshore in any other country it is required international agreement on avoidance of the double taxation of the given country with the country of registration of the offshore. Otherwise, the offshore is exposed to the taxation of the country where it conducts the activity.



## 11.2 Money Laundering

Money Laundering means concealing or disguising the illicit origin/nature, source, location, ownership or control of the proceeds of crime.

The laundering is not a single act but a process accomplished in 3 basic stages –

- Placement - the physical disposal of the initial proceeds derived from illegal activity.
- Layering - separating illicit proceeds from their source by creating complex layers of financial transactions designed to disguise the audit trail and provide anonymity.
- Integration - the provision of apparent legitimacy to wealth derived criminally. If the layering process has succeeded, integration schemes place the laundered proceeds back into the economy in such a way that they re-enter the financial system appearing as normal business funds.

The three basic steps may occur as separate and distinct phases.

### Why Prevention of Money Laundering is Important

- Money laundering is a process of making crime worthwhile. It provides the fuel for drug dealers, smugglers, terrorists, illegal arms dealers, corrupt public officials, and others to operate and expand their criminal enterprises.
- It also makes government tax collection more difficult. This loss of revenue generally means higher tax rates than would normally be the case if the untaxed proceeds of crime were legitimate. We also pay more taxes for public work expenditures inflated by corruption. Those of us who pay taxes pay more because of those who evade taxes. So we all experience higher costs of living than we would if financial crime—including money laundering—were prevented.
- No one knows exactly how much "dirty" money flows through the world's financial system every year, but the amounts involved are undoubtedly huge. In some countries, these illicit proceeds dwarf government budgets, resulting in a loss of control of economic policy by governments.
- Money laundering transfers economic power from the market, government, and citizens to criminals.
- The social and political costs of laundered money are also serious as laundered money may be used to corrupt national institutions. Bribing of officials and governments undermines the moral fabric in society, and, by weakening collective ethical standards, corrupts our democratic institutions.
- Money laundering erodes confidence in financial institutions. Actions by banks to prevent money laundering are not only a regulatory requirement, but also an act of self-interest. A



bank tainted by money laundering accusations from regulators, law enforcement agencies, or the press risk likely prosecution, the loss of their good market reputation, and damaging the reputation of the country.

- It is generally recognized that effective efforts to combat money laundering cannot be carried out without the co-operation of financial institutions, their supervisory authorities and the law enforcement agencies. Accordingly, in order to address the concerns and obligations of these three parties.

Administrative burden, and in order to manage their AML/CFT responsibilities and ensure the effectiveness and efficiency of AML measures. It is good practice for banks to implement a compliance checklist that supports and informs their AML program. An AML checklist can help banks not only build their AML infrastructure but manage their day-to-day response to money laundering risks.

Accordingly, an effective AML compliance checklist should involve the following key features:

## **Checklist for Prevention of Money Laundering & Terrorist Finance in OBU**

### **Employee Awareness**

The head of OBU must ensure that all employees receive formal training on AML program. The employees of the branch are familiar with the bank's own anti-money laundering policies, procedures and programs as well as national policies and BB Guidelines.

### **Identity Verification**

Identity verification is a crucial component of risk-based AML/CFT. OBU must know who they are dealing with, and the risk that they present, in order to deploy appropriate AML responses. An AML checklist should prioritize identity verification through customer due diligence (CDD) measures, with enhanced due diligence (EDD) measures for higher-risk customers.

### **Sanctions Screening**

OBU must ensure they are not doing business with individuals, companies or countries that are named on International sanctions lists.

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## Transaction Monitoring

AML checklists should focus on helping banks to deliver ongoing compliance, which means monitoring customer transactions for suspicious activity in relation to their risk profile. In practice, transaction monitoring should be set up to detect:

- Transactions above regulatory thresholds
- Unusual transactions, for example transactions of unexpectedly high amounts or a high volume of transactions
- Unusual transaction patterns
- Transactions with high-risk countries
- Transactions with PEPs or with sanctioned individuals
- Adverse media stories involving customer
- Suspicious Activity Reports
- Bank AML checklists should include the process for submitting a suspicious activity report (SAR) to the financial authorities should potential money laundering be detected. The SAR submission process should be clear and include input from senior management.
- AML Training

## Record-keeping

Record-keeping is important at every stage of the AML process. Banks must assess risk based on the records they keep on their customers, while any eventual investigations by the authorities will require the provision of information held in those same customer records.

## Reconciliation of Nostro Accounts

The OBD will assign an official who will reconcile Nostro accounts immediately on receipt of advises from OBU with Nostro statements and take quick remedial action in case of unsettled / discrepancy in transactions.

The process of matching transaction items must be done each time statements are received and must ensure a true match with dates, amounts and transaction identity. All matches should be cross-referenced between related Accounts of Ledger and Nostro Statements.

The supervisor of the assigned persons must review **Unmatched Report** to evaluate the status and progress of eliminating open items.

**To prevent /mitigate /combat money laundering risk and terrorist finance risk, OBUs are advised to strictly follow the instructions of BFIU's risk based Money Laundering prevention guidelines, BFIU's circulars and circular letters. All officials of OBU will also follow the instructions laid down in MLPA-2012 and its amendment (MLPA-2015), ATA-2009 and its amendment (ATA-2013).**



### 11.3 Panama Papers (case study)

Panama is known as a transit country because of the Panama Canal. While the country is known for its famous canal, its natural attractions include birding, whitewater rafting, and snorkeling tours. Panama forms a natural land bridge, connecting South and Central America.

Panama's legal and tax structures make it a pure tax haven. Panama imposes no income, corporate, capital gains, or estate taxes on offshore entities that only engage in business outside of the jurisdiction. Panama has strict banking secrecy laws designed to protect the privacy of account holders.

The Panama Papers (Spanish: Papeles de Panamá) are 11.5 million leaked encrypted confidential documents that were the property of Panama-based law firm Mossack Fonseca that detail financial and attorney–client information for more than 214,488 offshore entities. The documents were released on April 3, 2016, by the German newspaper Süddeutsche Zeitung (SZ), dubbing them the “Panama Papers. The documents contain personal financial information about wealthy individuals and public officials that had previously been kept private. Panama papers provide an insight into the manipulative tax practices and the ensuing damages they had caused to the developing economies and their domestic resources.

In 2015, Süddeutsche Zeitung (SZ) was contacted by an anonymous source calling him or herself "John Doe," who offered to leak the documents. The total volume of data comes to about 2.76 terabytes, making it the biggest data leak in history. John Doe is the pseudonym used by the whistleblower, who turned over 11.5 million documents from the law firm Mossack Fonseca to the newspaper Süddeutsche Zeitung.

The Panama Papers are documents that contain personal financial information about a number of wealthy individuals and public officials that had previously been kept private. Among those named in the leak were a dozen current or former world leaders, 128 other public officials, and politicians and hundreds of celebrities, business people, and other rich individuals.

Offshore business entities are legal in general, and most of the documents showed no inappropriate or illegal behavior. But some of the shell corporations set up by Mossack Fonseca were revealed by reporters to have been used for illegal purposes, including fraud, tax evasion, and the avoidance of international sanctions. Most of the people involved hid their money in a way that is technically legal in order to avoid Taxes. It has been going on for decades due to bad policy, allowing big business to dodge taxes in a shady but legally permissible manner.



## Chapter 12

### Miscellany

#### 12.1 Repatriation of dividend to non-resident Shareholders of 'Type A' of EPZ / EZs

OBU's for 'Type A' enterprises may remit dividends favoring non-resident shareholders of 'Type A' enterprises of EPZ / EZs without prior permission of Bangladesh Bank subject to observance of the instructions stipulated in Para 31, Chapter 10 of GFET. However, submission of documents to Bangladesh Bank as mentioned in 31(e), Chapter 10 of GFET for post facto checking will not be required though usual reporting, online returns etc. shall be submitted by OBU's

Equity from foreign shareholders of Type A enterprises and authorised loan received in foreign currency by Type A enterprises may be credited in FC accounts of enterprises of EPZ /EZ/PEPZ. OBU's may issue a certificate in support of inward equity amount credited in FC account as per Format (Appendix 5/39 or 5/40, as the case may be of GFET). Foreign investment in EPZ/PEPZ/EZ in 'Type A' is subject to report to Bangladesh Bank within 14 (fourteen) days of issuance of shares favoring non-resident investors as per instructions stipulated in Para 2, Chapter 9 of GFET.

To facilitate business travel abroad by the officials of enterprises located in EPZ/PEPZ/EZ, balances of such accounts may be used through international debit/pre-paid cards also as mentioned in Para 2(b), Chapter 19 of GFET.

#### 12.2 Credit Facilities

For obtaining short term credit facilities from abroad (including from parents, associates or shareholders), other associates in Bangladesh, other banks in Bangladesh (both long and short term, as the case may be) by the enterprises of EPZ /EZs, instructions mentioned in Section-II, Chapter 16 of GFET shall be applicable. However, for obtaining medium and long term debt from abroad/OBU's of scheduled banks in Bangladesh by the enterprises of EPZ / EZs, applications for borrowing approvals shall have to be submitted to Bangladesh Bank through BEPZA / BEZA following the procedures as mentioned in Para 7, Chapter 15 of GFET.

#### 12.3 Repatriation of royalty, technical know-how and technical assistance fees

OBU's for 'Type A' enterprises may remit the royalty, technical know-how and technical assistance fees of enterprises of EPZ /EZs from their FC accounts without prior permission from Bangladesh Bank or BEPZA /BEZA if the total fees and other expenses connected with above mentioned purposes do not exceed the following limits:(a) for new projects, not exceeding 6 (six) percent of the cost of imported machinery;(b) for ongoing concerns, not exceeding 6 (six) percent of the previous year's sales as declared in the income tax returns. However, remittance of such fees in excess of the prescribed limit is





subject to prior specific approval from BEPZA / BEZA. Besides usual reporting to Bangladesh Bank, each transaction shall have to be reported to BEPZA / BEZA also.

#### 12.4 Working in EZs by foreign nationals

Foreign nationals working in EZs (with valid work permit issued by BEZA) and who have an income in Bangladesh are permitted to make monthly remittances to the country of their domicile out of their current savings upto 75 (seventy five) percent of their net income as mentioned in Para 8, Chapter 11 of GFET. They are also permitted to remit 100 (hundred) percent of leave salary, actual savings and all pension benefits without prior Bangladesh Bank approval as mentioned in Chapter 11 of GFET.

#### 12.5 Modification of Guidelines:

Any part of the guidelines is subject to modification upon revision or further instructions by Bangladesh Bank. Any instruction by Bangladesh Bank will supersede the part of the guidelines and be reinstated.

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